Consolidated quarterly report for the 3rd quarter of 2010 PGE Polska Grupa Energetyczna S.A.

November 15, 2010

Polska Grupa Energetyczna

Selected consolidated financial data for PGE Polska Grupa Energetyczna S.A. Capital Group

	3 quarters cumulative from January 1, 2010 to September 30, 2010	3 quarters cumulative from January 1, 2009 to September 30, 2009	3 quarters cumulative from January 1, 2010 to September 30, 2010	3 quarters cumulative from January 1, 2009 to September 30, 2009
	in PLN thousand		in EUR thousand	
Sales revenues	14,984,531	15,482,830	3,743,616	3,519,412
Profit/loss on operating activities	3,073,689	4,025,761	767,906	915,098
Gross profit/loss (before taxation)	3,245,499	4,015,966	810,830	912,872
Net profit/loss	2,741,766	3,233,728	684,981	735,061
Total income	2,743,217	3,230,839	685,344	734,404
Net cash from operating activities	5,006,011	5,486,567	1,250,662	1,247,155
Net cash from investing activities	(2,874,748)	(2,623,208)	(718,204)	(596,283)
Net cash from financial activities	(2,741,280)	(2,728,193)	(684,860)	(620,147)
Net change in cash and cash equivalents	(610,017)	135,166	(152,402)	30,725
Net earnings per share (in PLN/EUR per share)	1.29	1.71	0.32	0.39
Diluted earnings per share (in PLN/EUR per share)	1.29	1.71	0.32	0.39
	As at September 30, 2010	**As at December 31, 2009**	**As at September 30, 2010**	**As at December 31, 2009**
Non-current assets	42,987,137	41,964,446	10,781,825	10,214,801
Current assets	11,414,310	12,477,640	2,862,882	3,037,252
Non-current assets classified as held for sale	5,295	5,712	1,328	1,390
Total assets	54,406,742	54,447,798	13,646,035	13,253,444
Equity	39,902,798	38,849,752	10,008,226	9,456,636
Share capital	18,697,837	17,300,900	4,689,701	4,211,309
Long-term liabilities	7,642,090	9,762,322	1,916,752	2,376,302
Short-term liabilities	6,861,854	5,835,724	1,721,057	1,420,506
Number of shares	1,869,783,727	1,730,090,000	1,869,783,727	1,730,090,000
Book value per share (in PLN/EUR per share)	19.14	18.02	4.80	4.39
Diluted book value per share (in PLN/EUR per share)	19.14	18.02	4.80	4.39

Selected financial data for PGE Polska Grupa Energetyczna S.A.

	3 quarters cumulative from January 1, 2010 to September 30, 2010	**3 quarters cumulative from January 1, 2009 to September 30, 2009**	**3 quarters cumulative from January 1, 2010 to September 30, 2010**	**3 quarters cumulative from January 1, 2009 to September 30, 2009**
	in PLN thousand		in EUR thousand	
Sales revenues	7,608,491	8,098,464	1,900,845	1,840,867
Profit/loss on operating activities	105,294	277,162	26,306	63,002
Gross profit/loss (before taxation)	2,731,565	1,304,379	682,433	296,499
Net profit/loss	2,679,428	1,067,567	669,407	242,669
Net cash from operating activities	124,624	214,612	31,135	48,784
Net cash from investing activities	(881,259)	883,790	(220,167)	200,895
Net cash from financial activities	(534,604)	(1,199,315)	(133,561)	(272,617)
Net change in cash and cash equivalents	(1,297,276)	(101,141)	(324,101)	(22,990)
Net earnings per share (in PLN/EUR per share)	1.53	0.73	0.38	0.17
Diluted earnings per share (in PLN/EUR per share)	1.53	0.73	0.38	0.17
	As at September 30, 2010	**As at December 31, 2009**	**As at September 30, 2010**	**As at December 31, 2009**
Non-current assets	22,963,503	23,554,702	5,759,594	5,733,582
Current assets	7,637,942	5,068,708	1,915,712	1,233,803
Total assets	30,601,445	28,623,410	7,675,306	6,967,385
Equity	28,220,342	26,876,245	7,078,089	6,542,098
Share capital	18,697,837	17,300,900	4,689,701	4,211,309

Above financial data for 3 quarters 2010 and 2009 were converted into EUR according to the following rules:

- particular items of the assets and liabilities – according to average exchange rate published by the National Bank of Poland as of September 30, 2010 – 3.9870 PLN/EUR (as of December 31, 2009 – 4.1082 PLN/EUR),
- particular items of statement of comprehensive income and statement of cash flows – according to the exchange rate constituting an arithmetic average of average exchange rates set out by the National Bank of Poland at the end of every month of the reporting period from January 1, 2010 to September 30, 2010 - 4.0027 PLN/EUR (for the period from January 1, 2009 to September 30, 2009 – 4.3993 PLN/EUR).

CONTENT

Interim condensed consolidated financial statement for 3 and 9 months ended September 30, 2010 (in PLN thousand)

A INTERIM CONDENDED CONSOLIDATED FINANCIAL STATEMENTS PREPARED IN ACCORDANCE WITH IFRS

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	3 months ended	9 months ended	3 months ended	9 months ended
	September 30, 2010		September 30, 2009	
	(not audited)		*(restated data)**	
CONSOLIDATED COMPREHENSIVE INCOME				
Revenues from sales	**4,873,607**	**14,984,531**	**4,914,175**	**15,482,830**
Cost of goods sold	(3,399,540)	(10,100,037)	(3,291,496)	(9,784,275)
Gross profit on sales	**1,474,067**	**4,884,494**	**1,622,679**	**5,698,555**
Other revenues	125,948	495,429	140,406	396,085
Other expenses	(726,519)	(2,113,342)	(575,419)	(1,864,495)
Financial revenues/expenses	94,422	(21,082)	(46,862)	(214,179)
Profit before tax	**967,918**	**3,245,499**	**1,140,804**	**4,015,966**
Corporate income tax expense	(69,162)	(505,183)	(213,043)	(782,238)
Net profit from continuing operations	**898,756**	**2,740,316**	**927,761**	**3,233,728**
Profit for the reporting period on discontinued operations	600	1,450	-	-
Net profit for the operating period	**899,356**	**2,741,766**	**927,761**	**3,233,728**
OTHER COMPREHENSIVE INCOME:				
Valuation of available-for-sale financial assets	260	149	(1,313)	(4,320)
Revaluation of assets of associates	-	-	-	41
Foreign exchange differences from translation of foreign entities	(462)	1,302	40	1,390
Other comprehensive income for the period, net	**(202)**	**1,451**	**(1,273)**	**(2,889)**
TOTAL COMPREHENSIVE INCOME	**899.154**	**2,743,217**	**926,488**	**3,230,839**
Net profit attributable to:				
- equity holders of the parent company	747,157	2,246,628	727,244	2,521,899
- non-controlling interest	152,199	495,138	200,517	711,829
Total comprehensive income attributable to:				
- equity holders of the parent company	746,955	2,248,079	725,971	2,519,772
- non-controlling interest	152,199	495,138	200,517	711,067
Profit per share (in PLN)				
– basic earnings for the year	0.42	1.29	0.49	1.71

** restatement of data for the period ended September 30, 2009 is presented in Note 5*

Interim condensed consolidated financial statement for 3 and 9 months ended September 30, 2010 (in PLN thousand)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

ASSETS	**September 30, 2010** *(not audited)*	**December 31, 2009** *(audited)*	**September 30, 2009** *(not audited)*
Non-current assets			
Property, plant and equipment	40,013,814	38,945,664	38,348,808
Investment property	24,972	25,431	25,634
Intangible assets	170,154	153,335	149,192
Loans and receivables	401,824	389,566	401,108
Available-for-sale financial assets	100,633	198,211	201,658
Shares in associates accounted for under the equity method	1,527,697	1,354,799	1,419,059
Other long-term assets	372,463	485,087	470,878
Deferred tax assets	375,580	412,353	421,585
Non-current assets related to discontinued operations	-	-	-
Total non-current assets	**42,987,137**	**41,964,446**	**41,437,922**
Current assets			
Inventories	1,183,041	1,271,165	1,217,891
Income tax receivables	50,294	49,827	29,123
Short-term financial assets at fair value through profit or loss	3,165	-	-
Trade receivables	1,939,104	2,059,119	1,733,562
Other loans and financial assets	711,173	987,575	891,166
Available-for-sale short-term financial assets	123,419	5,984	73,759
Other current assets	308,575	391,147	422,057
Cash and cash equivalents	7,095,539	7,712,823	2,271,891
Current assets related to discontinued operations	-	-	-
Total current assets	**11,414,310**	**12,477,640**	**6,639,449**
Group assets classified as held for sale	5,295	5,712	3,261
TOTAL ASSETS	**54,406,742**	**54,447,798**	**48,080,632**

Interim condensed consolidated financial statement for 3 and 9 months ended September 30, 2010 (in PLN thousand)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

EQUITY AND LIABILITIES	**September 30, 2010**	**December 31, 2009**	**September 30, 2009**
	(not audited)	*(audited)*	*(not audited)*
Equity (attributable to equity holders of the parent)			
Share capital	18,697,837	17,300,900	14,705,765
Revaluation reserve	(1,012)	(1,161)	26,596
Foreign exchange differences from translation of foreign entities	490	(812)	47
Reserve capital	6,721,703	5,449,549	2,144,433
Other capital reserves	-	-	-
Retained earnings	10,367,232	8,419,848	7,340,118
Minority interest	**4,116,548**	**7,681,428**	**7,919,062**
Total equity	**39,902,798**	**38,849,752**	**32,136,021**
Long-term liabilities			
Interest-bearing loans and borrowings	1,977,870	4,056,270	4,609,679
Other long-term liabilities	13,261	15,941	12,367
Provisions	3,295,916	3,238,759	2,985,541
Deferred tax liabilities	1,248,117	1,358,546	1,296,179
Deferred income and government grants	1,106,926	1,092,806	1,063,141
Long-term liabilities related to discontinued operations	-	-	-
Total long-term liabilities	**7,642,090**	**9,762,322**	**9,966,907**
Short-term liabilities			
Trade liabilities	913,077	1,082,582	741,922
Financial liabilities at fair value through profit or loss	54,530	37,701	46,906
Interest-bearing loans and borrowings	705,873	969,929	1,594,813
Other short-term financial liabilities	672,597	555,758	359,215
Other short-term non-financial liabilities	2,536,776	1,167,079	1,133,683
Income tax liabilities	266,018	372,888	302,464
Deferred income	42,924	40,903	39,767
Accruals	872,551	627,558	819,984
Short-term provisions	797,508	981,326	938,950
Short-term liabilities related to discontinued operations	-	-	-
Total short-term liabilities	**6,861,854**	**5,835,724**	**5,977,704**
Total liabilities	**14,503,944**	**15,598,046**	**15,944,611**
TOTAL EQUITY AND LIABILITIES	**54,406,742**	**54,447,798**	**48,080,632**

Interim condensed consolidated financial statement for 3 and 9 months ended September 30, 2010 (in PLN thousand)

STATEMENT OF CHANGES IN CONSOLIDATED EQUITY

For the period ended September 30, 2010

(not audited)	Share capital	Revaluation reserve	Foreign exchange differences from translation	Reserve capital	Other capital reserves	Retained earnings	Total	Non-controlling interest	Total equity
As at January 1, 2010	**17,300,900**	**(1,161)**	**(812)**	**5,449,549**	**-**	**8,419,848**	**31,168,324**	**7,681,428**	**38,849,752**
Total comprehensive income for the reporting period	**-**	**149**	**1,302**	**-**	**-**	**2,246,628**	**2,248,079**	**495,138**	**2,743,217**
Changes in applied accounting policy	-	-	-	-	-	16,805	**16,805**	6,455	**23,260**
Retained earnings distribution	-	-	-	130,205	-	(130,205)	**-**	-	**-**
Purchase of non-controlling interest shares	-	-	-	-	-	15,771	**15,771**	(15,771)	**-**
Settlement of purchased shares and stocks in subsidiaries	-	-	-	-	-	(12,008)	**(12,008)**	-	**(12,008)**
Issue of shares as a result of the merger	1,396,937	-	-	1,141,949	-	(2,538,886)	**-**	-	**-**
Transfer of minority interest as a result of the merger	-	-	-	-	-	3,404,214	**3,404,214**	(3,404,214)	**-**
Seize of dividends attributable to the non-controlling interest before the merger	-	-	-	-	-	280,406	**280,406**	-	**280,406**
Dividend	-	-	-	-	-	(1,335,341)	**(1,335,341)**	(646,488)	**(1,981,829)**
As at September 30, 2010	**18,697,837**	**(1,012)**	**490**	**6,721,703**	**-**	**10,367,232**	**35,786,250**	**4,116,548**	**39,902,798**

Interim condensed consolidated financial statement for 3 and 9 months ended September 30, 2010 (in PLN thousand)

STATEMENT OF CHANGES IN CONSOLIDATED EQUITY

For the year ended December 31, 2009

(audited)	Share capital	Revaluation reserve	Foreign exchange differences from translation	Reserve capital	Other capital reserves	Retained earnings	Total	Non-controlling interest	Total equity
As at January 1, 2009	**14,705,765**	**30,154**	**(1,343)**	**2,100,156**	**414,017**	**5,560,908**	**22,809,657**	**7,365,921**	**30,175,578**
Total comprehensive income for the period	**-**	**(31,115)**	**531**	**-**	**-**	**3,370,753**	**3,340,169**	**956,339**	**4,296,508**
Issue of shares	2,595,135	-	-	3,373,676	-	-	**5,968,811**	-	**5,968,811**
Issue of shares' expenses	-	-	-	(68,560)	-	-	**(68,560)**	-	**(68,560)**
Retained earnings distribution	-	-	-	44,277	-	(44,277)	**-**	-	**-**
Purchase of non-controlling interest shares	-	-	-	-	-	521,473	**521,473**	(521,473)	**-**
Settlement of purchased shares and stocks in subsidiaries	-	-	-	-	-	(264,838)	**(264,838)**	-	**(264,838)**
Dividend (including distribution from profit for the State Treasury)	-	-	-	-	(414,017)	(725,971)	**(1,139,988)**	(119,359)	**(1,259,347)**
Other	-	(200)	-	-	-	1,800	**1,600**	-	**1,600**
As at December 31, 2009	**17,300,900**	**(1,161)**	**(812)**	**5,449,549**	**-**	**8,419,848**	**31,168,324**	**7,681,428**	**38,849,752**

Interim condensed consolidated financial statement for 3 and 9 months ended September 30, 2010 (in PLN thousand)

STATEMENT OF CHANGES IN CONSOLIDATED EQUITY

For the period ended September 30, 2009

(not audited)	Share capital	Revaluation reserve	Foreign exchange differences from translation	Reserve capital	Other capital reserves	Retained earnings	Total	Non-controlling interest	Total equity
As at January 1, 2009	**14,705,765**	**30,154**	**(1,343)**	**2,100,156**	**414,017**	**5,560,908**	**22,809,657**	**7,365,921**	**30,175,578**
Total comprehensive income for the period	**-**	**(3,558)**	**1,390**	**-**	**-**	**2,521,940**	**2,519,772**	**711,067**	**3,230,839**
Retained earnings distribution	-	-	-	44,277	-	(44,277)	**-**	-	**-**
Purchase of non-controlling interest shares	-	-	-	-	-	36,195	**36,195**	(36,195)	**-**
Settlement of purchased shares and stocks in subsidiaries	-	-	-	-	-	(26,430)	**(26,430)**	-	**(26,430)**
Liquidation of efficiency fund	-	-	-	-	-	1,800	**1,800**	-	**1,800**
Dividend (including distribution from profit for the State Treasury)	-	-	-	-	(414,017)	(710,018)	**(1,124,035)**	(121,731)	**(1,245,766)**
As at September 30, 2009	**14,705,765**	**26,596**	**47**	**2,144,433**	**-**	**7,340,118**	**24,216,959**	**7,919,062**	**32,136,021**

Interim condensed consolidated financial statement for 3 and 9 months ended September 30, 2010 (in PLN thousand)

CONSOLIDATED STATEMENT OF CASHFLOWS

	9- month period ended September 30, 2010 _(not audited)_	**9- month period ended September 30, 2009** _(not audited)_
Cash flows - operating activities		
Gross profit related to discontinued operations	**1,842**	**-**
Gross profit related to continued operations	**3,245,499**	**4,015,966**
Adjustments:		
Share of profit from associates accounted for under the equity method	(192,892)	(204,384)
Depreciation and amortization	1,986,348	1,937,392
Interest and dividend, net	113,786	309,402
Profit / (loss) on investment activities	(34,446)	(2,137)
Change in receivables	403,075	(64,258)
Change in inventories	88,124	(93,318)
Change in liabilities (excluding loans and bank credits)	(189,254)	(325,221)
Change in prepayments and accruals, and deferred income and expenses	343,706	141,635
Change in provisions	(126,661)	101,455
Income tax paid	(684,410)	(341,157)
Other	51,294	11,192
Net cash from operating activities	**5,006,011**	**5,486,567**
Cash flows - investing activities		
Disposal of property, plant and equipment and intangible assets	64,758	22,731
Purchase of property, plant and equipment and intangible assets	(3,021,307)	(3,086,888)
Disposal/purchase of investment property	-	(16)
Disposal of financial assets	145,160	329,934
Purchase of financial assets	(129,327)	(138,578)
Dividends	33,028	278,045
Interest received	6,503	8,716
Loans repaid	3,860	9,495
Loans granted	32	(62,577)
Other	22,545	15,930
Net cash from investing activities	**(2,874,748)**	**(2,623,208)**
Cash flows - financing activities		
Proceeds from bank credits, loans and issue of bonds	244,868	7,596,358
Reimbursement of bank credits, loans, issue of bonds and financial lease obligations	(2,604,700)	(8,896,017)
Dividends paid (including distribution from profit for the State Treasury)	(254,640)	(1,145,211)
Interest paid	(130,799)	(288,444)
Other	3,991	5,121
Net cash from financing activities	**(2,741,280)**	**(2,728,193)**
Net change of cash and cash equivalents	**(610,017)**	**135,166**
Foreign exchange differences, net	4,073	(2,415)
Cash and cash equivalents at the beginning of the period	**7,705,934**	**2,137,316**
Cash and cash equivalents at the end of the period, including	**7,095,917**	**2,272,482**
Restricted cash and cash equivalents	189,967	143,087
Related to discontinued operations	-	-

1. General information

PGE Polska Grupa Energetyczna S.A. Capital Group

PGE Polska Grupa Energetyczna S.A. Capital Group ("Group", "Capital Group", "PGE Group") comprises the parent company PGE Polska Grupa Energetyczna S.A. and subsidiaries (please refer to Note 2).

Polska Grupa Energetyczna S.A. ("parent company", "the Company", "PGE", "PGE S.A.") was founded on the basis of the Notary Deed of 2 August 1990 and registered in the District Court in Warsaw, XVI Commercial Department on 28 September 1990. The Company was registered in the National Court Register of the District Court for the capital city of Warsaw, XII Commercial Department, under no. KRS 0000059307.

As of the date of preparation of the condensed consolidated financial statements, the parent company is seated in Warsaw, 2 Mysia Street.

Core operations of the Group companies are as follows:

- production of electricity,
- production and distribution of heat,
- wholesale and retail sale of electricity,
- distribution of electricity,
- rendering of other services related to the above mentioned activities.

Business activities are conducted under appropriate concessions granted to particular Group entities.

The State Treasury is the major shareholder of the parent company.

The interim condensed consolidated financial statements of the Group comprise financial data for the period of 9-month period ended September 30, 2010. The statements contain comparative data for the 9-month period ended September 30, 2009 and as of 31 December 2009.

Interim condensed consolidated financial statement for 3 and 9 months ended September 30, 2010 (in PLN thousand)

2. Entities included in the Group

During the reporting period, PGE Polska Grupa Energetyczna S.A. Capital Group consisted of the enumerated below companies, consolidated directly and indirectly:

	Entity	Share of Capital Group entities as at September 30, 2010	The entity holding shares as at September 30, 2010	Share of Capital Group entities as at December 31, 2009	The entity holding shares as at December 31, 2009
	Segment: wholesale				
1.	PGE Polska Grupa Energetyczna S.A. _Warszawa_	The parent company of the Group			
2.	PGE Electra S.A. _Warszawa_	100.00%	PGE Polska Grupa Energetyczna S.A.	100.00%	PGE Polska Grupa Energetyczna S.A.
3.	ELBIS Sp. z o.o. _Rogowiec_	100.00%	PGE Górnictwo i Energetyka Konwencjonalna S.A.	100.00%	PGE Elektrownia Bełchatów S.A.
4.	ELECTRA Deutschland GmbH Germany	74.07% 25.93%	PGE Electra S.A. PGE Polska Grupa Energetyczna S.A.	100.00%	PGE Electra S.A.
	Segment: Conventional Generation				
5.	PGE Górnictwo i Energetyka S.A. _Łódź_	-	_a)_	85.00%	PGE Polska Grupa Energetyczna S.A.
6.	PGE Górnictwo i Energetyka Konwencjonalna S.A.(_formerly PGE Elektrownia Bełchatów S.A._) _Bełchatów_	80.31% 7.88% 0.02%	PGE Polska Grupa Energetyczna S.A PGE Obrót S.A. PGE Energia Odnawialna S.A.	69.00% 19.10%	PGE Górnictwo i Energetyka S.A. PGE Polska Grupa Energetyczna S.A.
7.	PGE Elektrownia Opole S.A. _Brzezie_	85.00%	PGE Polska Grupa Energetyczna S.A	69.00% 16.00%	PGE Górnictwo i Energetyka S.A. PGE Polska Grupa Energetyczna S.A.
8.	PGE Elektrownia Turów S.A. _Bogatynia_	-	_b)_	69.00% 16.00%	PGE Górnictwo i Energetyka S.A. PGE Polska Grupa Energetyczna S.A.
9.	PGE Kopalnia Węgla Brunatnego Bełchatów S.A. _Rogowiec_	-	_b)_	69.00% 16.00%	PGE Górnictwo i Energetyka S.A. PGE Polska Grupa Energetyczna S.A.
10.	PGE Kopalnia Węgla Brunatnego Turów S.A. _Bogatynia_	-	_b)_	69.00% 16.00%	PGE Górnictwo i Energetyka S.A. PGE Polska Grupa Energetyczna S.A.
11.	PGE Zespół Elektrowni Dolna Odra S.A. _Nowe Czarnowo_	-	_b)_	85.00%	PGE Energia S.A.
12.	PGE Zespół Elektrociepłowni Bydgoszcz S.A. _Bydgoszcz_	-	_b)_	98.50% 0.53%	PGE Polska Grupa Energetyczna S.A. PGE Energia Odnawialna S.A.
13.	PGE Elektrociepłownia Kielce S.A. _Kielce_	-	_b)_	100.00%	PGE Zakłady Energetyczne Okręgu Radomsko-Kieleckiego S.A.
14.	PGE Elektrociepłownia Lublin - Wrotków Sp. z o.o. _Lublin_	-	_b)_	100.00%	PGE Lubelskie Zakłady Energetyczne S.A.

Interim condensed consolidated financial statement for 3 and 9 months ended September 30, 2010 (in PLN thousand)

	Entity	Share of Capital Group entities as at September 30, 2010	The entity holding shares as at September 30, 2010	Share of Capital Group entities as at December 31, 2009	The entity holding shares as at December 31, 2009
15.	PGE Elektrociepłownia Rzeszów S.A. _Rzeszów_	-	_b)_	100.00%	PGE Obrót S.A.
16.	PGE Elektrociepłownia Gorzów S.A. _Gorzów Wielkopolski_	-	_b)_	90.09%	PGE Polska Grupa Energetyczna S.A.
17.	Energetyka Boruta Sp. z o.o. _Zgierz_	-	_b)_	96.91%	ELBIS Sp. z o.o.
18.	Przedsiębiorstwo Energetyki Cieplnej Gorzów Sp. z o.o. _Gorzów Wielkopolski_	-	_b)_	100.00%	PGE Elektrociepłownia Gorzów S.A.
19.	Przedsiębiorstwo Energetyki Cieplnej Sp. z o.o. _Gryfino_	-	_b)_	80.00%	PGE Zespół Elektrowni Dolna Odra S.A.
	Segment: renewable energy				
20.	PGE Energia Odnawialna S.A. _Warszawa_	100.00%	PGE Polska Grupa Energetyczna S.A.	100.00%	PGE Polska Grupa Energetyczna S.A.
21.	PGE Zespół Elektrowni Wodnych Dychów S.A. _Dychów_	-	_b)_	100.00%	PGE Energia Odnawialna S.A.
22.	Elektrownia Wodna Żarnowiec S.A. _Czymanowo_	-	_b)_	100.00 %	PGE Energia Odnawialna S.A.
23.	Elektrownia Wiatrowa Kamieńsk Sp. z o.o. _Kamieńsk_	100.00%	PGE Energia Odnawialna S.A.	50.00% 50.00%	PGE Energia Odnawialna S.A. ELBIS Sp. z o.o.
24.	Zespół Elektrowni Wodnych Porąbka-Żar S.A. _Międzybrodzie Bialskie_	-	_b)_	100.00%	PGE Energia Odnawialna S.A.
25.	EGO-Odra S.A. _Warszawa_	-	_b)_	50.14% 49.86%	PGE Energia Odnawialna S.A. ZEW Porąbka-Żar S.A.
26.	Zespół Elektrowni Wodnych Solina-Myczkowce S.A. _Solina_	-	_b)_	100.00%	PGE Energia Odnawialna S.A.
	Segment: distribution				
27.	PGE Dystrybucja S.A. _Lublin_	89.92% 8.57%	PGE Obrót S.A. PGE Polska Grupa Energetyczna S.A.	100.00%	PGE Polska Grupa Energetyczna S.A.
28.	PGE Dystrybucja Zamość Sp. z o.o. _Zamość_	-	_b)_	100.00%	PGE Zamojska Korporacja Energetyczna S.A.
29.	PGE Dystrybucja Rzeszów Sp. z o.o. _Rzeszów_	-	_b)_	100.00%	PGE Obrót S.A. _(dawniej PGE Rzeszowski Zakład Energetyczny S.A.)_
30.	PGE Dystrybucja LUBZEL Sp. z o.o. _Lublin_	-	_b)_	100.00%	PGE Lubelskie Zakłady Energetyczne S.A.
31.	PGE Zakłady Energetyczne Okręgu Radomsko-Kieleckiego Dystrybucja Sp. z o.o. _Skarżysko-Kamienna_	-	_b)_	100.00%	PGE Zakłady Energetyczne Okręgu Radomsko-Kieleckiego S.A.
32.	PGE Dystrybucja Łódź Sp. z o.o. _Łódź_	-	_b)_	100.00%	PGE Łódzki Zakład Energetyczny S.A.
33.	PGE Dystrybucja Białystok Sp. z o.o. _Białystok_	-	_b)_	100.00%	PGE Zakład Energetyczny Białystok S.A.

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	Entity	Share of Capital Group entities as at September 30, 2010	The entity holding shares as at September 30, 2010	Share of Capital Group entities as at December 31, 2009	The entity holding shares as at December 31, 2009
34.	PGE Dystrybucja Łódź-Teren S.A. *Łódź*	-	*b)*	85.00%	PGE Energia S.A.
35.	PGE Dystrybucja Warszawa-Teren Sp. z o.o.	-	*b)*	100.00%	PGE Zakład Energetyczny Warszawa-Teren S.A.
36.	PGE Energia S.A. *Lublin*	-	*a)*	85.00%	PGE Polska Grupa Energetyczna S.A.
	Segment: retail sale				
37.	PGE Obrót S.A. *(dawniej PGE Rzeszowski Zakład Energetyczny S.A.)* *Rzeszów*	85.40%	PGE Polska Grupa Energetyczna S.A.	85.00%	PGE Energia S.A.
38.	PGE Zamojska Korporacja Energetyczna S.A. *Zamość*	-	*b)*	85.00%	PGE Energia S.A.
39.	PGE Lubelskie Zakłady Energetyczne S.A. *Lublin*	-	*b)*	85.00%	PGE Energia S.A.
40.	PGE Zakłady Energetyczne Okręgu Radomsko-Kieleckiego S.A. *Skarżysko-Kamienna*	-	*b)*	85.00%	PGE Energia S.A.
41.	PGE Łódzki Zakład Energetyczny S.A. *Łódź*	-	*b)*	85.00%	PGE Energia S.A.
42.	PGE Zakład Energetyczny Białystok S.A.	-	*b)*	85.00%	PGE Energia S.A.
43.	PGE ZEŁT Obrót Sp. z o.o. *Łódź*	-	*b)*	100.00%	PGE Polska Grupa Energetyczna S.A.
44.	PGE Zakład Energetyczny Warszawa-Teren S.A. *Warszawa*	-	*b)*	85.00%	PGE Energia S.A.
	Segment: Other				
45.	EXATEL S.A. *Warszawa*	94.938% 0.137% 0.001%	PGE Polska Grupa Energetyczna S.A. PGE Obrót S.A. PGE Dystrybucja S.A.	94.94%	PGE Polska Grupa Energetyczna S.A.
46.	MEGAZEC Sp. z o.o. *Bydgoszcz*	100.00%	PGE Górnictwo i Energetyka Konwencjonalna S.A.	100.00%	PGE Zespół Elektrociepłowni Bydgoszcz S.A.
47.	ELBEST Sp. z o.o. *Rogowiec*	100.00%	PGE Górnictwo i Energetyka Konwencjonalna S.A.	100.00%	PGE Elektrownia Bełchatów S.A.
48.	Energoserwis - Kleszczów Sp z o.o. *Kleszczów*	51.00%	ELBIS Sp. z o.o.	51.00%	ELBIS Sp. z o.o
49.	Niepubliczny Zakład Opieki Zdrowotnej MegaMed Sp. z o.o. *Bełchatów*	100.00%	PGE Górnictwo i Energetyka Konwencjonalna S.A	100.00%	PGE Elektrownia Bełchatów S.A.
50.	ELMEN Sp. z o.o. *Rogowiec*	100.00%	ELBIS Sp. z o.o.	100.00%	ELBIS Sp. z o.o.
51.	EnBud Sp. z o.o. *Czymanowo*	100.00%	PGE Energia Odnawialna S.A.	100.00%	Elektrownia Wodna Żarnowiec S.A.
52.	Bio-Energia ESP Sp. z o.o. *Gdynia*	99.65%	PGE Energia Odnawialna S.A.	65.72% 12.16% 21.77%	PGE Energia Odnawialna S.A. Zespół Elektrowni Wodnych Porąbka-Żar S.A. Elektrownia Wodna Żarnowiec S.A.

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	Entity	Share of Capital Group entities as at September 30, 2010	The entity holding shares as at September 30, 2010	Share of Capital Group entities as at December 31, 2009	The entity holding shares as at December 31, 2009
53.	Dychowskie Przedsiębiorstwo Eksploatacji Elektrowni ELDEKS Sp. z o.o. *Dychów*	100.00%	PGE Energia Odnawialna S.A	100.00%	PGE Zespół Elektrowni Wodnych Dychów S.A.
54.	ESP Usługi Sp. z o.o. *Warszawa*	100.00%	PGE Energia Odnawialna S.A.	100.00%	PGE Energia Odnawialna S.A.
55.	Budownictwo Hydroenergetyka - Dychów Sp. z o. o *Dychów*	100.00%	PGE Energia Odnawialna S.A	100.00%	PGE Zespół Elektrowni Wodnych Dychów S.A.
56.	Przedsiębiorstwo Usługowo-Produkcyjne ELTUR-SERWIS Sp. z o.o. *Bogatynia*	100.00%	PGE Górnictwo i Energetyka Konwencjonalna S.A.	100.00%	PGE Elektrownia Turów S.A.
57.	Przedsiębiorstwo Produkcji Sorbentów i Rekultywacji ELTUR–WAPORE Sp. z o.o. *Bogatynia*	100.00%	PGE Górnictwo i Energetyka Konwencjonalna S.A.	100.00%	PGE Elektrownia Turów S.A.
58.	Przedsiębiorstwo Transportowe ELTUR-TRANS Sp. z o.o. *Bogatynia*	100.00%	PGE Górnictwo i Energetyka Konwencjonalna S.A.	100.00%	PGE Elektrownia Turów S.A.
59.	Przedsiębiorstwo Handlowo-Usługowe GLOBAL - TUR Sp. z o.o. *Bogatynia*	100.00%	PGE Górnictwo i Energetyka Konwencjonalna S.A.	84.46%	PGE Elektrownia Turów S.A.
				15.54%	PGE KWB Turów S.A.
60.	Centrum Medyczne Turów Sp. z o.o. *Bogatynia*	100.00%	PGE Górnictwo i Energetyka Konwencjonalna S.A.	36.06%	PGE Elektrownia Turów S.A.
				63.94%	PGE KWB Turów S.A.
61.	Energo-Invest-Broker S.A. *Toruń*	55.625%	PGE Górnictwo i Energetyka Konwencjonalna S.A.	30.62%	PGE Elektrownia Bełchatów S.A.
				25.00%	PGE Elektrownia Turów S.A.
62.	Przedsiębiorstwo Usługowo-Produkcyjne TOP SERWIS Sp. z o.o. *Bogatynia*	100.00%	Przedsiębiorstwo Usługowo-Produkcyjne ELTUR-SERWIS Sp. z o.o.	89.00%	Przedsiębiorstwo Usługowo-Produkcyjne ELTUR-SERWIS Sp. z o.o.
63.	ENESTA Sp. z o.o. *Stalowa Wola*	84.85%	PGE Dystrybucja S.A.	84.85%	PGE Dystrybucja Rzeszów Sp. z o.o.
		2.48%	PGE Górnictwo i Energetyka Konwencjonalna S.A.	2.48%	PGE Elektrociepłownia Rzeszów S.A.
64.	NOM Sp. z o.o. *Warszawa*	100.00%	EXATEL S.A.	100.00%	EXATEL S.A.
65.	Energo-Tel S.A. *Warszawa*	51.10%	EXATEL S.A.	51.10%	EXATEL S.A.
		48.80%	NOM Sp. z o.o.	-	-
66.	E-Telbank S.A. *Warszawa*	100.00%	EXATEL S.A.	100.00%	EXATEL S.A.
67.	Towarzystwo Gospodarcze BEWA Sp. z o.o. *Kleszczów*	-	-	100.00%	PGE KWB Bełchatów S.A.
68.	RAMB Sp. z o.o. *Bełchatów*	100.00%	PGE Górnictwo i Energetyka Konwencjonalna S.A.	100.00%	PGE KWB Bełchatów S.A.
69.	BESTUR Sp. z o.o. *Bełchatów*	100.00%	PGE Górnictwo i Energetyka Konwencjonalna S.A.	100.00%	PGE KWB Bełchatów S.A.
70.	Przedsiębiorstwo Transportowo Sprzętowe BETRANS Sp. z o.o. *Rogowiec*	100.00%	PGE Górnictwo i Energetyka Konwencjonalna S.A.	100.00%	PGE KWB Bełchatów S.A.

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	Entity	Share of Capital Group entities as at September 30, 2010	The entity holding shares as at September 30, 2010	Share of Capital Group entities as at December 31, 2009	The entity holding shares as at December 31, 2009
71.	Przedsiębiorstwo Wulkanizacji Taśm i Produkcji Wyrobów Gumowych BESTGUM POLSKA Sp. z o.o. *Rogowiec*	100.00%	PGE Górnictwo i Energetyka Konwencjonalna S.A.	100.00%	PGE KWB Bełchatów S.A.
72.	Górniczy Klub Sportowy Bełchatów S.S.A. *Bełchatów*	-	-	100.00%	PGE KWB Bełchatów S.A.
73.	ELECTRA Bohemia s.r.o. *Czech Republic*	100.00%	PGE Electra S.A.	100.00%	PGE Electra S.A.
74.	Zakład Energetyczny Białystok Przedsiębiorstwo Transportowo-Usługowe ETRA Sp. z o.o. *Białystok*	100.00%	PGE Dystrybucja S.A	100.00%	PGE Dystrybucja Białystok Sp. z o.o.
75.	Zakład Energetyczny Białystok Przedsiębiorstwo Produkcyjno-Handlowe EKTO Sp. z o.o. *Białystok*	100.00%	PGE Dystrybucja S.A.	100.00%	PGE Dystrybucja Białystok Sp. z o.o.
76.	Energetyczne Systemy Pomiarowe Sp. z o.o. *Białystok*	100.00%	PGE Dystrybucja S.A.	100.00%	PGE Dystrybucja Białystok Sp. z o.o.
77.	Zakład Energetyczny Białystok Pracownia Projektowa ENSPRO Sp. z o.o. *Białystok*	100.00%	PGE Dystrybucja S.A.	100.00%	PGE Dystrybucja Białystok Sp. z o.o.
78.	Zakład Usług Medycznych Dolna Odra Sp. z o.o. *Nowe Czarnowo*	100.00%	PGE Górnictwo i Energetyka Konwencjonalna S.A.	100.00%	PGE Zespół Elektrowni Dolna Odra S.A.
79.	EPO Sp. z o.o. *Opole*	50.00%	PGE Elektrownia Opole S.A.	50.00%	PGE Elektrownia Opole S.A.
80.	Przedsiębiorstwo Wielobranżowe Agtel Sp. z o.o. *Zamość*	-	-	70.62%	PGE Zamojska Korporacja Energetyczna S.A.
81.	Centrum Szkolenia i Rekreacji „Energetyk" Sp. z o.o. *Krasnobród*	99.50%	PGE Obrót S.A.	99.50%	PGE Zamojska Korporacja Energetyczna S.A.
82.	Zakład Obsługi Energetyki Sp. z o.o. *Zgierz*	100.00%	PGE Dystrybucja S.A.	100.00%	PGE Dystrybucja Łódź-Teren S.A.
83.	PGE Serwis Sp. z o.o. *Warszawa*	100.00%	PGE Polska Grupa Energetyczna S.A.	100.00%	PGE Polska Grupa Energetyczna S.A.
84.	PGE Systemy S.A. *Warszawa*	100.00%	PGE Polska Grupa Energetyczna S.A.	100.00%	PGE Polska Grupa Energetyczna S.A.
85.	PGE Inwest S.A. *Warszawa*	100.00%	PGE Polska Grupa Energetyczna S.A.	100.00%	PGE Polska Grupa Energetyczna S.A.
86.	PGE Inwest spółka z ograniczoną odpowiedzialnością II S.K.A. *Warszawa*	100.00%	PGE Polska Grupa Energetyczna S.A.	-	-
87.	PGE Energia Jądrowa S.A. *Warszawa*	100.00%	PGE Polska Grupa Energetyczna S.A.	100.00%	PGE Polska Grupa Energetyczna S.A.
88.	PGE EJ 1 Sp. z o.o. *Warszawa*	51.00%	PGE Energia Jądrowa S.A.	-	-
		49.00%	PGE Polska Grupa Energetyczna S.A.	-	-
89.	PWE Gubin Sp. z o.o. *Sękowice*	100.00%	PGE Polska Grupa Energetyczna S.A.	-	-
90.	Elektrownia Wiatrowa Resko Sp. z o.o. *Czymanowo*	100.00%	PGE Energia Odnawialna S.A.	-	-
91.	Biogazownia Łapy Sp. z o.o. *Warszawa*	100.00%	PGE Energia Odnawialna S.A.	-	-

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	Entity	Share of Capital Group entities as at September 30, 2010	The entity holding shares as at September 30, 2010	Share of Capital Group entities as at December 31, 2009	The entity holding shares as at December 31, 2009
92.	Biogazownia Wożuczyn Sp. z o.o. _Warszawa_	100.00%	PGE Energia Odnawialna S.A.	-	-

a) The issue of merger of the parent company with PGE Górnictwo i Energetyka S.A. and PGE Energia S.A. is described in Note 21.2 to these financial statements.

b) The issue of merger of the Capital Group companies as a result of implementation of the Consolidation Program is described in Note 21.2 to these financial statements.

Apart from the above-mentioned transformations, during the period ended September 30, 2010 there were following significant changes in the structure of Capital Group companies under full consolidation:

- On January 7, 2010, the change in ownership structure of Elektrownia Wiatrowa Resko was registered in the National Court Register in relation to the purchase of 50% of stocks of this company by PGE Energia Odnawialna S.A. The company is included in the consolidated financial statements starting from 2010.
- On January 28, 2010, EJ 1 Sp. z o.o. was registered in the National Court Register. The entity's purpose is to build and possibly exploit the first nuclear power station.
- PGE Inwest spółka z ograniczoną odpowiedzialnością II S.K.A. was registered in the National Court Register on January 28, 2010. The PGE Invest Sp. z o.o. is a general partner of the entity
- On February 5, 2010, Biogazownia Łapy Sp. z o.o. was registered in the National Court Register – the company is included in the consolidated financial statements starting from 2010.
- On February 17, 2010, Przedsiębiorstwo Usługowo-Produkcyjne „ELTUR-SERWIS" Sp. z o.o. acquired 11% of shares of Przedsiębiorstwo Usługowo-Produkcyjne „TOP-SERWIS" Sp. z o.o. and as a result the share in the equity of this company increased up to 100%.
- On February 23, 2010, the "Datio in Solutum" agreement was signed, in settlement (related to the dividend paid by ZEW Porąbka-Żar S.A.) with the transfer of the ownership of shares of EGO-ODRA S.A. held by Porąbka-Żar S.A. to PGE Energia Odnawialna S.A. The shares were transferred on 8 March 2010.
- On March 29, 2010, PGE KWB Bełchatów S.A. disposed of GKS Bełchatów S.S.A.
- On May 31, 2010, NOM Sp. z o.o. acquired 48.8% of the share capital of ENERGO-TEL S.A. As a result of this transaction, NOM Sp. z o.o. holds 48.8% and Exatel S.A. holds 51.1% of the company's share capital.
- On June 11, 2010, the shareholders of Electra Deutchland GmbH adopted a resolution to increase the share capital. Shares in the increased share capital, accounting for 25.93% of total share capital, were embraced by PGE Polska Grupa Energetyczna S.A. The increase was registered on July 30, 2010.
- On June 18, 2010, PGE Polska Grupa Energetyczna S.A. acquired from Kopalnia Węgla Brunatnego Konin S.A. 100% of shares of PWE Gubin Sp. z o.o. seated in Sękowice.
- On July 9, 2010, PGE Zamojska Korporacja Energetyczna S.A. sold shares, constituting 70.62% of the share capital, of Przedsiębiorstwo Wielobranżowe Agtel Sp. z o.o.
- On July 15, 2010, Elbis Sp. z o.o. concluded the agreement with PGE Energia Odnawialna S.A. on the sale of 50% of shares of Elektrownia Wiatrowa Kamieńsk Sp. z o.o. – the transaction took place on July 28, 2010.
- On July 22, 2010, PGE Zespół Elektrowni Dolna Odra S.A. acquired from Gryfino Commune 19.74% of the share capital of Przedsiębiorstwo Energetyki Cieplnej Sp. z o.o. seated in Gryfino. On July 23, 2010, the company acquired additional 0.26% of the share capital and as a result its share in equity of Przedsiębiorstwo Energetyki Cieplnej Sp. z o.o. increased up to 100%.

- On September 6, 2010 PGE Górnictwo i Energetyka Konwencjonalna S.A. sold shares, constituting 100% of the share capital of Towarzystwo Gospodarcze BEWA Sp. z o.o.

3. The basis for the preparation of financial statements

Statement of compliance

The foregoing Condensed Interim Consolidated Financial Statements of PGE Polska Grupa Energetyczna S.A Capital Group („financial statements") were prepared in accordance with the International Accounting Standard 34 – Interim Financial Reporting, according to applicable accounting standards applicable to interim financial reporting adopted by the European Union, published and being in force during preparation of the foregoing financial statements and in accordance with the Decree of the Ministry of Finance dated 19 February 2009 on current and periodic information provided by issuers of securities and the conditions for recognition as equivalent information required by the law of a non-Member State (Official Journal from 2009, No 33, item 259).

IFRS comprise standards and interpretations approved by International Accounting Standards Board (IASB) and International Financial Reporting Interpretation Committee (IFRIC).

The foregoing financial statements should be read in conjunction with the audited consolidated financial statements of PGE Polska Grupa Energetyczna S.A. Capital Group prepared in accordance with International Financial Reporting Standards for the financial year ended 31 December 2009.

General rules of preparation

The financial statements were prepared under the assumption that the Group companies will continue to operate as a going concern for the foreseeable future. As at the day of the preparation of the financial statements, there is no evidence indicating that the Group companies will not be able to continue its business activities as a going concern.

The bookkeeping in the PGE Capital Group entities is maintained in accordance with the accounting policies (principles) specified in the Accounting Act dated 29 September 1994 ("the Accounting Act") and related bylaws, and other applicable regulations ("Polish Accounting Standards"), except from subsidiaries of PGE Electra S.A. seated in Germany and Czech Republic which run their books in compliance with German and Czech reporting regulations. The consolidated financial statements comprise adjustments which were not included in the books of Group entities. The purpose of these adjustments was to make the financial statements of these entities compliant with IFRS approved by the EU.

4. Presentation currency

The presentation currency of the financial statement is Polish zloty („PLN"). All the amounts are stated in PLN thousand, unless stated otherwise.

The following exchange rates were used for the valuation of captions of the financial position:

	September 30, 2010	December 31, 2009	September 30, 2009
USD	2.9250	2.8503	2.8852
EURO	3.9870	4.1082	4.2226

5. Changes in applied accounting policies

The following standards, changes in already effective standards and interpretations approved by the European Union and effective as at the day of preparation of the foregoing financial statement have significantly changed or can significantly change accounting policies applied by the Group:

IFRIC 18 "*Transfers of Assets from Customers*"

The purpose of the implementing IFRIC 18 *Transfers of Assets from Customers* was to unify the applied accounting practice in the situation of receiving from customers non-current assets or cash and cash equivalents for construction of non-current assets. The new interpretation has a significant meaning for distribution companies of the PGE Group in relation to the recognition of so-called connection payments or network terminals. According to accounting principles (policies) applied by the Group, the above matter was recognized analogically to the recognition of government donations in compliance with IAS 20, i.e. the value of the assets received was reflected as deferred income and then recognized in profit and loss statement over time in line with the estimated economic useful life of an item of a property, plant and equipment. According to the new IFRIC 18, starting from 1 July 2009 new connection payments charged by distribution companies are recognized directly in revenues. Connection payments received before 1 July 2009 is recognized in profit and loss account under hitherto existing principles.

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Presentation of revenues and expenses

In accordance with consolidation procedures for the period ended September 30, 2009, the Group did not eliminate transactions with some of the related parties, which have been recognized as not significant in relation to true and fair view of the consolidated financial statements treated as a whole. Due to the fact, that the turnover between these entities increased, the parent company updated the consolidation principles and made relevant eliminations when preparing the foregoing consolidated financial statements. Additionally during the reporting period, the Group changed the presentation of some captions of operating revenues and expenses. Due to the above, the Group transformed the data presented in a comparative consolidated statement of comprehensive income as presented below:

	Period ended September 30, 2009 _(published data)_	**Change of revenues and expenses presentation**	**Period ended September 30, 2009** _(transformed data)_
Operating activity			
Revenues from sale of products and merchandise, with excise tax	_14,677,155_	_(525,104)_	_14,152,051_
Excise tax	_(452,058)_	-	_(452,058)_
Revenues from sale of finished goods	14,225,097	(525,104)	13,699,993
Revenues from sale of services	504,868	144,075	648,943
Revenues from lease	24,454	(6,567)	17,887
Revenues from LTC compensations	1,116,007	-	1,116,007
Revenues from sale	**15,870,426**	**(387,596)**	**15,482,830**
Cost of goods sold	(10,171,860)	387,585	(9,784,275)
Gross profit on sales	**5,698,566**	**(11)**	**5,698,555**
Other operating revenues	192,139	(438)	191,701
Distribution and selling expenses	(937,036)	(29,189)	(966,225)
General and administrative expenses	(665,913)	26,463	(639,450)
Other operating expenses	(261,995)	3,175	(258,820)
Financial revenues	293,226	-	293,226
Financial expenses	(507,405)	-	(507,405)
Share of profit of associates	204,384	-	204,384
Gross profit	**4,015,966**		**4,015,966**

For the purpose of comparability the Group has also restated data presented in Notes 8 and 9 to the foregoing financial statements.

6. New standards and interpretations published, not yet effective

The following standards, changes in already effective standards and interpretations are approved by the European Union but are not effective as of January 1, 2010:

- Amendments to IAS 32 Financial Instruments: Presentation – effective for the periods starting February 1, 2010;
- Amendments to IFRS 1 Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters – effective for the periods starting July 1, 2010;
- Amendments to IFRS 8 Operating Segments – for the periods starting January 1, 2011;
- Revised IAS 24 Related Party Disclosures – for the periods starting January 1, 2011;
- Amendments to IFRIC 14 The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction – for the periods starting January 1, 2011;
- IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments – for the periods starting July 1, 2010.

The following standards, changes in already effective standards and interpretations were not approved by the European Union and are not effective as of January 1, 2010:

- IFRS 9 Financial instruments – effective for the periods starting January 1, 2013.

The influence of new regulations on future consolidated financial statements of the Capital Group

The parent company is a subsidiary of the State Treasury and according to IAS 24 *Related Party Disclosures* it presents the value of transactions with other subsidiaries of the State Treasury in the consolidated financial statements. Revised IAS 24 allows in particular (under the conditions specified) a significant limitation of recognizing other subsidiaries of the State Treasury as related parties. If the Group fulfils the conditions specified in revised IAS 24 the information on disclosed related parties' transactions will be significantly reduced.

The new IFRS 9 introduces fundamental changes to classifying, presenting and measuring of financial instruments. These changes will possibly have material influence on future consolidated financial statements of the Group. At the date of preparation of the foregoing consolidated financial statements, IFRS 9 is not yet approved and as a result its impact on the future consolidated financial statements of the PGE Group is not yet determined.

According to the assessment of the Management Board, the implementation of new standards and interpretations, except from matters mentioned above, would not have a significant influence on the accounting principles (policies) applied by the Group.

7. Change of estimates

In the period covered by the consolidated financial statements, the following significant changes to estimates took place:

- Provisions are liabilities of uncertain timing or amount. During the reporting period, the Group changed estimations regarding the basis and amounts of some provisions. Changes of estimates are presented in Note 14 to the foregoing financial statements.
- As at the day of preparation of the consolidated financial statements of PGE Capital Group for the financial year ended December 31, 2009 the financial statements of Polkomtel S.A., which is an associated company, were not audited and were not approved by the Board of Directors of this company. Based on available financial data PGE Capital Group recognized in the year 2009 the share of profit of associate, Polkomtel S.A., in the amount of PLN 241,931 thousand. After the publication of the consolidated financial statements the financial data of associate were adjusted. The adjustment was recognized in the financial statements of PGE Capital Group for the current period and caused the decrease of consolidated gross profit by PLN 27,419 thousand.

8. Business segments

The Group presents information related to operating segments in accordance to IFRS 8 *Operating Segments* for the current and comparative reporting periods. The Group reporting is based on business segments:

- Conventional Generation (previously: Mining and Generation) includes exploration and mining of lignite and production of energy in the Group power plants and heat and power plants;
- Renewable Energy includes generation of energy in pumped storage power plants and from renewable sources;
- Wholesale includes trade in electricity on the wholesale market, trading of emissions certificates and property rights related to energy origin units of ownership and fuel trading;
- Distribution includes management over local distribution networks and delivery of electricity with the use of these networks;
- Retail sale includes sale of electricity and rendering services to end users.

Organization and management over the Group is based on the division into segments, taking into account the nature of the products and services. Each segment represents a strategic business unit, offering different products and serving different markets. Transactions between segments are settled within the Group as if they were concluded with third parties – using current market prices.

September 30, 2010 (in PLN thousand)

Period ended September 30, 2010	Continuing operations								Discontinued operations	Total operations
	Segment: Conventional Generation	Segment: Renewable Energy	Segment: Wholesale	Segment: Distribution	Segment: Retail sale	Other activities	Intersegmental eliminations	Total		
Revenues										
Revenues from sales to external customers	1,687,465	388,638	3,385,963	484,945	8,479,984	557,536		**14,984,531**	**51,841**	**15,036,372**
Revenues from sales between segments	7,414,488	89,787	5,399,746	3,246,656	680,966	734,932	(17,566,575)	**-**	**-**	
Total revenues from segments	**9,101,953**	**478,425**	**8,785,709**	**3,731,601**	**9,160,950**	**1,292,468**	**(17,566,575)**	**14,984,531**	**51,841**	**15,036,372**
Financial result										
Profit (loss) of a segment	2,107,027	123,418	148,315	447,716	172,919	77,266	(2,972)	3,073,689	1,710	3,075,399
Profit (loss) on continuing operations before tax and financial revenues (expenses)								**3,073,689**	**1,710**	**3,075,399**
Net financial revenues (expenses)								(21,082)	132	(20,950)
Share of profit of associates								192,892	-	192,892
Profit (loss) before tax								**3,245,499**	**1,842**	**3,247,341**
Income tax								(505,183)	(392)	(505,575)
Net profit (loss) for the period								**2,740,316**	**1,450**	**2,741,766**
Assets and liabilities										
Assets of the segment	25,679,512	1,640,052	627,316	13,355,837	1,641,617	1,069,039	(1,249)	44,012,124	-	44,012,124
Shares in associates	9,416					1,518,281		1,527,697	-	1,527,697
Unallocated assets								8,866,921	-	8,866,921
Total assets								**54,406,742**	**-**	**54,406,742**
Liabilities of the segment	4,605,701	94,275	727,818	2,016,382	1,127,842	281,660	(2,491)	8,851,187	-	8,851,187
Unallocated liabilities								5,652,757	-	5,652,757
Total liabilities								**14,503,944**	**-**	**14,503,944**
Other information on business segments										
Capital expenditures	2,287,869	96,890	14,287	601,873	22,277	150,076		3,173,272	-	3,173,272
Amortisation, depreciation and revaluation	1,136,901	94,344	22,889	654,116	19,154	83,407		2,010,811	4,081	2,014,892
Other non-monetary expenses	214,376	1,977	(13,272)	33,063	134,490	20,361		390,995	-	390,995

Interim condensed consolidated financial statement for 3 and 9 months ended September 30, 2010 (in PLN thousand)

Period ended September 30, 2009 (restated data)	Continuing operations							
	Segment: Conventional Generation	Segment: Renewable Energy	Segment: Wholesale	Segment: Distribution	Segment: Retail sale	Other activities	Intersegmental eliminations	Total
Revenues								
Revenues from sales to external customers	2,205,089	304,473	3,732,225	256,404	8,434,773	549,866		**15,482,830**
Revenues from sales between segments	7,417,991	91,793	5,408,368	3,189,435	644,985	433,816	(17,186,388)	
Total revenues from segments	**9,623,080**	**396,266**	**9,140,593**	**3,445,839**	**9,079,758**	**983,682**	**(17,186,388)**	**15,482,830**
Financial result								
Profit (loss) of a segment	2,970,236	78,668	352,272	268,021	288,728	67,836		4,025,761
Profit (loss) on continuing operations before tax and financial revenues (expenses)								**4,025,761**
Net financial revenues (expenses)								(214,179)
Share of profit of associates								204,384
Profit (loss) before tax								**4,015,966**
Income tax								(782,238)
Net profit (loss) for the period								**3,233,728**
Assets and liabilities								
Assets of the segment	24,117,858	1,734,390	792,064	13,271,129	1,495,374	957,207		42,368,022
Shares in associates	9,402					1,409,657		1,419,059
Unallocated assets								4,293,551
Total assets								**48,080,632**
Liabilities of the segment	3,800,007	93,184	914,271	2,037,455	985,543	302,807		8,133,267
Unallocated liabilities								7,811,344
Total liabilities								**15,944,611**
Other information on business segments								
Capital expenditures	1,730,954	50,947	7,069	626,871	3,070	66,414		2,485,325
Amortisation, depreciation and revaluation	1,149,955	89,547	16,605	621,663	13,649	78,570		1,969,989
Other non-monetary expenses	270,368	1,204	60,373	33,381	86,034	16,502		467,862

Interim condensed consolidated financial statement for 3 and 9 months ended September 30, 2010 (in PLN thousand)

9. Revenues and expenses

9.1. Sales revenues

	3- month period ended September 30, 2010	9- month period ended September 30, 2010	3- month period ended September 30, 2009 (transformed data)	9- month period ended September 30, 2009 (transformed data)
Sales revenues				
Sales of finished goods and merchandise with excise tax	*4,694,844*	*14,417,522*	*4,544,850*	*14,152,051*
Excise tax	*(104,378)*	*(328,535)*	*(116,396)*	*(452,058)*
Revenues from sale of finished products and merchandise	**4,590,466**	**14,088,987**	**4,428,454**	**13,699,993**
Revenues from sale of services	156,944	585,983	180,082	648,943
Revenues from lease	16,333	29,773	7,799	17,887
Revenues from LTC compensations	109,864	279,788	297,840	1,116,007
Total sales revenues	**4,873,607**	**14,984,531**	**4,914,175**	**15,482,830**

Issue of the revenues from the LTC compensations is described in Note 21 to these financial statements.

9.2. Cost by kind and nature

	3- month period ended September 30, 2010	9- month period ended September 30, 2010	3- month period ended September 30, 2009 (transformed data)	9- month period ended September 30, 2009 (transformed data)
Costs by kind				
Depreciation/ amortization	672,926	1,986,348	640,873	1,934,945
Materials and energy	895,064	2,672,759	825,301	2,564,483
External services	606,859	1,828,530	700,368	1,972,215
Taxes and charges	428,006	1,392,547	385,112	1,219,968
Personnel expenses	992,660	2,884,432	789,013	2,629,084
Other costs by kind	68,780	446,601	44,616	296,554
Total costs by kind	**3,664,295**	**11,211,217**	**3,385,283**	**10,617,249**
Change in inventories	194,216	63,988	133,434	29,231
Cost of products and services for the entity's own needs	(248,124)	(856,241)	(100,626)	(657,973)
Cost of finished goods sold	**3,610,387**	**10,418,964**	**3,418,091**	**9,988,507**
Selling expenses	(367,609)	(1,119,182)	(298,572)	(966,225)
General and administrative expenses	(243,354)	(691,353)	(220,544)	(639,450)
Cost of merchandise and materials sold	400,116	1,491,608	392,521	1,401,443
Cost of goods sold	**3,399,540**	**10,100,037**	**3,291,496**	**9,784,275**

Interim condensed consolidated financial statement for 3 and 9 months ended September 30, 2010 (in PLN thousand)

9.3. Other revenues and expenses

	3- month period ended September 30, 2010	9- month period ended September 30, 2010	3- month period ended September 30, 2009 *(transformed data)*	9- month period ended September 30, 2009 *(transformed data)*
Other operating revenues	45,304	302,537	65,780	191,701
Distribution and selling expenses	(367,609)	(1,119,182)	(298,572)	(966,225)
General and administrative expenses	(243,354)	(691,353)	(220,544)	(639,450)
Other operating expenses	(115,556)	(302,807)	(56,303)	(258,820)
Financial revenues	101,851	356,347	103,311	293,226
Financial expenses	(7,429)	(377,429)	(150,173)	(507,405)
Share of profit of associates	80,644	192,892	74,626	204,384

Share of profits of associates relates mainly to share of the parent company in profits of Polkomtel S.A.

9.4. Other operating revenues

	9- month period ended September 30, 2010	9- month period ended September 30, 2009 *(transformed data)*
Profit on disposal of property, plant and equipment	7,127	16,155
Reversal of revaluation write offs on receivables	19,540	20,800
Reversal of revaluation write offs on other assets	694	1,068
Provisions reversed	124,443	41,062
Compensations, penalties and fines received	94,517	38,868
Donations received	6,360	4,969
Taxes refunded	9,548	5,248
Court fees refund	1,696	1,667
Assets acquired free of charge	1,079	1,239
Redemption of liabilities	492	366
Re-invoiced revenues	169	255
Change of valuation of recultivation provision	-	22,410
Surpluses/ assets disclosure	8,768	-
Other	28,104	37,594
Total other operating revenues	**302,537**	**191,701**

Interim condensed consolidated financial statement for 3 and 9 months ended September 30, 2010 (in PLN thousand)

9.5. Other operating expenses

	9- month period ended September 30, 2010	**9- month period ended September 30, 2009** _(transformed data)_
Creation of revaluation write offs on receivables	41,864	53,741
Creation of revaluation write offs on other assets	2,884	8,939
Loss on disposal of property, plant and equipment and intangible assets	5,205	13,621
Provisions created	83,658	88,832
Donations granted	5,067	3,148
Compensations	3,427	6,496
Court fees paid	4,124	2,882
Liquidation of damages/ removal of breakdowns	90,727	16,727
Liquidation of non-current assets	31,728	25,844
Redemption of receivables	1,661	10,141
Costs of social activities	4,355	4,404
Compensations for the employees' shares	8,336	-
Other	19,771	24,045
Total other operating expenses	**302,807**	**258,820**

9.6. Financial revenues

	9- month period ended September 30, 2010	**9- month period ended September 30, 2009**
Financial revenues from financial instruments	**336,634**	**277,612**
Dividends	8,804	19,010
Interest revenue	244,851	97,634
Revaluation/ reversal of revaluation write offs	11,145	28,285
Profit on disposal of investments	29,561	10,591
Foreign exchange gains	42,273	122,092
Other financial revenues	**19,713**	**15,614**
Provisions reversed	12,387	383
Interest on state receivables	4,398	12,403
Other	2,928	2,828
Total financial revenues	**356,347**	**293,226**

Interim condensed consolidated financial statement for 3 and 9 months ended September 30, 2010 (in PLN thousand)

9.7. Financial expenses

	9- month period ended September 30, 2010	9- month period ended September 30, 2009
Financial expenses from financial instruments	**229,846**	**390,956**
Interest expenses	150,511	230,420
Revaluation	19,032	31,189
Impairment losses	12,164	15,238
Loss on disposal of investments	440	12
Foreign exchange losses	47,699	114,097
Other financial expenses	**147,583**	**116,449**
Discount reversal	120,643	92,885
Interest paid relating to state liabilities	933	4,245
Other	26,007	19,319
Total financial expenses	**377,429**	**507,405**

Interim condensed consolidated financial statement for 3 and 9 months ended September 30, 2010 (in PLN thousand)

10. Creation and reversal of revaluation write-offs

	9- month period ended September 30, 2010	9- month period ended September 30, 2009
Revaluation write-offs on property, plant and equipment		
- creation	6,371	38
- reversal	19,494	1,333
Revaluation write-offs on intangible assets		
- creation	-	-
- reversal	-	-
Revaluation write-offs on inventory		
- creation	18,793	20,953
- reversal	5,410	2,742

In periods before the balance sheet date, the parent company made prepayments for transmission services to Vattenfall Aktiebolag („VAB"). These prepayments were related to an execution of Restructuring Agreement signed by PGE S.A. and VAB on May 28, 2003 and were associated with a purchase of SwePol Link AB shares as well as a construction and exploitation of a permanent electricity link between Polish and Swedish electric system. The prepayments were settled within a realization of the above agreement, which expires in August 2010. Taking into consideration the character of transactions mentioned above, in the consolidated financial statements prepared in accordance with IFRS, a part of the prepayments made is presented as the cost of purchase of shares in an associate and the other part is presented as a loan. As at September 30, 2010, the value of prepayments presented as a loan amounted to PLN 166 million and the part adjusting the value of shares in an associate accounted for PLN 57 million.

During the reporting period, the Company was working on the settlement of the status of the remaining prepayments after the expiry of the contract with the VAB. As at the day of preparation of the foregoing consolidated financial statements, there is an uncertainty whether the Company's efforts to extend the cooperation will be successful. As a result it is uncertain that the amounts engaged will be retrieved. The Company, however, assesses that the cooperation will be continued and as a consequence there are no sufficient premises to create a revaluation write off on the above mentioned assets as at the balance sheet date.

11. Income tax

Income tax presented in the comprehensive income	9- month period ended September 30, 2010	9- month period ended September 30, 2009
Current tax	(581,454)	(546,183)
Deferred tax	76,271	(236,055)
Total	**(505,183)**	**(782,238)**

Moreover, the Group recognized deferred tax asset in the amount of PLN 35 thousand in other comprehensive income.

Interim condensed consolidated financial statement for 3 and 9 months ended September 30, 2010 (in PLN thousand)

12. Share capital

On August 31, 2010 the District Court of the City of Warsaw registered the merger of PGE with its subsidiaries PGE Górnictwo i Energetyka S.A. and z PGE Energia S.A. („Acquired Companies"). The merger took place pursuant to article 492 § 1 item 1 of Polish Commercial Companies Code, i.e. by way of transferring all assets of the Acquired Companies to the acquiring company (i.e. PGE) in return for shares which the acquiring company issued to the shareholders of the Acquired Companies

As a result of the merger, shareholders of the Acquired Companies received shares in increased share capital of PGE in exchange for the shares held in PGE Energia S.A. and PGE Górnictwo i Energetyka S.A. Detailed description of the Capital Group transformations during the reporting period is presented in Note 21.2 to these financial statements.

As a result of the merger share capital of the Company was increased from the amount of PLN 17,300,900 thousand to the total amount of PLN 18,697,837 thousand i.e. by the amount of PLN 1,396,937 thousand, by way of an issue of 139,693,727 shares, including 73,241,482 series C bearer shares and 66,452,245 series D bearer shares with a par value of PLN 10 each.

Series/ issue	Type of shares	Type of preference	Number of shares	Value of series/issue at nominal value	Capital payment method
"A"	ordinary	n/a	1,470,576,500	14,705,765,000.00	Contribution in kind/cash
"B"	ordinary	n/a	259,513,500	2,595,135,000.00	cash
"C"	ordinary	n/a	73,241,482	732,414,820.00	merger with PGE Energia S.A.
"D"	ordinary	n/a	66,452,245	664,522,450.00	merger with PGE GiE S.A.
Total			**1,869,783,727**	**18,697,837,270.00**	

After the registration of the increase of the share capital, the structure of the share capital as of September 30, 2010 is as follows:

	State Treasury		**Other shareholders**		**Total**	
	par value	share %	par value	share %	par value	share %
Shares As at January 1, 2010	14,705,765,000	85.00	2,595,135,000	15.00	17,300,900,000	100.00
Issue of shares related to the merger of PGE with PGE GiE S.A. and PGE Energia S.A.	120,420,380	-	1,276,516,890	-	1,396,937,270	-
Shares As at September 30, 2010	14,826,185,380	79.29	3,871,651,890	20.71	18,697,837,270	100.00

Additionally, on October 8, 2010 the State Treasury disposed of 186,978,000 shares in PGE, representing 9.99% of the Company's share capital and entitling to 186,978,000 votes at general meetings of the Company, constituting 9.99% of the total number of votes. Following the transaction the State Treasury holds 1,295,640,538 shares representing 69.29% of the Company's share capital.

Interim condensed consolidated financial statement for 3 and 9 months ended September 30, 2010 (in PLN thousand)

13. Dividends paid and dividends declared

	9- month period ended September 30, 2010	Year ended December 31, 2009
Cash dividends from ordinary shares		
Dividend paid from retained earnings	1,335,341	527,829
Dividend paid from other capital reserves	-	414,017
Obligatory distribution from profit paid to the State Treasury by the parent company	-	198,142
Total cash dividends from ordinary shares	**1,335,341**	**1,139,988**
Cash dividends per share (in PLN)	0.71**	0.78*

* In September 2009, the Extraordinary Meeting of Shareholders of PGE Polska Grupa Energetyczna S.A. adopted a resolution on increasing the value of the share capital. The increase of the share capital was registered in the National Court Register on November 30, 2009. Due to the above the cash dividend per share was calculated based on the number of shares in the period in which the resolution was adopted, i.e. before the increase of the share capital.

** On August 31, 2010 the shares were issued in connection with the merger of PGE with PGE Górnictwo i Energetyka S.A. and PGE Energia S.A. As the presented amount of the dividends paid and declared contains all the merged companies, the cash dividend per share was calculated based on the number of shares in the period after the increase of the share capital.

Dividend declared in 2009

On June 30, 2009, the Ordinary Meeting of Shareholders decided to allocate PLN 509,185 thousand of 2008 profit to pay the dividend. Furthermore, the retained earnings in the amount of PLN 18,644 thousand and reserve capital in the amount of PLN 414,017 thousand were also allocated to pay the dividend. The dividend defined by the Ordinary Meeting of Shareholders' resolutions of June 30, 2009 was paid on August 31, 2009.

Dividend declared in 2010

As the merger of PGE S.A. with the acquired companies was settled by pooling-of-interest method, the dividend amount presented in the financial statements contains value of dividends declared by the General Meetings of each of the merging companies after the elimination of mutual transactions.

The General Meetings of PGE S.A., PGE Górnictwo i Energetyka S.A. and PGE Energia S.A. divided the profits for 2009 as follows:

- Net profit of PGE S.A. in amount of PLN 1,440,497,736.84, was allocated for the supplementary capital – PLN 125,629,336.84 and dividend payment – PLN 1,314,868,400.00.
- Net profit of PGE GiE S.A. in amount of PLN 221,366,510.63 was fully allocated for dividend payment, but PLN 111,006,481.30 was paid out in 2009 as interim dividend.
- Net profit of PGE Energia S.A. in amount of PLN 57,204,775.33 was allocated for the supplementary capital – PLN 4,576,383.00 and dividend payment – PLN 52,628,392.33, but PLN 26,574,253.04 was paid out in 2009 as interim dividend.

For PGE S.A the General Meeting determined September 22, 2010 as the dividend date and October 12, 2010 as the dividend payment date, and for the Acquired Companies the dividend date was set at August 17, 2010 the dividend payment date was set at August 31, 2010.

Ultimately after the merger of PGE S.A. with PGE Górnictwo i Energetyka S.A. and PGE Energia S.A. and after adequate eliminations, the undistributed profits of the parent company were settled in a following way:

- PLN 130,205,719.84 was allocated for the supplementary capital;
- PLN 1,335,330,330.48 was allocated for dividend payment for the shareholders of the Company.

Obligatory distribution from profit paid to the State Treasury

Until November 30, 2009, PGE Polska Grupa Energetyczna S.A. was a payer of the distribution from profit paid for the State Treasury, which amounted to 15% of the gross profit presented in the stand-alone financial statements less current corporate income tax. In accordance with IFRS the distribution from profit is recognized as a dividend paid to a shareholder and presented in the statement of changes in equity.

September 30, 2010 (in PLN thousand)

14. Provisions

Period ended September 30, 2010	Post-employment benefits	Provisions for jubilee benefits	Provisions for third parties claims	Provisions for legal disputes	Provision for purchase of CO_2 emission rights	Provisions for employee claims	Provisions for recultivation of final excavations and ash storages	Provisions for liquidation of property, plant and equipment	Other provisions	TOTAL
As at January 1, 2010	**1,131,702**	**801,866**	**351,023**	**85,378**	**383,025**	**29,349**	**903,661**	**102,055**	**432,026**	**4,220,085**
Costs of present employment/benefits paid	(56,990)	(36,687)	-	-	-	-	-	-	-	**(93,677)**
Actuarial gains and losses excluding discount rate adjustment	(1,931)	(269)	-	-	-	-	-	-	-	**(2,200)**
Costs of past employment	7,034	-	-	-	-	-	-	-	-	**7,034**
Discount rate adjustments	-	-	-	-	-	-	-	-	-	**-**
Interest costs	46,581	32,172	-	-	-	-	37,497	4,393	-	**120,643**
Created during the reporting period	-	-	81,234	23,007	224,902	23,438	20,435	-	114,468	**487,484**
Reversed	-	-	(112,083)	(11,758)	(84,239)	(813)	(12,337)	-	(120,086)	**(341,316)**
Used	-	-	-	(611)	(310,638)	(4,376)	(4,465)	(93)	(17,710)	**(337,893)**
Other changes	5,502	(1,288)	-	(2,621)	32,063	(2,544)	409	-	1,743	**33,264**
As at September 30, 2010	**1,131,898**	**795,794**	**320,174**	**93,395**	**245,113**	**45,054**	**945,200**	**106,355**	**410,441**	**4,093,424**
Short – term as at September 30, 2010	**60,077**	**74,606**	**320,174**	**59,678**	**176,794**	**2,188**	**5,080**	**3,809**	**95,102**	**797,508**
Long – term as at September 30, 2010	**1,071,821**	**721,188**	**-**	**33,717**	**68,319**	**42,866**	**940,120**	**102,546**	**315,339**	**3,295,916**

According to the current recultivation of final excavation plans for lignite mines, PGE Górnictwo i Energetyka Konwencjonalna estimates that relevant costs will be incurred in the years 2032-2081 (for Branch Kopalnia Węgla Brunatnego Bełchatów S.A.) and in the years 2041-2090 (for Branch Kopalnia Węgla Brunatnego Turów S.A.).

September 30, 2010 (in PLN thousand)

Period ended December 31, 2009	**Post-employment benefits**	**Provisions for jubilee benefits**	**Provisions for third parties claims**	**Provisions for legal disputes**	**Provision for purchase of CO_2 emission rights**	**Provisions for employee claims**	**Provisions for recultivation of final excavations and ash storages**	**Provisions for liquidation of property, plant and equipment**	**Other provisions**	**TOTAL**
As at January 1, 2009	**1,085,578**	**825,453**	**285,285**	**99,613**	**391,271**	**27,619**	**983,768**	**73,183**	**60,662**	**3,832,432**
Costs of present employment	23,714	38,438	-	-	-		-	-	-	**62,152**
Actuarial gains and losses excluding discount rate adjustment	76,172	17,328	-	-	-	-	-	-	-	**93,500**
Benefits paid	(46,677)	(77,044)	(100)	-	-	-	-	-	-	**(123,821)**
Costs of past employment	9,867	-	-	-	-	-	-	-	-	**9,867**
Discount rate adjustments	(76,061)	(29,898)	-	-	-	-	(147,811)	-	-	**(253,770)**
Interest costs	63,644	42,064	-	-	-	-	48,734	3,865	1,650	**159,957**
Created during the year	-	-	61,874	29,192	170,509	965	55,023	25,775	396,452	**739,790**
Reversed	-	-	-	(34,016)	(10,405)	(286)	(30,730)	-	(42,265)	**(117,702)**
Used	-	-	-	(9,446)	(168,350)	(329)	(5,323)	(768)	(2,766)	**(186,982)**
Other changes	(4,535)	(14,475)	3,964	35	-	1,380	-	-	18,293	**4,662**
As at December 31, 2009	**1,131,702**	**801,866**	**351,023**	**85,378**	**383,025**	**29,349**	**903,661**	**102,055**	**432,026**	**4,220,085**
Short-term as at December 31, 2009	**88,906**	**82,597**	**351,023**	**52,756**	**311,004**	**5,357**	**6,236**	**3,902**	**79,545**	**981,326**
Long-term as at December 31, 2009	**1,042,796**	**719,269**	**-**	**32,622**	**72,021**	**23,992**	**897,425**	**98,153**	**352,481**	**3,238,759**

14.1. Provision for post-employment costs and provision for jubilee benefits

The amounts of provisions presented in the financial statement results from the valuation performed by an independent actuary.

14.2. Provisions for third-party claims

In 2010, the parent company decreased the amount of provisions to cover claims related to execution of trade agreements – no further details are disclosed due to trade secret of the Company in accordance with IAS 37.92.

14.3. Provision for legal disputes

Provisions for the use of land

Distribution entities of the PGE Group create provisions for damages related to a non-agreed usage of property amounting to ca. PLN 48,922 thousand. The provision is created to cover claims under court proceedings.

Claim of Tajfun Real Sp. z o.o.

In 2005, EXATEL S.A. filed a statement on termination of the Lease Agreement of Tajfun building in Warsaw, effective August 1. Tajfun Real Sp. z o.o. filed to the Court of Arbitration at National Chamber of Commerce, a claim to establish that the Lease Agreement is binding for both parties until July 31, 2010 and related to the payment of the rent for August 2005. On January 24, 2006, Tajfun Real Sp. z o.o. terminated to the lease agreement without the period of notice. By the verdict of May 11, 2007, the Supreme Court dismissed the further appeal of EXATEL S.A. related to the verdict of the Appeal Court in Warsaw of November 8, 2006 which confirmed that the Agreement on lease of the Tajfun building was binding until July 31, 2010. On September 11, 2007, Tajfun Real Sp. z o.o. filed to the Court of Arbitration at National Chamber of Commerce a claim for payment the rent for the period from September to January 2006. With verdicts dated June 30, 2009, the Court of Arbitration dismissed the prosecution of Tajfun Real Sp. z o.o. related to payment of rent by Exatel. As at December 31, 2009, the provision was reversed in the part respecting to claims covered by the verdict. As at the balance sheet date the related provision amounted to PLN 16,888 thousand. The Management Board of EXATEL S.A. commenced actions aimed at conciliatory finishing of the dispute, in the form of an amicable settlement on the subject issue between EXATEL S.A. and Tajfun Real Sp. z o.o.

14.4. Provisions for costs of recultivation

Provision for recultivation of mine storage

According to regulations of the Act of February 3, 1995 on Agricultural and Forest grounds and regulations of the Act of February 4, 1994 on Geological and Mining Law, the entrepreneur causing loss or reduction of value in the use of the ground is obliged to recultivate the ground at the entrepreneur’s expense.

PGE Górnictwo i Energetyka Konwencjonalna S.A., owner of the lignite mines, creates provisions for recultivation of final excavations. Costs of recultivation of final excavations are reflected and settled throughout the period of the exploitation of mines, with the use of the depletion method based on the rate of coal excavation. The provision as at the end of the period is calculated as a product of the discounted total cost of recultivation in the period divided by the rate of coal excavation, less period-end value of Mine Liquidation Trust created in accordance with Geological and Mining Law.

According to the “Environmental Law” Act of 24 April 2001 and the integrated permission issued under the Act, in case of closing the company is obliged to liquidate the installations and recultivation of the plant. Therefore the Group is obliged to incur the above costs in the future and raises appropriate provisions for recultivation of ash storages.

Provision for recultivation of ash storages

The PGE Group producers create provisions for recultivation of ash storages. The provision is created with the use of the natural method - proportionally as the storage is filled. The provision at the end of each year is calculated as a product of the discounted value of total recultivation costs for the given year and the proportion in which the storage is filled.

14.5. Provision for purchase of CO_2 emission rights

The provision is calculated on the basis of shortage of CO_2 emission rights in the period based on actual and planned CO_2 emission in the reporting period. The value of the provision as at the balance sheet date is accrued, from the beginning of the reporting period to the balance sheet date, taking into consideration the actual CO_2 emission in the period.

The provision as at the balance sheet date is calculated based on prices included in contracts on covering the emission rights shortage and the remaining emission rights shortage and on the basis of weighted average price of SPOT contracts as at the balance sheet date, binding on Powernext, EEX and Nord Pool stock exchanges.

14.6. Provision for labour claims

PGE Górnictwo i Energetyka Konwencjonalna S.A. Branch Kopalnia Węgla Brunatnego Bełchatów creates provision for the claims of former and current employees related to basis of pension benefits calculation as well as for ongoing proceedings concerning not allotted employees' shares and payment of a lowered dividend. The value of the provisions for the above disputes as at September 30, 2010 amounts to PLN 43 million.

14.7. Liquidation of property, plant and equipment

The provision for liquidation of property, plant and equipment relates to part of assets of PGE Górnictwo i Energetyka Konwencjonalna S.A., which are going to be excluded from the production in years 2010 – 2013. The obligation of liquidation and recultivation of the area results from „The integrated permission for running electric energy and heat energy producing installation" in which the restitution of the area was specified. The amount of created provision was established on the basis of expected liquidation expenses and was recognized on the debit side in initial value of property, plant and equipment. Depreciation of activated liquidation expenses which is calculated on the basis of the estimated economic useful life of an appropriate item of property, plant and equipment as well as the change in provision value resulting from the reversal of the discount as at the balance sheet date both influence the financial result of the Group. As at the balance sheet date, the value of the provision amounts to PLN 106 million.

14.8. Other provisions

Dispute concerning real estate taxation

The main caption of other provisions is a provision covering declared and predicted claims relating to real estate tax. The matter of dispute was described in detail in Note 19 to the foregoing financial statements.

Obligation of redemption of energy origin units of ownership

Energy companies included in the Group are parties to proceedings against the Energy Regulatory Office, related to an obligation of redemption of certificates of origin of energy – so-called green, red and yellow certificates. As at September 30, 2010, the provision created to cover possible penalties amounted to PLN 37.6 million. The final value of possible penalties will depend on the results of the court proceedings and may be subject to change.

15. Legal claims and contingent liabilities and receivables

Contingent liabilities	September 30, 2010	December 31, 2009
Credit collateral	-	250
Repayment of bill collateral	600	4,425
Liabilities from bank guarantees	49	50
Collaterals for repayment of bank guarantees granted	25	25
Legal claims	4,954	11,556
Contractual fines and penalties	12,481	6,880
Damages related to non-agreed usage of property	2,251	7,099
Real estate property buyout	-	536
Other contingent liabilities	123,090	85,097
Total contingent liabilities	**143,450**	**115,918**

Presented below are the most significant legal claims and other contingent liabilities of the PGE Capital Group.

15.1. Liabilities from legal claims

Liabilities from legal claims relate to disputes with contractors and state authorities. The amount of single dispute does not exceed PLN 3 million.

15.2. Contractual fines and penalties

Contingent liability concerns contractual fines for delays in realization of investments commenced by the Mayor of Gryfino City and Commune for PGE Górnictwo i Energetyka Konwencjonalna SA Branch Zespół Elektrowni Dolna Odra. Both parties are in the process of negotiating an agreement to the above matter.

15.3. Non-agreed usage of property

As a result of their business activities, distribution entities of the Group use a large number of real estate properties, on which machinery, buildings and construction related to transmission activity are placed. In respect of a significant number the real estate properties used, there are doubts whether the entities have legitimate right to usage of them. In August 2008, as a result of amendments to the Civil Code, an institution of transmission servitude was introduced. Such servitude can be constituted for, among others, distribution companies in relation to real estate properties on premises of which there are assets related to the distribution activity owned by these companies. Due to the above, both distribution companies and real estate owners have an additional possibility to settle legal status related to usage of such real estates.

In case of real estate properties, in relation to which the Group entities do not have legal right or the legal right is doubtful, there is a risk that owners of these real estate properties, alleged owners or third parties may file legal claims demanding compensation for a non-agreed usage of these real estates. As described in detail in Note 14.3 to the foregoing financial statements, an appropriate provision is created covering claims under court proceedings. Claims filed to which lower risk of compensation payment is attributed by particular entities, are presented as contingent liabilities. Group has not estimated the risk of possible demands that haven't been claimed yet.

15.4. Other contingent liabilities

Other contingent liabilities mainly (PLN 100 million) comprise a possible refund of means that were received by PGE Group entities from environmental funds for chosen investments. If the investment does not bring the expected environmental effect, a relevant financing will have to be reimbursed.

15.5. Other legal and court issues

Risk resulting from dispute between PGE S.A. and Aare-Tessin Ltd. For Electricity ("Atel")

On October 28, 1997, PSE S.A. (currently under business name PGE Polska Grupa Energetyczna S.A.) concluded an Agreement with Atel on delivery of electricity over the 16-year period, i.e. from January 1, 1998 to September 30, 2014. The agreement was executed, in a manner specified in it, by both parties. However, due to changes in Polish law and Community law, a dispute between the parties arose.

As a result of the accession of the Republic of Poland to the European Union on May 1, 2004, Polish law changed in the scope covered by the obligation to implement Community law governing the activities of the energy sector. First of all, as a result of subject transformations of PSE S.A. related to separation of entities running business activities in the field of production and sale of electricity (currently PGE S.A.) from entities running business activities in the field of transmission of electricity (currently PSE-Operator S.A.), on July 2, 2004, PGE S.A. signed an agreement with PSE-Operator S.A. on making available transmission capacities for execution of historical contracts concluded with PSE S.A. Based on this agreement, it became possible to continue the deliveries within the execution of the contract signed between PGE S.A. and Atel in 1997. Second of all, starting from 2006, PSE-Operator ceased to reserve transmission capacities on the basis of Already Allocated Capacity (AAC).Third of all, in the period from March 2008 to December 2008, PSE-Operator did not offer transmission capacities on auctions related to energy transmission from Poland to Slovakia.

In autumn 2007, the parties commenced negotiations related to execution of the agreement. However, in the letter of March 3, 2009, Atel informed the Company on the lack of will to continue negotiations. On March 13, 2009, the plenipotentiary of the Company, authorized to run the above mentioned negotiations, was informed that Atel filed a claim related to lack of execution of the agreement of 1997 in the period from March 1, 2008 to February 28, 2009 as well as breaches in execution of the agreement in July 2006. On May 29, 2009, the parent company filed an answer to the claim.

In September 2009, a chief arbitrator was elected in the dispute between Atel and PGE. According to the prepared schedule, the proceedings against the Court will hold a written form for the next year – it relates both to gathering of documentation, exchange of pleadings and testimony in writing. Final oral hearing, summarizing the whole of the accumulated material is planned for April 2011.

On October 4, 2010 Alpiq Ltd. filed at the Arbitrage Court an updated claim for the amount of nearly EUR 150 million plus due interest. On the ground of accessible data and according to the Company's best knowledge, PGE S.A. made a fair estimation of claims, which may be probably recognized as legitimate by the Arbitrage Court. The Company created a provision for such calculated claim in amount of EUR 81 million (including main claim amounting to EUR 72 million).

At the current stage of the arbitration proceedings, it is impossible to forecast the result of the proceedings and to estimate the final amount of the compensation.

Contractual liabilities related to the purchase of gas from PGNiG

All agreements have been concluded for a definite and long-term period. According to those concluded agreements, the PGE Group heat and power stations are obliged to collect the minimum volume of gas fuel and not to exceed the maximum level of collection of gas fuel in particular hours and months. If an entity does not collect a minimum volume of gas fuel, it is obliged to pay an appropriate fee calculated in accordance with the formula specified in the agreements. The agreements also allow to collect the gas fuel that is paid for but not collected, in the period of three following years. The terms of the agreements according to which the buyer is obliged to pay for the uncollected gas fuel may be a source of significant financial liabilities of the heat and power stations in case of appearing of not collected gas fuel. In the opinion of the Group, the terms and conditions of gas fuel deliveries from PGNiG do not differ from other gas fuel deliveries conditions on the Polish market.

The gas fuel price consists of a fixed charge for agreed power and a variable charge for actual quantity of gas fuel used. Both of these charges change periodically.

Dispute with the Energy Regulatory Office

The dispute with Energy Regulatory Office related to revenues related to compensation of early termination of long-term contracts of the sales of electric power and energy in described in the Note 21 to the foregoing financial statements.

15.6. Receivables and other contingent assets

As at September 30, 2010, the Group has PLN 702 million of contingent receivables related to grants for the realization of the chosen projects. The main part of the above amount is the grant, which will be assigned to PGE Górnictwo i Energetyka Konwencjonalna S.A Branch Elektrownia Bełchatów from the EU funds under European Economic Plan for Recovery. The European Commission declared – by the agreement - the supplementary financing of the demonstration project "Construction of CCS installation" in amount of EUR 180 million.

The funds received by PGE Górnictwo i Energetyka Konwencjonalna S.A Branch Elektrownia Bełchatów will be used for the CO_2 capture component – one of the three key components of the Carbon Capture and Storage installation. The implemented project is innovative on a world power industry scale and brings benefits for the environment protections through significant reduction of CO_2 emissions to the atmosphere. The efficiency of the CO_2 capture in the installation is projected to surpass 80%. Moreover, CCS installation will be integrated with the largest and most modern energy unit in Poland i.e. with 858 MW unit currently under construction at Bełchatów power plant.

16. Interest-bearing loans and credits, bonds issued

Financial liabilities at amortized cost (as at September 30, 2010)	**Long-term**	**Short-term**	**Total**
Interest-bearing loans and credits	1,977,870	705,873	**2,683,743**
Bonds issued	-	-	**-**
Trade liabilities	-	913,077	**913,077**
Other financial liabilities	13,261	672,597	**685,858**
Total	**1,991,131**	**2,291,547**	**4,282,678**

Within the presented above interest-bearing loans and credit the Group presents, among others:

- investment credit drawn by PGE Elektrownia Opole in Bank PEKAO S.A. The purpose of the credit is to finance the "block 1-4" construction with a carrying amount of PLN 938,486 thousand as at September 30, 2010;
- investment credit drawn by PGE Górnictwo i Energetyka Konwencjonalna S.A Branch Elektrownia Bełchatów in Nordic Investment Bank in order to finance an 858 MW unit's construction of a carrying value of PLN 592,940 thousand as at September 30, 2010.

PGE Polska Grupa Energetyczna S.A. in third quarter 2010 held a possibility to issue bonds within two bond programmes.

On May 19, 2009, the Company signed bonds issuing agreement with banks' consortium (with ING Bank Śląski S.A. acting as an agent) of a guaranteed borrowing facility, the purpose of which is to refinance liabilities of PGE Group entities and to finance operations of the Company. The value of the programme of issuing bonds amounts to PLN 2 billion. As at September 30, 2010, the maximum amount of issue guarantee amounted PLN 2 billion divided into individual issue guarantors. As at September 30, 2010, the Company does not have any liabilities related to bonds issued within this Programme. The maturity date of the programme is November 15, 2010.

On May 11, 2009, PGE S.A. signed an Agency Contract with ING Bank Śląski S.A. relating to establishing bonds' issue programme directed to companies from PGE Group. The maximum amount of the Programme for the Group accounts for PLN 5 billion. Within the Programme for the Group, the Company may issue coupon bonds and strips. The company intends to direct the offer of bonds issued under the Programme to a limited number of investors, being directly or indirectly dependant from the Company. As at September 30, 2010, the Company did not have any liabilities related to bonds issued within Programme for the Group. The maturity date of the programme is May 11, 2012. Bonds issued within this programme are not presented in the consolidated financial statements.

Cash flows from bonds issued by the parent company are as follows:

	9- month period ended September 30, 2010	9- month period ended September 30, 2009
Issue	-	6,966,965
Redemption	506,000	7,700,000

17. Investment liabilities

As at September 30, 2010 the Group was obliged to incur capital expenditures on property, plant and equipment in the amount of PLN 3,331,169 thousand. These amounts relate to the modernization of Group's assets and the purchase of machinery and equipment. The major investment currently realized in the Group is the construction of an 858 MW unit together with a transmission line realized by PGE Górnictwo i Energetyka Konwencjonalna S.A Branch Elektrownia Bełchatów. The estimated capital expenditures related to this investment to be incurred amount to PLN 686 million. Other significant investment liabilities concern:

- The modernization of blocks no. 5 and 6 in PGE Górnictwo i Energetyka Konwencjonalna S.A Branch Elektrownia Bełchatów for a total amount of ca. PLN 912 million;
- The construction of installation for desulfurization of fumes and construction of biomass cauldron in PGE Górnictwo i Energetyka Konwencjonalna S.A. Branch Zespół Elektrowni Dolna Odra for a total amount of ca. PLN 347 million;
- Investment liabilities of distribution entities in total amount of ca. PLN 518 million.

18. Information on related entities

Transactions with related entities are concluded using current market prices of provided goods, products and services or are based on the cost of manufacturing.

18.1. Associates

	Sales to related parties	Purchase from related parties	Trade receivables from related parties	Trade liabilities due to related parties
January 1- September 30, 2010	31,720	20,198	4,680	2,261
January 1- September 30, 2009	26,664	13,980	3,261	1,122

18.2. State Treasury entities

The State Treasury is the dominant shareholder of PGE the Group and as a result in accordance with IAS 24 *Related Party Disclosures*, State Treasury companies are recognized as related entities. PGE Group entities identify in detail transactions with almost 40 of the biggest State Treasury related companies. The total value of transactions with such entities is presented in the table below.

	Sales to related parties	Purchase from related parties	Trade receivables from related parties	Trade liabilities due to related parties
January 1- September 30, 2010	3,279,812	3,544,299	229,194	455,801
January 1- September 30, 2009	3,102,291	2,598,013	361,465	526,457

The most important transactions with State Treasury entities refer to PSE-Operator S.A., professional power stations, regional energy companies and purchase of coal from Polish coal mines.

18.3. Key management personnel remuneration

The key management comprises the Management Boards and Supervisory Boards of the main Group entities, i.e. companies comprising the main business segments described in Note 2 to the foregoing financial statements.

	9-month period ended September 30, 2010	9-month period ended September 30, 2009
Short-term employee benefits (salaries and salary related costs)	38,682	34,821
Jubilee and retirement benefits	901	969
Post-employment benefits	826	711
Termination benefits	964	1,060
Total remuneration paid to key management	**41,373**	**37,561**

	9-month period ended September 30, 2010	9-month period ended September 30, 2009
The Management Board of the Parent	1,857	2,278
The Supervisory Board of the Parent	438	482
The Management Boards – subsidiaries	32,342	27,929
The Supervisory Boards – subsidiaries	6,736	6,872
Total	**41,373**	**37,561**

Moreover the remuneration of the Management Boards and Supervisory Boards of companies acting in other activities amounted to PLN 16,888 thousand in the reporting period.

19. Tax settlements

Tax obligations and rights are specified in the Constitution of the Republic of Poland, tax regulations and rectified international agreements. According to the tax ordinance, tax is defined as public, unpaid, obligatory and non-returnable cash liability toward the State Treasury, provincial or other regional authorities resulting from tax regulation. Taking into account the subject criterion, current taxes in Poland can be divided into five groups: taxation of incomes, taxation of turnover, taxation of assets, taxation of activities and other, not classified elsewhere.

From the point of view of economic units, the most important is the taxation of incomes (corporate income tax), taxation of turnover (value added tax, excise tax) followed by taxation of assets (real estate tax and vehicle tax). Other payments classified as quasi – taxes cannot be omitted. Among these there are social security charges.

Basic tax rates in 2010 were as follows: corporate income tax – 19%, basic value added tax rate – 22%, lowered: 7%, 3%, 0%, furthermore some goods and products are subject to tax exemption.

The tax system in Poland is characterized by a significant changeability of tax regulations, their complexity, high potential fees foreseen in case of commitment of a tax crime or violation as well as general pro-tax approach of tax authorities. Tax settlements and other activity areas subject to regulations (customs or currency controls) can be subject to controls of respective authorities that are entitled to issue fines and penalties with penalty interest. Controls may cover tax settlements for the period of 5 years after the end of calendar year in which the tax was due.

The significant proceedings regarding public and state settlement within the Capital Group entities are presented below.

19.1. Excise tax

As a result of non-compliance of Polish legal regulations on excise tax on electricity with the Community law, on February 11, 2009, PGE Group power plants and heat and power stations filed adjusted excise tax declarations together with motions stating surplus payments of excise tax in the years 2006 – 2008 and the months January and February 2009. The total value of the surplus declared (without the cost of interest) in the subject motions amounted to ca. PLN 3.4 billion.

On February 12, 2009, the European Union Court of Justice issued a verdict confirming that Poland broke the law by relinquishment of adjusting its system of electricity taxation, before January 1, 2006, to requirements of art. 21 passage 5 of the Council Directive 2003/96/EC of October 27, 2003 on restructuring Community frame regulations related to taxation of power industry products and electricity (changed by the Council Directive 2004/74/EC of April 29, 2004). As according to Polish law, the electricity excise tax obligation originates in the moment the electricity is produced, not in the moment it is delivered by the distribution or redistribution entity.

Due to the above, there are significant chances to receive the return of the excise tax paid inconsistently with the Community law. However, the Ministry of Finance claims that such a return might result in an unjust enrichment of the producers, therefore it is groundless. As a result, the process related to return of the excise tax may last until court decisions.

Furthermore, on October 15, 2009, the Supreme Administrative Court addressed the Constitutional Tribunal with a legal inquiry whether the provisions of the Tax Ordinance Act which are basis for the Group production companies to apply for an excise tax excess payment refund are compliant with the Constitution of the Republic of Poland. Currently it is not possible to predict the content of the Tribunal's verdict and the timing of the verdict's announcement. Approaching the Tribunal may cause a suspension of current proceedings and if the provisions referred to occur to be incompliant with the Constitution, there is a risk that PGE Group production entities will be deprived of a possibility for a refund of the excise tax excess payment.

Taking into account a significant incertitude related to final court decision on the above described matter, the Group does not disclose any financial results related to possible return of the excise tax surplus payment in the consolidated financial statements.

Moreover, there is a risk that if the production entities of the PGE Group receive the refund of the excise tax excess payment, civil and legal claims might be filed against these entities by electric energy buyers, which have been actually economically burdened with the excise tax in the past (i.e. based on unjustified enrichment accusation). During the reporting period and after the balance sheet date, the energy buyers started to claim refund payments related to excise tax from the Group entities. The Group anticipates that the number of such claims will increase. Currently, the estimation of the value of possible claims is not possible; however this matter may have a significant and unfavourable impact on the future activities, financial results or financial situation of the Group.

Furthermore, in September 2009 the Company filed a motion related to an excess payment of the excise tax on imports and Intra-Community acquisition of electric energy in the period from January 2006 to February 2009. The Company states that the excess payment results from discrepancies between the Polish and Community law. In February 2010, the Company received decisions for the period from January – December 2006 declining the excess payment of excise tax, paid in relation to imports of electric energy. In May 2010 the Company received a part of decisions declining the excess payment and decisions defining tax liability of excise tax on intra-community purchase of electricity that were the subject of appeals. As at the day of preparation of the foregoing financial statements, the issue has not been settled yet. The total amount of the claims accounts for PLN 54 million plus interest due.

19.2. Real estate tax

There is tax proceedings carried out to determine the scope subject to real estate tax in PGE Capital Group power stations. Based on the proceedings performed the amount of tax liabilities in particular entities was determined. The proceedings encompassed all years for which the tax liability was not expired. The dispute is related to the subject of taxation and concerns mainly a decision whether installations in buildings and technical machinery should be taxed as autonomous constructions. Within the proceedings held, the power stations carry out disputes at the level of tax authorities and the verdict that was pronounced for one of the power stations did not constitute for an essential solution. The verdicts of Provincial Administrative Courts relate to the above matter were different, however the most recent verdicts (including the verdict of the Supreme Administrative Court of February 2, 2010 sign. II FSK 1292/08) indicate that the machinery located in buildings might be a subject of taxation as autonomous constructions.

In order to define the subject of taxation, the act on taxes and local fees refers to building law act, the amendment of which is unfavourable for PGE Group entities. The definition of the building was changed with an act of April 23, 2009 on the change to building law act and other acts (including the act on taxes and local fees). According to the new definition, the notion of a building also comprises installations and technical machinery used for exploitation of a particular building. It is possible that the change of this definition will cause that the notion of a building will be expanded and will comprise installations and technical machinery located in buildings, including the buildings of electric energy producing entities, which were hitherto considered as part of a building. According to the Ministry of Finance, the change of the definition of a building is only précising of the regulation and should not influence the scope of taxation of particular building objects with real estate tax. The change in building law regulations could mean that the scope of taxation has always been interpreted so widely or lead to a conclusion that the scope of taxation was expanded since amendment of building regulations came into force.

Taking into consideration changes mentioned above and proceedings carried out in the Group entities, the Group created appropriate provisions in the accompanying statement of financial position. No further details are disclosed due to the professional secret, which is compliant with IAS 37.92.

20. Discontinued operations

As it is described in Note 21.3 to the foregoing financial statements the PGE Group is running the „Non-core" Programme. As at the day of preparation of the foregoing financial statements, the Group has recognized two subsidiaries which meet the definition of discontinued operations under IFRS 5: Towarzystwo Gospodarcze BEWA Sp. z o.o. and Przedsiębiorstwo Wielobranżowe Agtel Sp. z o.o. Revenues, expenses, assets and liabilities of those companies are presented separately from other entities of the Capital Group in the financial statements as at September 30, 2010.

The amounts related to the discontinued operations are presented in the table below:

	TG BEWA	PW Agtel	Total
The amounts shown in financial statements for the period from January 1 till September 30, 2010			
Revenues	43,725	8,472	52,197
Expenses	(41,687)	(8,668)	(50,355)
Gross profit	2,038	(196)	1,842
Income tax	(392)	-	(392)
Net profit	**1,646**	**(196)**	**1,450**

In 2009, the net profit of these companies amounted to PLN 1,361 thousand. As at December 31, 2009, their total assets amounted to PLN 60,484 thousand and liabilities amounted to PLN 12,690 thousand.

In the consolidated financial statements the profit from disposal of the above companies amounted to PLN 10,493 thousand.

21. Significant events during the reporting period and subsequent events

21.1. Compensation for long-term contracts

Within the term specified in the bill on rules of covering producers' costs related to early termination of long-term agreements for the sales of electric power and energy (Official Journal, No. 130, item 905, year 2007) ("LTC Act") some entities of the PGE Capital Group were granted right to funds to cover stranded costs ("compensation"). The maximum amount of, including those relating to year 2007 and taking into account additional costs (as described in Art. 44 of the LTC Act) according to Appendix no. 2 amounted to:

- PGE Elektrownia Opole S.A. – PLN 1,965,700 thousand;
- PGE Górnictwo i Energetyka Konwencjonalna S.A. Branch Elektrownia Turów – PLN 2,571,151 thousand;
- PGE Górnictwo i Energetyka Konwencjonalna S.A. Branch Zespół Elektrowni Dolna Odra – PLN 633,496 thousand;
- PGE Górnictwo i Energetyka Konwencjonalna S.A. Branch Elektrociepłownia Rzeszów – PLN 421,810 thousand;
- PGE Górnictwo i Energetyka Konwencjonalna S.A. Branch Elektrociepłownia Lublin Wrotków – PLN 616,743 thousand;
- PGE Górnictwo i Energetyka Konwencjonalna S.A. Branch Elektrociepłownia Gorzów – PLN 108,028 thousand.

According to the LTC Act the companies of PGE Capital Group receive compensation of stranded costs in the form of quarterly advances. After every year-end the annul adjustment is made and the final adjustment will be made after the maturity date of LTC Agreement.

The revenue for the period comprises cash received in the form of advances, adjusted by an annual adjustment and an appropriate portion of the final adjustment planned. Allocation of the final adjustment to the given reporting period is based on planned revenues from the sale of electric energy and system services in the adjustment period with final adjustment taken into account.

The LTC Act is ambiguous in many points and raise important questions of interpretation the calculation of the estimated results of each company and relating compensations, annual adjustments of stranded costs and final adjustments was performed by the Group with the best of its knowledge in this area and with support of external experts. During 2008, the Group entities received two advance payments to cover stranded costs in the total value of PLN 715,957 thousand. However, on the basis of the model, which takes into account the above described assumptions and, in accordance with the adopted accounting principles, the 2008 revenue comprised PLN 1,322,329 thousand. The difference between advance payments received and the revenue recognized in the statement of comprehensive income was reflected in other receivables as at December 31, 2008.

Compensations in 2008

On July 31, 2009, the President of ERO issued against the PGE Group production entities, entitled to receive means to cover stranded costs on the basis of LTC Act, decisions on annual adjustment of stranded costs for the year 2008 (the first, but incomplete year of this Act being effective). These decisions are unfavourable for particular PGE Group entities and according to the Group these have been issued with a breach of the LTC Act.

If the PGE Group had taken into account the interpretation of LTC Act regulations included in the above ERO Decisions, the revenues recognized in the consolidated financial statements for the year 2008 would have been lower by ca. PLN 0.4 billion as compared to a recorded amount of PLN 1,322 million.

On August 19 and 20, 2009, the interested PGE Capital Group entities filed an appeal against the above mentioned decisions of the President of ERO to the District Court in Warsaw, to the Competition and Consumer Protection Court, raising among others that:

- the calculation of the annual adjustment for particular entities was at variance with mathematical formulas included in the LTC Act,
- the costs of CO_2 emission rights incurred by particular entities were not included in the annual adjustment of the stranded costs,
- the correction of annual adjustment of stranded costs of particular entities was at variance with regulations included in art. 32 of the LTC Act which related to capital group production entities,
- incorrect assumption (which was a basis for the ERO decisions under appeal proceedings) that particular entities do not operate on the competitive electric energy market, which is contrary to the previous statement of the President of ERO that PGE Group entities operate on the competitive market and therefore, in particular, are not obliged to submit the used tariffs for approval of the President of ERO.

On May 17, 2010, at the District Court in Warsaw the Competition and Consumer Protection Court, XVII Commercial Department, a trial took place of PGE Capital Group companies appealing against the decisions of the President of ERO on annual adjustment of stranded costs for the year 2008. On May 26, 2010, the court announced a sentence taking into account the companies' appeals i.e. changing the appealed decisions of ERO as a whole by setting for each producer the amount of the annual adjustments for the year 2008 up to the requested amounts. The amounts should be paid to plaintiffs by Zarządca Rozliczeń S.A. The above sentences are not legally valid and the President of ERO has filed an appeal against them.

Compensations in 2009

Between August 3 and 9, 2010, the entitled producers from PGE Group received decisions of the President of ERO related to setting the annual adjustment of stranded costs and the final adjustment of costs in gas-heated entities for the year 2009. According to the decisions, the producers from PGE Group are obliged to refund to Zarządca Rozliczeń S.A. the total amount of ca. PLN 566 million.

The Board of Directors of PGE as well as the Management Boards of PGE Capital Group producers under the compensation system does not agree with the decisions of the President of ERO. Between August 16 and 23, 2010, the entitled entities filed appeals to the District Court in Warsaw, the Competition and Consumer Protection Court raising mainly that:

- the correction of annual adjustment of stranded costs of particular entities was at variance with the regulations included in art. 32 of the LTC Act which related to capital group production entities;
- incorrect assumption (which was a basis for the ERO decisions under appeal proceedings) that particular entities do not operate on the competitive electric energy market, which is contrary to the previous statement of the President of ERO that PGE Group entities operate on the competitive market and therefore, in particular, are not obliged to submit the used tariffs for approval of the President of ERO.

If the PGE Group had taken into account the interpretation of LTC Act regulations included in the above ERO Decisions, the revenues recognized in the consolidated financial statements for the year 2009 would have been lower by ca. PLN 0.6 billion as compared to a recorded amount of PLN 1,532 million (with the impact of the final adjustment taken into account).

Summary

The Management Board of the Group is convinced that the appeals shall be settled in favour of the particular entities subject to compensations, therefore the PGE Group recognizes the revenues from LTC compensations in accordance with the LTC Act interpretation adopted by the Group. Due to the above, the foregoing financial statements do not comprise the adjustments resulting from unfavourable interpretations included in the ERO decisions in relation to revenues for the years 2008 and 2009 as well as the estimate of revenues for the first half-year of the 2010.

Moreover, as described in detail in Note 21.2 to the foregoing financial statements, the PGE Group commenced the "Consolidation Programme". In the opinion of the Management Board of the Group, the merger of the production entities into one legal subject should not influence the interpretation of the President of ERO of the calculation method of LTC compensations. However, we draw attention to the uncertainty of final interpretation of the President of ERO in this scope.

21.2. PGE Capital Group Consolidation

The consolidation process of PGE Capital Group, realized under the Consolidation Programme of PGE Capital Group, commenced in 2009. The purpose of the Programme was a legal and organizational merger of the entities in the following business areas:

- Conventional Mining and Generation (formerly: mining and generation);
- Renewable energy;
- Distribution of electricity;
- Retail sale of electricity;

as well as a merger of PGE Polska Grupa Energetyczna S.A. with PGE Górnictwo i Energetyka S.A. and PGE Energia S.A and implementation of organizational and legal changes in the area of the wholesale trade of energy. The mergers in particular business segments took place in compliance with art. 492 §1 p.1 of the Commercial Code i.e. by takeover.

Before August 31, 2010 PGE Group comprised of 42 companies under Consolidation Programme. Thanks to the Programme, in each of the business line of the Group, there is a one company centralising all the assets and operational activities of the given business area of PGE Group.

Conventional Generation

PGE Górnictwo i Energetyka Konwencjonalna S.A. is a company which centralises the assets in Conventional Mining and Generation. The merger in this segment was registered on September 1, 2010.

The following entities were merged in Conventional Mining and Generation:

1. PGE Elektrownia Bełchatów S.A. – acquiring company
2. PGE Kopalnia Węgla Brunatnego Bełchatów S.A.
3. PGE Kopalnia Węgla Brunatnego Turów S.A.
4. PGE Elektrownia Turów S.A.
5. PGE Zespół Elektrowni Dolna Odra S.A.
6. PGE Zespół Elektrociepłowni Bydgoszcz S.A.
7. PGE Elektrociepłownia Lublin-Wrotków Sp. z o.o.
8. PGE Elektrociepłownia Gorzów S.A.
9. PGE Elektrociepłownia Rzeszów S.A.
10. PGE Elektrociepłownia Kielce S.A.
11. Energetyka Boruta Sp. z o.o.
12. Przedsiębiorstwo Energetyki Cieplnej Sp. z o.o. in Gryfino
13. PEC Gorzów Sp. z o.o.

Additionally, the merger with PGE Elektrownia Opole S.A. is currently ongoing.

Renewable energy

PGE Energetyka Odnawialna S.A. is a company which centralises the assets in renewable energy (excluding the installations for co-combustion of biomass). The merger in this segment was registered on August 31, 2010.

The following entities were merged in renewable energy:

1. PGE Energia Odnawialna S.A. – acquiring company
2. Elektrownia Wodna Żarnowiec S.A.
3. PGE Zespół Elektrowni Wodnych Dychów S.A.
4. Zespół Elektrowni Wodnych Porąbka-Żar S.A.
5. EGO-Odra S.A.
6. Zespół Elektrowni Wodnych Solina-Myczkowce S.A.

Additionally, the merger with Elektrownia Wiatrowa Kamieńsk Sp. z o.o. is currently ongoing.

Distribution of electricity

PGE Dystrybucja S.A. is a company which centralises the assets in distribution. The merger in this segment was registered on August 31, 2010.

The following entities were merged in distribution:

1. PGE Dystrybucja S.A. – acquiring company
2. PGE Dystrybucja LUBZEL Sp. z o.o.
3. PGE Dystrybucja Łódź Sp. z o.o.
4. PGE Dystrybucja Rzeszów Sp. z o.o.
5. PGE Dystrybucja Białystok Sp. z o.o.
6. PGE Dystrybucja Łódź-Teren S.A.
7. PGE Zakłady Energetyczne Okręgu Radomsko-Kieleckiego Dystrybucja Sp. z o.o.
8. PGE Dystrybucja Warszawa-Teren Sp. z o.o.
9. PGE Dystrybucja Zamość Sp. z o.o.

Retail sale of electricity

PGE Obrót S.A. is a company which centralises the assets in retail sale. The merger in this segment was registered on August 31, 2010.

The following entities were merged in retail sale of electricity:

1. PGE Obrót S.A. (former PGE Rzeszowski Zakład Energetyczny S.A.) – acquiring company
2. PGE Lubelskie Zakłady Energetyczne S.A.
3. PGE Łódzki Zakład Energetyczny S.A.
4. PGE Zakład Energetyczny Białystok S.A.
5. PGE ZEŁT Obrót Sp. z o.o.
6. PGE Zakłady Energetyczne Okręgu Radomsko-Kieleckiego S.A.
7. PGE Zakład Energetyczny Warszawa-Teren S.A.
8. PGE Zamojska Korporacja Energetyczna S.A.

Moreover, as a result of Consolidation Programme PGE Polska Grupa Energetyczna S.A. was merged with PGE Górnictwo i Energetyka S.A. and PGE Energia S.A. what was described in Note 12 to these financial statements.

The Consolidation Programme also comprised a construction of an organizational structure and identification of possibilities to improve effectiveness and competitiveness. The works related to these issues will be continued.

Moreover, on February 16, 2010 the Management Board of the Company made a decision on intention of merger of PGE with its subsidiary PGE Electra S.A. The projected merger will take place by course of art. 492 § 1 p. 1 and art. 515 § 1 of Code of Commercial Companies i.e. through transfer of all assets of the acquired company to PGE (merger through takeover) without raising the share capital of PGE. The Management Board of PGE approved the Merger Plan with PGE Electra S.A. on October 20, 2010. The merger is planned for December 31, 2010.

The merger of the companies under the Consolidation Programme did not affect the value of assets, liabilities, revenues and expenses indicated in these financial statements. Nevertheless, as a result of above-mentioned transformations (especially the merger of PGE Polska Grupa Energetyczna S.A. with PGE Górnictwo i Energetyka S.A. and PGE Energia S.A.) the share of the parent company in the equity of the consolidated companies and in profits generated by these companies was increased. The merger had the following effects on the amounts indicated in these financial statements:

- Part of the share capital attributable to the non-controlling interest was moved to the share capital attributable to the shareholders of the parent company – in amount of PLN 3,404 million.
- The retained profits attributable to the shareholders of the parent company were increased by the value of dividends, which were attributable to the non-controlling interest before the merger – in amount of PLN 280 million.

- Starting from September 2010, the share of the parent company in profits of the subsidiaries is calculated on basis of updated share in the equity of these companies.

21.3. „Non-core" Programme

In 2009, the "Conception of non-energy related assets management in PGE Capital Group" was adopted. The purpose of this conception is to transparently separate core business activities from other activities and disposal and reorganization of the above mentioned assets.

It has been assumed, that the simplification of capital relations and organizational structures of PGE Group, as well as the unification of management standards will allow achieving the following effects:

- transparency of the business model of PGE Capital Group (focus on core business activities);
- transparency of management of assets and expenses of energy entities;
- energy entities resources will be discharged from engagement in non-energy related assets;
- reduction of services expenses not related to core business.

Within the realized Conception, there were non-energy related assets identified functioning in the form of entities and areas not separated from the structures of core business entities and the process of disposal and reorganization of these assets was commenced within the PGE Group.

The issue of assessment of particular companies being subject of the Programme in respect of meeting conditions of IFRS 5 *Non-current Assets Held for Sale and discontinued operations* was described in detail in Note 20 to the foregoing financial statements.

21.4. Earlier repayment of PGE Elektrownia Bełchatów S.A. credit

In 2006 PGE Elektrownia Bełchatów S.A. concluded long-term financing agreements in the total amount of EUR 879 million with Commercial banks and European Multilateral Institutions. In 2008, PGE Elektrownia Bełchatów S.A. received from the Global Credit Agent a notification on alleged infringement of finance agreement conditions. During 2008 and 2009, the company and the creditors were negotiating key conditions on infringement annulment (negotiations concerned among others changes to the documentation of financing including mechanism on principles of establishing electricity sale prices, prolongation of agreement with bank's market adviser and increase of margin of interest and fees for unused part of credit).

On March 4, 2010, the Global Credit Agent informed the company that as a result of publication of the consolidation programme (described in detail in Note 20.2 to the foregoing financial statements), the First Date of Mechanism Activation compliant with the Agreement on the General Conditions of Project financing occurred. As a result of the above the Global Credit Agent demanded a fulfilment of the contractual conditions by assuring that all proceeds received by the company resulting from sales of electric energy and producing capacities will be paid to a pointed Revenues Account, from which payments related to business operations of the company can be realized.

On March 12, 2010, the Management Board of PGE Elektrownia Bełchatów S.A. adopted a resolution related to an intention of an earlier repayment of the majority of the indebtedness. The repayment took place on April 12, 2010 from funds obtained from bonds issue, which were embraced by PGE Polska Grupa Energetyczna S.A.

21.5. Damages in properties of PGE Elektrownia Turów S.A. and PGE KWB Turów S.A.

At the beginning of August 2010, heavy rainfalls caused damages in assets of PGE Elektrownia Turów S.A. and PGE Kopalnia Węgla Brunatnego Turów S.A. (currently: PGE Górnictwo i Energetyka Konwencjonalna S.A.) As a result of the damages, the lignite's mining and electricity production in these plants were temporarily reduced. The reduction of production in PGE Elektrownia Turów S.A. was compensated by the increase of production in other plants of the Capital Group. Until September

30, 2010 the entities affected by the flood, shown expenses related to damage removal, repairs of the infrastructure and loss of the value of assets amounting to PLN 49,989 thousand in profit and loss account (including the provision as of the balance sheet date amounts to PLN 23,152 thousand).

The property affected by the flood was insured and the affected entities initiated liquidation proceedings with the insurance companies.

21.6. Agreement for the purchase of shares of Energa S.A.

On September 29, 2010 Management Board of PGE Polska Grupa Energetyczna S.A. executed with the State Treasury represented by the Minister of Treasury the agreement for the sale of shares of Energa S.A., a company with its registered office in Gdańsk. The agreement concerns the purchase of 4,183,285,468 shares constituting 84.19% of its share capital. The purchase price of all shares representing 84.19% of the share capital amounts to PLN 7,529,913 thousand.

The purchaser (PGE) declared a program of guaranteed investments to be implemented within Energa Capital Group within 10 years in the amount of PLN 5 bn. Failure to complete them will result in contractual penalties payable for the benefit of the Seller, when the aggregate liability of the Purchaser shall not exceed the amount of PLN 1 billion. Moreover the Purchaser undertakes to keep control over the company, refrain from limiting the basic activity conducted by the company and its major subsidiaries consisting in generation, sale and distribution of electricity and heat and changing the Company's registered office. The Purchaser undertakes to procure that the shares of Energa S.A. are introduced to trading on the regulated market on the Warsaw Stock Exchange.

Effectiveness of the transaction is subject to obtaining consent of the President of the Antimonopoly Office for the concentration (condition precedent). Until the date of this financial statement such consent was not issued.

21.7. Assessment of the recoverable amount of property, plant and equipment of conventional energy and distribution companies

Property, plant and equipment of conventional energy and distribution companies accounts for more than 63% of the consolidated assets as at September 30, 2010. During the preparation of the foregoing financial statements, the PGE Capital Group did not identify both internal and external premises to update impairment tests on property, plant and equipment. The analysis of the premises was based on the series of assumptions, including, among others: predicted wholesale prices of energy and discount rates, the value of which is outside the control of the PGE Capital Group. The most recent impairment tests on property, plant and equipment were performed by the PGE Group as of December 31, 2009.

21.8. Establishment of guaranteed bond issue program amounting to PLN 10bn

On November 9, 2010 the Company signed two agreements concerning the bond issue program ("Program"):

- Bond Purchase Commitment Agreement ("Commitment Agreement") whose parties, apart from the Company, are Bank Polska Kasa Opieki S.A., Banca Infrastrutture Innovazione e Sviluppo S.p.A., Nordea Bank Polska S.A., ING Bank Śląski S.A. (acting as Lead Arrangers) and Bank Polska Kasa Opieki S.A., Banca Infrastrutture Innovazione e Sviluppo S.p.A., Nordea Bank AB, Nordea Bank Polska S.A. and ING Bank N.V. (acting as Underwriters of the Programme) and ING Bank Śląski S.A. (acting as Issue Agent),
- Bond Issue Program Agreement ("Program Agreement") whose parties, apart from the Company, are ING Bank Śląski S.A. (acting as Agent, Issue Agent, Paying Agent and Depository) and Bank Polska Kasa Opieki S.A. and Nordea Bank Polska S.A. (acting as Agents, Paying Sub-Agents and Sub-Depositories).

The maximum Program amount (representing a maximum aggregate nominal amount of bonds issued and outstanding under the Program) is PLN 10 billion. The Program was signed for a period of 36 months from the agreements signing date and shall expire no later than on November 8, 2013.

The Underwriters of the Program have an obligation to purchase bonds issued by the Company under the Program, as it is stated in the Commitment Agreement. After the accession of any additional underwriter (as defined in the Commitment Agreement) the aggregate underwriting amount cannot exceed the maximum Program amount, i.e. PLN 10 billion. Underwriters of the Program are obliged to purchase bonds during the period from November 15, 2010 till October 31, 2013.

Bonds are to be issued as specified in article 9 paragraph 3 of the Act on Bonds dated June 29, 1995 (Journal of Laws of 2001 No. 120, item 1300 as amended), based on the Program Agreement and the Issue Terms, as bearer discount bonds (bearer zero-coupon bonds) having immaterial form.

Under the Program, the company is entitled to issue, as a rule, zero-coupon bonds with maturity of 1, 3 or 6 months but their maturity cannot exceed 6 months. The maturity of the last issue of bonds may be different (but not shorter than 7 days and not longer than 6 months), however the last issue maturity date cannot fall after the Program maturity date.

Bonds under the Program will be denominated in Polish zlotys (PLN) and the nominal value of one bond will amount to PLN 100,000. As a rule, the bonds will have a guaranteed profitability, defined as the reference rate increased by a guaranteed margin. The reference rate is the appropriate WIBOR for deposits with maturity corresponding to the bond issue maturity (different rules apply for establishing the profitability of the last bond issue and bonds issued for the purpose of, so called, rollovers of the previous bond issues). The bondholders are only entitled to the benefits of monetary nature.

B OTHER INFORMATION TO CONSOLIDATED QUARTERLY REPORT

1. Organisation of the Capital Group.

The description of the organisation of the PGE Capital Group and list of consolidated companies were presented in note 1 and 2 of the consolidated financial statements.

1.1. Changes in organisation of the Capital Group

During 9-month period ended September 30, 2010 no significant changes to the Group's structure occurred, apart from the ones described in note 2 of consolidated financial statements and the ones described below. The below information should be read jointly with the information included in p. 1.2. Description of activities of Capital Group.

Shares in subsidiaries and associates

- on January 8, 2010, by force of a resolution of the Extraordinary Meeting of Shareholders, the share capital of PGE Inwest Sp. z o.o. was increased to PLN 1,050,000. All shares from the increased capital were acquired by PGE S.A. The shares were fully paid for in cash. The share capital increase was registered at the National Court Register on February 23, 2010;
- on January 28, 2010, a new company named PGE Inwest Sp. z o.o. II S.K.A was registered at the National Court Register. The company was formed by PGE S.A. on November 24, 2009;
- on January 28, 2010, a new company named EJ1 Sp. z o.o. was registered at the National Court register. The Company was formed by PGE S.A. and PGE Energia Jądrowa S.A. on December 29, 2009;
- on June 10, 2010, PGE S.A. acquired 5.92% of shares of PGE EC Gorzów S.A. from the State Treasury. Currently – after the Consolidation Programme - PGE Elektrociepłownia Gorzów S.A. and PEC Gorzów Sp. z o.o. constitute one of the branches of PGE Górnictwo i Energetyka Konwencjonalna S.A.;
- on July 30, 2010 the increase of the share capital of Electra Deutschland GmbH to EUR 1,350,000, i.e. by EUR 350,000 was registered. The shares from the increased share capital were taken up by PGE S.A. Currently share of PGE in the share capital of Electra Deutschland GmbH is 25.93%, and the share of PGE Electra S.A. is 74.07%;
- on June 18, 2010, PGE S.A. acquired from Kopalnia Węgla Brunatnego Konin S.A. a 100% stake (12,000 shares) in PWE Gubin Sp. z o.o. with the registered office in Sękowice;
- during the reporting period in 2010 PGE continued the acquisition of shares of PGE ZEC Bydgoszcz S.A. (currently branch of PGE Górnictwo i Energetyka Konwencjonalna S.A.) from its employees. The shares purchased by PGE S.A. do not represent more than 0.2% of the company's share capital. On June 10, 2010, PGE S.A. acquired from the State Treasury 0.32% of shares of PGE ZEC Bydgoszcz S.A. As of then, PGE S.A. held 98.97% of shares of PGE ZEC Bydgoszcz S.A., while its total shareholding in that company, together with the shares held by PGE EO S.A., was 99.5%.

During 9-month period ended September 30, 2010 PGE Group companies increased their equity interests in the following entities:

- on January 7, 2010, a change in the ownership structure of Elektrownia Wiatrowa Resko Sp. z o.o. was registered at the National Court Register. The change mentioned above was made after the purchase of 1,500 shares of Elektrownia Wiatrowa Resko Sp. z o.o., representing 50% of the company's share capital, by PGE Energia Odnawialna S.A. on November 30, 2009.;
- on January 22, 2010, a new company named Biogazownia Wożuczyn Sp. z o.o. was registered at the National Court Register. The company was formed by PGE Energia Odnawialna S.A. on December 29, 2009;

- on February 5, 2010, a new company named Biogazownia Łapy Sp. z o.o. was registered at the National Court Register. The company was formed by PGE Energia Odnawialna S.A. on December 29, 2009;
- on February 17, 2010, Przedsiębiorstwo Usługowo-Produkcyjne “ELTUR-SERWIS” Sp. z o.o. acquired 11% of shares of Przedsiębiorstwo Usługowo-Produkcyjne “TOP-SERWIS” Sp. z o.o. As a result of the transaction, the shareholding controlled by Przedsiębiorstwo Usługowo-Produkcyjne “ELTUR-SERWIS” Sp. z o.o. increased to 100%;
- on May 7, 2010 the increase of the share capital of Elektrownia Wiatrowa Resko Sp. z o.o. was registered at the National Court Register. The share capital of the company was by PLN 5,640,000 by issuing 5,640 new shares, each with the nominal value of PLN 1,000. All the shares from the increased capital were taken up by PGE Energia Odnawialna S.A. as its sole shareholder;
- on March 19, 2010, a share capital increase was registered at the National Court Register for Eolica Wojciechowo Sp. z o.o. The company’s share capital was increased by PLN 3,500,000 PLN. Shares from the increased capital were acquired by Elektrownia Wodna Żarnowiec S.A. (currently – after the Consolidation Programme - the branch of PGE Energia Odnawialna S.A.) and Greentech Energy Systems A/S. As a result of the share capital increase, the shareholding structure changed – the shareholding of Greentech Energy Systems A/S did not change, while the shareholding of PGE Energia Odnawialna S.A. was 0.49% and the shareholding of Elektrownia Wodna Żarnowiec S.A. was 49.51%%. currently – after the completion Consolidation Programme - PGE Energia Odnawialna S.A. holds 50% in the share capital of Eolica Wojciechowo Sp. z o.o.;
- on April 28, 2010 the change for EGO-ODRA S.A. was registered at the National Court register resulting from a Datio In Solutum agreement between ZEW Porąbka-Żar S.A and PGE Energia Odnawialna S.A. Based on this agreement ownership of the shares of EGO-ODRA S.A. held by ZEW Porąbka-Żar S.A. was transferred to PGE Energia Odnawialna S.A. as a payment of dividend liability;
- On May 17, 2010 a share capital increase was registered at the National Court Register for Energoutech 1 Sp. z o.o. The company’s share capital was increased from PLN 10,000 PLN to PLN 500,000 through change of nominal value of one share from PLN 1,000 to PLN 10,000. Energoutech 1 Sp. z o.o. is a 100% subsidiary of ETF-L Energo Utech S.A.;
- on May 28, 2010 a share capital increase was registered for Bełchatowsko Kleszczowski Park Przemysłowo-Technologiczny Sp. z.o.o. As a result of the increase share capital of the company amounts to PLN 14.095.500 PLN (shares held by PGE Elektrownia Bełchatów S.A. and PGE KWB Bełchatów SA in the share capital amounted to 6.07% for each company) after the Consolidation Programme – the share held by PGE Górnictwo i Energetyka Konwencjonalna S.A in the share capital of Bełchatowsko Kleszczowski Park Przemysłowo-Technologiczny Sp. z o.o. amounts to 12.14%;
- on May 31, 2010, NOM Sp. z o.o. acquired 14,152 shares of ENERGO-TEL S.A. which represent 48.8% of the share capital of that company. As a result of the transaction, the shareholding of NOM Sp. z o.o. in the company increased to 48.8%. The other major shareholder is Exatel S.A. which holds a 51.1% stake in share capital;
- on June 2, 2010 a share capital increase was registered (by virtue of resolution of the Extraordinary General Meeting no 3/2009 dated December 10, 2009) for ETF-L Energo Utech S.A. from PLN 2,400,000 to PLN 12,400,000 (the share of PGE Energia Odnawialna SA in the share capital has not changed and the company has still holds 50% in the share capital). Afterwards, as a result of implementation of the resolution of the Extraordinary General Meeting no 4/2009 dated December 10, 2009, on September 30, 2010 PGE Energia Odnawialna S.A. took up 500 inscribed series C shares with a nominal value PLN 10,000 each for the cash contribution in amount of PLN 5,000,000;
- on June 23, 2010, a share capital increase was registered for Przedsiębiorstwo Energetyki Cieplnej Gorzów Sp. z o.o. (a subsidiary wholly owned by PGE Elektrociepłownia Gorzów S.A.). The company’s share capital increased by PLN 900,000 to PLN 46,348,500 and all the shares from the share capital increase have been taken up by PGE EC Gorzów S.A currently – after the

Consolidation Programme PGE Elektrociepłownia Gorzów S.A. and PEC Gorzów Sp. z o.o. constitute one of the branches of PGE Górnictwo i Energetyka Konwencjonalna S.A.;

- on June 30, 2010, the register court issued its decision on the share capital increase at Elektrownia Wiatrowa Gniewino Sp. z o.o. (a subsidiary wholly owned by Elektrownia Wodna Żarnowiec sp. z o.o.) from PLN 14,000,000 to PLN 39,612,000;
- on July 15, 2010 PGE Elektrownia Opole S.A. purchased 42 shares of Zakład Usług Profilaktyczno-Leczniczych Megavita Sp. z o.o. as a result increasing its stake in the share capital of the company from 58% to 100%;
- on July 16, 2010 the share capital increase of Biogazownia Wożuczyn Sp. z o.o. was registered at the National Court Register. The share capital was increased from PLN 50,000 up to PLN 250,000. The shares from the increased share capital were taken up by PGE Energia Odnawialna S.A.;
- on July 16, 2010 the share capital increase of Biogazownia Łapy Sp. z o.o. was registered at the National Court Register. The share capital was increased from PLN 50,000 up to PLN 250,000. The shares from the increased share capital were taken up by PGE Energia Odnawialna S.A;
- on July 22, 2010 PGE Zespół Elektrowni Dolna Odra S.A. purchased from the Municipality Gryfino another 2,229 shares (19.74% of the share capital) of the Przedsiębiorstwo Energetyki Cieplnej Sp. z o.o. with its registered office in Gryfino (until then PGE ZEDO SA owned 80% of the capital of PEC Sp.). On July 23, 2010 PGE Zespół Elektrowni Dolna Odra S.A. purchased from the minority shareholder another 29 shares of PEC Sp. z o.o. (0.26% of the share capital), and reached 100% share in the share capital of PEC Sp. z o.o. At this moment, after the Consolidation Programme, PGE Zespół Elektrociepłowni Dolna Odra S.A. and PEC Sp. z o.o. in Gryfino constitute together a branch of PGE Górnictwo i Energetyka Konwencjonalna S.A.;
- on August 10, 2010 PGE Elektrownia Opole S.A. purchased 10 shares of ELKOM Sp. z o.o. and increased its stake in the share capital of the company from 47.9% to 52.58%,

During 9-month period ended September 30, 2010 PGE Group entities reduced their equity interests in the following entities:

- on January 28, 2010, PGE Dystrybucja Łódź Sp. z o.o. (currently – after the Consolidation Programme – branch of PGE Dystrybucja S.A.) disposed of all its shares of ElectriclightBox Sp. z o.o. representing 6% of total share capital of that company;
- on March 1, 2010, PGE Obrót S.A. disposed of all its shares of Autosan S.A., representing less than 1% of total share capital of that company;
- on March 5, 2010, PGE Elektrownia Turów S.A. (currently – after the Consolidation Programme – branch of PGE Górnictwo i Energetyka Konwencjonalna S.A.) disposed of all its shares of Energoaparatura S.A., representing less than 1% of total share capital of that company;
- on March 18, 2010, PGE Łódzki Zakład Energetyczny S.A. (currently – after the Consolidation Programme – branch of PGE Obrót S.A.) disposed of all its shares of Zakłady Przemysłu Pasmanteryjnego Lenora Sp. z o.o., representing less than 1% of total share capital of that company;
- on March 29, 2010, PGE Kopalnia Węgla Brunatnego Bełchatów S.A. (currently – after the Consolidation Programme – branch of PGE Górnictwo i Energetyka Konwencjonalna S.A.) sold 100% of shares of Górniczy Klub Sportowy Bełchatów S.S.A.;
- on March 30, 2010, PGE Elektrociepłownia Gorzów S.A. (currently – after the Consolidation Programme – branch of PGE Górnictwo i Energetyka Konwencjonalna S.A.) disposed of all its shares of Przedsiębiorstwo Robót Remontowych Energorem Sp. z o.o. and Przedsiębiorstwo Robót Remontowych El-Gore Sp. z o.o., representing respectively 34% of total share capital in each of those companies;
- on May 4, 2010 ETF-L Energo-Utech S.A. sold 1,740 shares in Przedsiębiorstwo Energetyki Cieplnej we Wrześni S.A., Currently ETF-L Energo Utech S.A. does not hold any shares in the mentioned company;

- on June 14, 2010, PGE Energia Odnawialna S.A. sold all its shares (1,288 shares, i.e. 51.52% of the share capital) of Polskie Elektrownie Gazowe Sp. z o.o. in liquidation;
- on June 30, 2010 PGE Zespół Elektrowni Wodnych Dychów S.A. (currently – after the Consolidation Programme – branch of PGE Energia Odnawialna S.A.) sold all its shares (142 shares) of Ekologiczne Projekty Energetyczne Madex Sp. z o.o.
- on July 9, 2010, PGE Zamojska Korporacja Energetyczna S.A. currently – after the Consolidation Programme – branch of PGE Obrót S.A.) sold all its shares i.e. 3,683 , constituting 70.62% of the share capital of Przedsiębiorstwo Wielobranżowe Agtel Sp. z o.o.;
- on July 15, 2010, Elbis Sp. z o.o. concluded the agreement with PGE Energia Odnawialna S.A. on the sale of 50% of shares of Elektrownia Wiatrowa Kamieńsk Sp. z o.o. – the transaction took place on 28 July 2010. As a result of the transaction PGE Energia Odnawialna S.A. became the only shareholder of Elektrownia Wiatrowa Kamieńsk Sp. z o.o.;
- on July 19, 2010 PGE Zespół Elektrociepłowni Bydgoszcz S.A. (currently – after the Consolidation Programme – branch of PGE Górnictwo i Energetyka Konwencjonalna S.A.) disposed of all its shares (constituting 11.11% of the share capital) of Przedsiębiorstwo Produkcyjno-Handlowe i Usługowe Agavis S.A.;

Table: Companies deleted from the National Court Register in the 9-month period ended September 30, 2010, in which companies from PGE Group held shares / interests.

Company	Deletion date	Company from the PGE Group that held shares / interests in the liquidated company
Labud Sp. z o.o. in liquidation	January 20, 2010	PGE Zespół Elektrowni Dolna Odra S.A. (currently branch of PGE GiEK S.A.)
Zamojska Spółka Elektroenergetyczna Sp. z o.o. in liquidation	January 21, 2010	PGE Zamojska Korporacja Energetyczna S.A. (currently branch of PGE Obrót S.A.)
Elektrownia Turów B.V.	July 6, 2010	PGE Elektrownia Turów S.A. (currently branch of PGE GiEK S.A.)
Elektrociepłownia Ekologiczna Szczytno Sp. z o.o. in liquidation	July 23, 2010	BIO-Energia ESP Sp. z o.o.

On February 9, 2010, the share capital of Elektrownia Turów B.V. under liquidation was decreased from EUR 2,001,000 to EUR 18,000 by way of share redemption and cancellation in exchange for payment to PGE Elektrownia Turów S.A. On March 30, 2010, the company's liquidation was registered at the Netherlands Chamber of Commerce.

On March 8, 2010 PGE Kopalnia Węgla Brunatnego Bełchatów SA (currently – after the Consolidation Programme – branch of PGE Górnictwo i Energetyka Konwencjonalna S.A.) signed a conditional agreement for the sale of Towarzystwo Gospodarcze BEWA Sp. z.o.o. On September 6, 2010, in connection with the fulfilment of the conditions precedent, 100% stake in the company was transferred to the purchaser. In order to secure the liability, on September 6, 2010 the purchaser created a register and court pledge on the shares in favour of PGE Górnictwo i Energetyka Konwencjonalna S.A.

On March 18, 2010, in connection with a liquidation, the change of entry of Mega Sp. z.o.o. in the National Court Register was made (14.72% of the company's share capital is held by PGE Energia Odnawialna S.A.) – since that date the company has used the name of MEGA Sp. z.o.o. in liquidation.

On June 21, 2010, in connection with a liquidation, the change of entry of WIND 1 Koszalin Sp. z o.o. in the National Court Register was made (50% of the company's share capital is held by PGE Energia Odnawialna SA) – since that date the company has used the name of WIND 1 Koszalin Sp. z o.o. in liquidation. The liquidation tender of the property was announced for October 11, 2010.

During 9-month period ended September 30, 2010 PGE Capital Group did not discontinue any significant operations. The consolidated financial statements specify discontinued operations for companies discussed in Note 20 to the consolidated financial statements.

1.2. Description of activities of PGE Capital Group

The Group currently organizes its activities in five business lines:

(i) Conventional Mining and Generation (previously Mining and Generation), including extraction of lignite and generation of electricity and heat from conventional sources and distribution of heat, (ii) Renewable Energy, including electricity generation from renewable sources and in pumped storage power plants, (iii) Wholesale Trading of electricity, related products and fuels; (iv) Distribution; and (v) Retail Sales.

Apart from 5 main business lines, PGE Group holds activities in other areas, including telecommunication. The Group also comprises of other companies, whose main activity is providing ancillary control services to companies from the energy and mining sectors. These services comprise, inter alia: (i) building, renovation and modernization works and investments in electricity equipment, (ii) comprehensive diagnostic tests and measurements of electricity machines and equipment; (iii) managing by-products of coal combustion, developing, implementing and using technologies and rehabilitation of degraded areas, and (iv) medical and social services.

The consolidation process of PGE Capital Group, realized under the Consolidation Programme of PGE Capital Group, commenced in 2009. The purpose of the Programme was a legal and organizational merger of the entities in the following business areas:

- Conventional mining and generation (formerly: mining and generation);
- Renewable energy;
- Distribution of electricity;
- Retail sale of electricity;

as well as a merger of PGE Polska Grupa Energetyczna S.A. with PGE Górnictwo i Energetyka S.A. and PGE Energia S.A and implementation of organizational and legal changes in the area of the wholesale trade of energy. The mergers in particular business segments took place in compliance with art. 492 §1 p.1 of the Commercial Code i.e. by takeover.

42 companies participated in the Consolidation Programme. Thanks to the implementation of the Programme, in each of the business line of the Group, there is a one company centralising all the assets and operational activities of the given business area of PGE Group, i.e.:

- company which centralises all the mining and generation assets in **Conventional Mining and Generation segment** - PGE Górnictwo i Energetyka Konwencjonalna S.A. The merger in this segment was registered on September 1, 2010. The merger with PGE Elektrownia Opole S.A. is currently ongoing.
- company which centralises all the generation assets in **Renewable Energy segment** (excluding the installations for co-combustion of biomass) - PGE Energetyka Odnawialna S.A. The merger in this segment took place in two stages (registration on August 31, 2010), and the last one – third stage (merger with Elektrownia Wiatrowa Kamieńsk Sp. z o.o.) is currently ongoing.
- company which centralises all the activities **in Distribution segment** - PGE Dystrybucja S.A. The merger in this segment was registered on August 31, 2010.
- company which centralises all the activities **in Retail Sale segment** - PGE Obrót S.A. The merger in this segment was registered on August 31, 2010.

As a result of Consolidation Programme PGE Polska Grupa Energetyczna S.A. was merged with PGE Górnictwo i Energetyka S.A. and PGE Energia S.A. The merger was registered on August 31, 2010.

As a result of implementation of the Consolidation Programme, on August 3 and August 16, 2010 the extraordinary general meetings of the involved PGE Group entities, adopted resolutions concerning the mergers (merger resolutions). Few shareholders brought actions for statement of invalidity of the resolution together with the request for overruling of the merger resolutions. Additionally, the plaintiffs filed for securing the claims through suspension of the execution of the merger resolutions and suspension of the registration proceedings.

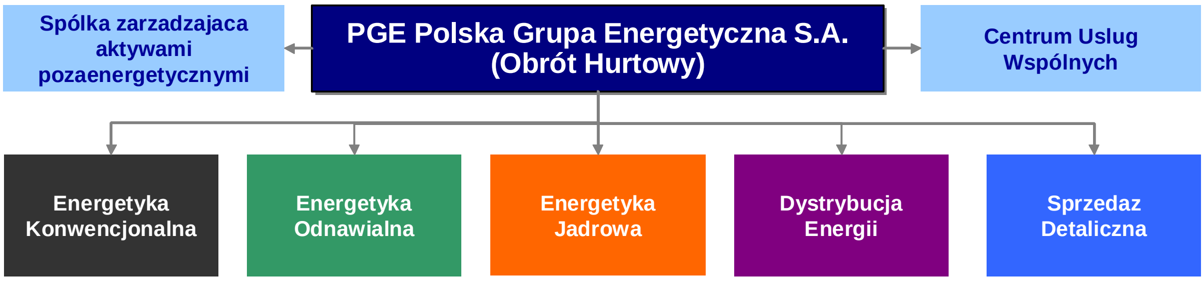
The petitions relate to the merger resolution of PGE Elektrownia Opole S.A., merger resolutions of PGE Elektrownia Bełchatów S.A. and PGE KWB Bełchatów S.A. (cases conducted by PGE Górnictwo i Energetyka Konwencjonalna S.A.) and merger resolution adopted by the shareholders of PGE Górnictwo i Energetyka S.A. (case conducted by PGE S.A.). Moreover, currently the registration cases resulting from appeal against a decision on entry of merger to KRS are currently being conducted in conventional energy segment.

In the given cases, PGE S.A. and other defendants prepared appropriate replies to the petitions and actively participate in the ongoing proceedings, questioning all the charges formulated by the shareholders. In opinion of PGE S.A. and other companies, the objections are apparent and the shareholders aim at contesting the exchange parity of shares, what is unallowable under appeal against the resolutions. The Company will inform about the verdicts and progress in the proceedings in relevant reports.

On the current stage of the trials it is not possible to foresee the decisions of the courts, which are ruling in the given proceedings.

Moreover, on February 16, 2010 the Management Board of the Company made a decision on intention of merger of PGE with its subsidiary PGE Electra S.A. The projected merger will take place by course of art. 492 § 1 p. 1 and art. 515 § 1 of Code of Commercial Companies i.e. through transfer of all assets of the acquired company to PGE S.A. (merger through takeover) without raising the share capital of PGE S.A. The Management Board of PGE approved the Merger Plan with PGE Electra S.A. on October 20, 2010. The merger is planned for December 31, 2010.

Diagram: Simplified scheme of the target Group's structure.



Legend to the above chart:

Spólka zarzadzajaca aktywami pozaenergetycznymi – company managing non-core assets; Obrót Hurtowy – wholesale trading; Centrum Uslug Wspólnych – shared services centre; Energetyka Konwencjonalna – conventional generation; Energetyka odnawialna – renewable energy; Energetyka Jadrowa – nuclear energy; Dystrybucja Energii – distribution of electricity; Sprzedaz detaliczna – retail sales

2. Key factors and events affecting financial results.

Macroeconomic situation

PGE Group conducts its business mainly in Poland, therefore has been and will continue to be influenced by macroeconomic trends in Poland. In general, there is a positive correlation between the growing demand for electricity and economic growth, therefore the country's macroeconomic situation directly influences PGE Group's financial results. In particular observed recovery of economic activity resulted in increase in the demand for electricity in the national network in this period by app. 4.6% as compared to first 9 months of 2009.

Table: Key economic indicators relating to the Polish economy.

Key statistics	Q3 2010	Q3 2009	9M 2010	9M 2009
Real GDP growth (% growth)[1]	3.7*	1.8	-	-
Annual inflation rates (% consumer prices) [2]	-	3.5	2.5	3.5
Domestic electricity consumption (TWh) [3]	36.6	35.0	113.5	108.5

* estimated data by Bank Handlowy w Warszawie S.A.

Source: [1] Polish Central Statistical Office, Real growth of GDP in constant previous year's price, with corresponding period of preceding year = 100; [2] Polish Central Statistical Office, inflation rate, with corresponding period of preceding year = 100; [3] PSE Operator S.A.

Termination of long-term contracts (LTC)

Due to the termination of LTCs in accordance with The Act on coverage of stranded costs resulting at generators in relation to accelerated termination of long-term contracts ("LTC Act"), the producers being earlier the parties to such contracts obtained a right to receive compensations for the coverage of so called stranded costs (capital expenditures resulting from investments in generating assets made by the generator before May 1, 2004 that a generator is not able to recoup from revenues obtained from sales of generated electricity, spare capacity and ancillary services in a competitive environment after early termination of LTC). The LTC Act limits the total amount of funds that may be paid to all generators to cover stranded costs, discounted as at January 1, 2007, to PLN 11.6 billion.

Table: Key data relating to PGE Group generators subject to the LTC Act.

Generator	LTC maturity	Maximum amount of stranded and additional costs
PGE Elektrownia Opole S.A.	2012	PLN 1,966 million
PGE GiEK S.A. (Branch Elektrownia Turów)	2016	PLN 2,571 million
PGE GiEK S.A. (Branch Zespół Elektrowni Dolna Odra)	2010	PLN 633 million
PGE GiEK S.A. (Branch Elektrociepłownia Gorzów)	2009	PLN 108 million
PGE GiEK S.A. (Branch Elektrociepłownia Lublin-Wrotków)	2010	PLN 617 million
PGE GiEK S.A. (Branch Elektrociepłownia Rzeszów)	2012	PLN 422 million
TOTAL		**PLN 6,317 million**

In the period provided for by the LTC Act, i.e. till December 31, 2007, PGE S.A. signed termination agreements with generators being parties to the then applicable LTCs. Therefore generators obtained a right to receive funds to cover their stranded costs.

The impact of LTC compensations on results achieved by the PGE Group is described in Note 21.1 to the consolidated financial statements.

Sales of electricity

Table: Sales of electricity outside the PGE Capital Group (in TWh).

	9 M 2010	9 M 2009	% change
Sales in TWh, including:	**42.56**	**43.86**	*-3%*
Sales to end-users *	22.37	22.13	*1%*
Sales on the wholesale market	15.60	16.75	*-7%*
Sales to foreign customers	0.84	1.30	*-35%*
Sales on the Balancing Market	3.16	2.73	*16%*
Sales to PSE Operator (for losses)	0.59	0.95	*-38%*
Internal consumption **	3.56	3.71	*-4%*
Total outflow of electricity	**46.12**	**47.57**	*-3%*

* after elimination of intra-group sales in PGE Group
** internal consumption includes energy for covering the balancing difference, energy consumption in mines and in pumped storage power plants

In the 9-month period ended September 30, 2010 and in the 9-month period ended September 30, 2009 the Group sold 42.56 TWh and 43.86 TWh of electricity respectively. Changes in the sales structure for the 9-month period ended September 30, 2010 compared to the 9-month period ended September 30, 2009 resulted mainly from increased sales to end-users and on the balancing market and decreased sales on the wholesale market and foreign markets. The increase of the sales to the end-users from 22.13 TWh in the 9-month period ended September 30, 2009 to 22.37 TWh in the 9-month period ended September 30, 2010 was caused mainly by higher demand for electric power due to improved economic situation and acquisition of new customers. The 7% decrease of sales on the wholesale market was caused by lower purchase of the energy on the market and lower production of energy by the Group generators. Sales to foreign customers, that decreased by 35%, results from lower volumes of sales realised by Electra Deutschland GmbH, as a result of unfavourable price relations between German and Polish markets and lower sales of energy from Poland.

Purchases of electricity

Table: Purchases of electricity from outside of the PGE Capital Group (in TWh).

	9M 2010	9M 2009	% change
Total purchases in TWh, including:	**7.14**	**8.00**	*-11%*
Purchases from companies outside of the Group............................	0.66	0.74	*-11%*
Purchases from abroad	0.91	1.69	*-46%*
Purchases from the Balancing Market..	5.57	5.57	*0%*

In the 9-month period ended September 30, 2010 and in the 9-month period ended September 30, 2009 the Group purchased respectively 7.14 TWh and 8.00 TWh of electric power from outside the PGE Group. Changes in the purchases structure for the 9-month period ended September 30, 2010 compared to the 9-month period ended September 30, 2009 resulted mainly from lower purchases on foreign markets and lower purchases from companies outside PGE Group. Non-domestic purchases decreased by approximately 46% in the 9-month period ended September 30, 2010 compared to the 9-month period ended September 30, 2009, mainly due to unfavourable conditions on foreign markets and the system limitations for import of energy. In the 9-month period ended September 30, 2010 as compared to the 9-month period ended September 30, 2009, the volume of electric energy purchased from companies outside of the PGE Group, mainly as a result of lowered purchases by Bełchatów lignite mine.

Production of electricity

Table: Generation of electricity by Group generators (in TWh).

	9M 2010	9M 2009	% change
Total energy generation (in TWh), including:	**38.98**	**39.57**	*-1%*
Lignite-fired power plants	26.66	26.94	*-1%*
Coal-fired power plants..	9.29	9.54	*-3%*
Coal-fired CHP plants..	0.94	1.05	*-10%*
Gas-fired CHP plants...	1.20	1.26	*-5%*
Pumped storage power plants	0.38	0.36	*6%*
Hydroelectric plants	0.47	0.38	*24%*
Wind power plants	0.04	0.04	-

In the 3 quarters of 2010 and the 3 quarters of 2009, the Group produced 38.98 TWh and 39.57 TWh of electric power, respectively. The decrease of production of electric power in lignite-fired power plants is a result of lower generation in Turów power plant, what was caused by the longer outages of units in current and failure repairs and in reserves. The deepened divergence is related to the flood in August and successive switch-offs of five units of Turów power plant. From August 25, 2010 all the units in working order are operating in Elektrownia Turów, however it is not a normal work system because of the reserve water supply from the Nysa river and logistics (supply of raw materials) based on car transport only. Total outages time caused by the effects of the flood amounted to 1,724.7 hours.

The decrease of production of electric power in coal-fired power plants is a result of lower generation in Opole power plant caused by lower electricity purchase plan by PGE S.A. and limitation of production due to the CO_2 limits, and ipso facto increase of the share of energy purchased on the balancing market in order to resale.

Production of electric power increased in pumped storage power plants and hydroelectric plants, while it decreased both in coal-fired CHPs plants and gas fuelled heat and power plants. The decreased electric energy production at Gas-fired CHP plants was chiefly caused by the steam-gas unit failure at PGE EC Rzeszów S.A. which occurred on January 31, 2010. As a result, the plant suspended its whole electric energy production from February till June. The decreased production in coal-fired CHP plants was due to a failure of two power units at Elektrociepłownia Pomorzany which caused that availability of the power units was limited and they needed to operate at lower parameters. As from February, the power units have operated with reduced capacity, thus producing less electricity. From May till August repair works were commenced at Unit A, and from September till October at Unit B. Despite the repair works Unit A is still operating at reduced capacity. The Unit A needs further repairs, which will take place probably in May 2011.

Production and sales of heat

In the 9-month period ended September 30, 2010 the net heat production and sales in PGE Group totalled 16.7 million GJ and 15.8 million GJ and were up by approximately 14% and 13% respectively, as compared to the 9-month period ended September 30, 2009, due to weather conditions - there was a significant drop of temperatures comparing to average temperatures in previous years.

Electricity prices

Electricity prices quoted on domestic and international market have significant impact on the financial results of PGE S.A. and PGE Capital Group.

Domestic market

SPOT market

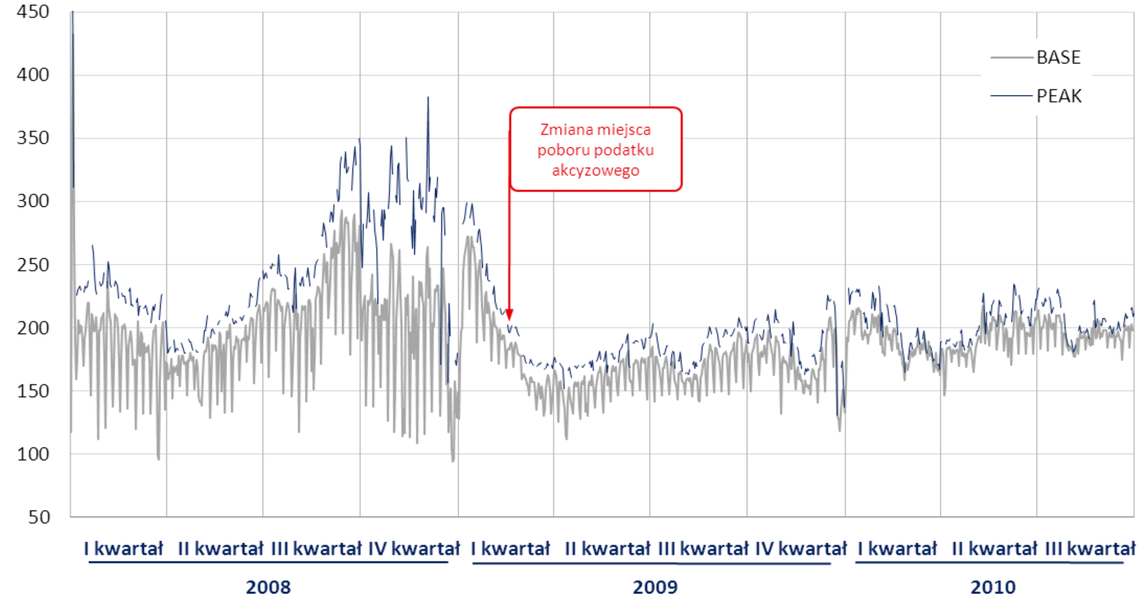
The growth of electric power prices at the beginning of this year, as compared to the prices recorded in previous periods, continued in the third quarter. Taking into consideration the whole third quarter of 2010, the prices were fairly stable, amounting to 195.4 PLN/MWh in band delivery and 205.8 PLN/MWh at the peak and showed a slightly upward trend. The prices level could be a result of slightly higher demand for electricity that was very visible during some months. Growth in electricity demand is probably linked to GDP growth, which since early 2010 is increasing steadily.

Total trading of electricity on SPOT market, both TGE (Polish Power Exchange) and POEE (Internet Electricity Trading Platform) rose slightly in the third quarter 2010 as compared to the previous quarters of 2010. Compared to the similar period of 2009 they rose by more than 80% (from 1.73 TWh up to more than 3.14 TWh). The market share in TGE and POEE markets has changed. Otherwise than previously, the majority of the turnover was recorded on the TGE due to the implementation of the obligation regarding electricity sales under Art. 49a of the Energy Law imposed on the energy producers.

SPOT market prices stability in the third quarter of 2010 (that was high as for Polish conditions) was caused among the others by a relatively small spread between Polish and German markets, and as a consequence by the low profitability of cross-border trade on the interconnectors. Nonetheless the average SPOT price for a base product in the third quarter of this year, amounting to 195 PLN / MWh, was averagely by 16% higher (around 27 PLN / MWh) as compared to the same period of the previous year.

The daily peak energy prices where following the similar direction. In the third quarter of 2010 prices returned to levels from the beginning of the year and an upward trend, which was particularly visible in the last two quarters, was minimal. Despite this slight upward trend, the daily volatility of prices for the peak was slightly higher than for the band. The average price for the third quarter 2010 amounted to 205.76 PLN / MWh, and was less than 10% higher than the price in the same period 2009.

Diagram: BASE and Peak prices in SPOT transactions in years 2008–2010 (TGE) and average quarterly SPOT* prices



	I kwartał 2008	II kwartał 2008	III kwartał 2008	IV kwartał 2008	I kwartał 2009	II kwartał 2009	III kwartał 2009	IV kwartał 2009	I kwartał 2010	II kwartał 2010	III kwartał 2010
BASE	190,53	176,55	227,55	194,85	193,38	157,03	168,31	169,42	189,52	191,19	195,42
PEAK	240,48	199,72	271,34	282,64	222,45	176,75	187,63	189,61	202,79	204,25	205,76

* average quarterly SPOT prices calculated as an average weighted from hourly rates in a given quarter

Legend to the above chart: Zmiana miejsca poboru podatku akcyzowego – change of place of excise tax collection; Kwartał - quarter

On the balancing market, the average price in the third quarter of 2010 was close to TGE market prices and amounted to PLN 194.57/MWh and it moved within a slight upward trend. The turnover volume on the balancing market was similar to those in the previous quarters.

<u>Futures and forwards market</u>

Presently, futures and forward transactions on the Polish electric energy market are mostly executed on the bilateral market through online trade platforms such as TFS, GFI and POEE. However the share of the Polish Energy Exchange in futures and forward contracts is growing consistently

On the aforementioned platforms, the futures and forwards market, regardless of the delivery date, totalled approximately 16 TWh in the third quarter of 2010. So far, it was undoubtedly the highest result both in terms of the number of transactions and the volume of traded energy.

- The trading in contracts on the most liquid platform in Poland, i.e. TFS, totalled for base contracts (including transactions for 2011 and 2012) ca. 4.9 TWh for the third quarter 2010 compared to 7.4 TWh in the second quarter of 2010. Taking into consideration contracts for peak and band electricity supply assigned in third quarter the trading amounts to over 5.7 TWh. During the first three quarters of 2010 TFS has reached a trading in total amounting to 22.2 TWh, of which contracts for delivery in subsequent years (2011 and 2012) account for slightly over 50% of this volume.
- At GFI, total volume of transactions executed in third quarter of this year reached 1.75 TWh, of which ca. 50% were annual contracts for 2011 and 2012. Total volume of trading on this platform in 2010 exceeded 7.6 TWh.
- Currently the POEE platform is conducting the changes of its operational profile, which contributed to marginalization of the trading on the futures and forward market. In the third quarter 2010 there were recorded transactions with a total volume of 81 GWh as compared to

172 GWh in the second quarter, of which they were mostly contracts with daily or weekly delivery term.

- In the recent period the futures market for TGE has developed more than hitherto. The total volume of trading in the third quarter 2010 amounted to over 7.8 TWh, 72% of which constituted annual band contracts for 2011, compared to 1.5 TWh in the second quarter.

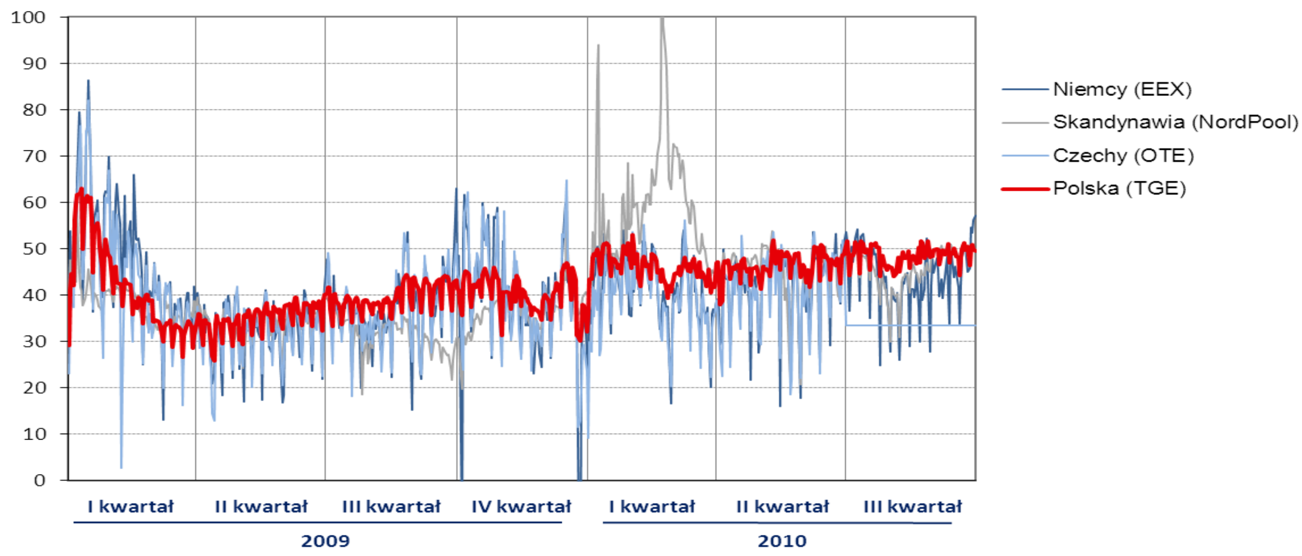
As during the previous months, the most popular product on these markets were the Base products for the coming months, as well as a Base annual contracts for 2011 and to a smaller extent Base contracts for 2012

Analysing the prices of above mentioned products that were the most liquid in the third quarter, the market's expectations about the level of prices for the band supply in the future periods can be observed. On average, monthly contracts for October and November were valued by the market at approximately 190 PLN/MWh, while for December at approximately 186 PLN/MWh. Quarterly contracts for the last three months of the year were listed at 188 PLN/MWh. The average price which developed on the futures market for the Base product in 2011 amounted to ca. 194.5 PLN/MWh in the third quarter of this year.

International market

In the recent years, the Polish electric power market has been showing pricing trends similar to foreign markets, particularly the German and Czech markets. Moreover, the average price differences between the markets in the third quarter 2010 were smaller than in the previous periods. Those trends are more visible on the SPOT market than on the futures and forwards market. In the third quarter of 2010, the spot prices on the markets in Poland (TGE), Germany (EEX) and the Czech Republic (OTE) stabilised and showed a slightly upward trend. The EEX and PXE markets are almost symmetrical to each other as they were before. Prices on the NordPool and TGE, where the price volatility is considerably lower than on the two other markets, have shown different trends.

Diagram: Daily BASE prices in spot transactions on energy markets in 2009 and in 2010, EUR/MWh



Stable situation on the fuels market, both gas and coal, and CO2 caused that the energy market both in Germany and Czech Republic, in terms of energy, did not brought about extraordinary events. As previously, the prices on the SPOT and futures and forward markets in these areas were similar. Only the prices of futures NordPool contracts were at a slightly lower level than on other analysed markets

Tariffs

PGE Group companies earn part of their income based on tariffs approved by the President of the Energy Regulatory Office: (i) tariffs for the sale of electricity to households (G tariff group), (ii) tariffs of distribution system operators ("DSO"), and (iii) heat tariffs.

Sales of electricity to recipients from the G tariff group, connected to the distribution network, where the Retail Sales Companies act as the supplier of the last resort, in the first quarter of 2010 took place on the basis of electricity tariffs approved by the President of the Energy Regulatory Office. The proceedings on the approval of the tariffs for 2010 were begun on September 8, 2009 and were finalized on January 22, 2010. The approved tariffs came into force 14 days after publication i.e. on February 6, 2010, up to that date previous tariffs were binding.

In the first 9 months of 2010 sales of electricity to business off-takers (A, B, C tariff groups) were on the basis of tariffs and individually negotiated offers. Tariffs for the business off-takers were not changed in 9-month period ended September 30, 2010 as compared to the tariffs from the end of 2009.

Distribution tariffs of distribution system operators within the PGE Group for year 2010 were approved by the President of the Energy Regulatory Office between January 7-18, 2010. Tariffs for 2010, depending on the company, came into force between January 22, 2010 and February 2, 2010.

PGE Dystrybucja S.A. and PGE Obrót S.A., on the ground of § 32 of the Regulation of the Minister of Economy dated July 2, 2007 on specific rules for setting and calculation of the tariffs and settlements in electric energy trading (Dziennik Ustaw of 2007 no. 128, item 895 as amended) known as the „tariff regulation", have kept - till the end of 2010 – the right to conduct settlements with the off-takers on the ground of rates set in particular tariffs of the DSOs and retail sale companies from the Group, that currently are the branches in the structure of PGE Dystrybucja S.A. and PGE Obrót S.A.

The binding tariffs for electricity, electricity distribution services and heat, which are subject to the approval by the President of the Energy Regulatory Office, do not cover all costs incurred by Group companies. At present, costs recognized by the President of the Energy Regulatory Office as justified costs to calculate tariffs for PGE Group companies are lower than costs actually incurred by such companies

Distribution of electricity

The tariff applicable for the first 9 months of 2010 was third independent tariff of distribution system operators since the integrated distribution and retail companies (regional energy companies) were unbundled into independent distribution companies (DSO)

Distribution tariffs for 2010 approved by the President of the Energy Regulatory Office, contributed to changes in average payments for customers in particular tariff groups in comparison to year 2009:

- A tariff group – increase by 4.7%,
- B tariff group – increase by 6.5%,
- C+R tariff group – increase by 8.4%,
- G tariff group – increase by 5.2%.

An average price of energy distribution services in comparison to last tariffs binding in 2009 increased by approximately 8.6%.

Sales of electricity

In the 9-month period ended September 30, 2010 the retail sales companies from PGE Group, and after the consolidation PGE Obrót S.A., were selling electricity to the off-takers from G tariff group (households) on the basis of the tariffs approved by the ERO President. With regard to other off-takers, the ERO President decided in November 2007 that the retail sales market is competitive and exempted companies from an obligation to submit their tariffs for approval.

An average electricity fee for households, as approved by the President of the Energy Regulatory Office for 2010 amounted to 247.8 PLN/MWh, what constituted an increase by approximately 5.0% as compared to average fees binding for the previous tariff.

Prices of fuel

Table: Volume and cost of purchase of fuels from third party suppliers in the 9-month period ended September 30, 2010 and September 30, 2009.

	Volume ('000 tonnes) For 9-month period ended September 30		Cost (PLN million) For 9-month period ended September 30	
	2010	**2009**	**2010**	**2009**
Hard coal.......................................	4,550	4,817	1,180	1,325
Gas ('000 m^3)	362,170	357,860	247	266
Biomass...	361	271	125	83
Fuel oil...	33	30	49	34
TOTAL			**1,601**	**1,708**

In the 9-month period ended September 30, 2010 the costs of purchasing primary fuels from providers outside the Group amounted to PLN 1,601 million and were lower by approximately 6% as compared to the 9-month period ended September 30, 2009. Lower prices of fuel purchased were mainly related to decline of hard coal purchase price by approximately 6%. In the 9-month period ended September 30, 2010 the purchase of hard coal for the Group was realized by PGE Electra S.A.

In the 9-month period ended September 30, 2010 approximately 68% of the electricity produced was obtained from our internally sourced lignite, whose price is less susceptible to fluctuations than fuel sourced externally. However, certain factors including the aggregate amount of lignite extracted, costs of overburden removal, labour costs and environmental provisioning affect mining costs incurred by the Group and thus PGE Group's generation costs.

National Allocation Plan for the years 2008-2012 ("NAP II")

The National Allocation Plan on CO_2 emission ("NAP") is subject to the notification to the European Commission, under the EU emission rights trading system. In connection with the fact that the European Commission reduced the quantity of CO_2 emission rights for Poland in both settlement periods in relation to quantities applied by Poland in the NAP, the granted limits constitute a material limitation for the electro energy sector.

As regards the next settlement period, which covers the years 2008-2012, Poland applied for emission caps of 284 million tonnes of CO_2. The European Commission reduced the free CO_2 emission allowances per year for Poland to 208.5 million tonnes. According to the present NAP II, utility power plants would only be authorized to emit 110.8 million tonnes of CO_2, whereas Polish CO_2 emissions in normal circumstances are estimated at approximately 120 million tonnes per year.

Table: Allocation of emission rights limits (in Mg).

Sector	Average rights - Mg of CO_2 per year
Utility power plants	110,791,200
Utility CHP plants	25,391,008

The following table presents data concerning CO_2 emission from major Group installations in 2010 (as compared to the number of rights granted under free allocations)

Table: Emission of CO_2 (in Mg) from major Group installations in the 9-month period ended September 30, 2010 in comparison to the average yearly allocation of CO_2 emission rights.

Operator	CO_2 emissions in 9-month period ended September 30, 2010	Average yearly allocation based on the NAP II
PGE GiEK S.A. (Branch Elektrownia Bełchatów)	22,276,423	26,937,155
PGE GiEK S.A. (Branch Elektrownia Turów)	8,105,897	11,158,636
PGE GiEK S.A. (Branch Zespół Elektrowni Dolna Odra)	4,728,043	5,680,137
PGE GiEK S.A. (Branch Zespół Elektrociepłowni Bydgoszcz)	782,003	1,155,252
PGE GiEK S.A. (Branch Elektrociepłownia Gorzów*)	305,426	479,305
PGE GiEK S.A. (Branch Elektrociepłownia Lublin-Wrotków)	380,079	570,840
PGE GiEK S.A. (Branch Elektrociepłownia Rzeszów)	177,312	303,155
PGE Elektrociepłownia Kielce S.A.	111,433	194,547**
Energetyka Boruta S.A.	56,762	104,988
PGE Elektrownia Opole S.A.	4,912,000	6,475,340
RAZEM	**41,835,368**	**53,059,355**

* Branch Elektrociepłownia Gorzów originated from PGE Elektrociepłownia Gorzów S.A. and PEC Gorzów S.A.

** Branch Elektrociepłownia Kielce received additional rights for 5,190 tonnes per annum for the years 2009-2012 from a reserve for new facilities. The decision to grant the additional rights was issued on December 18, 2009, although until September 30, 2010, the rights were not provided to the generator.

3. Significant achievements and failures of the Company in the reporting period, along with list of most important events.

3.1. Financial results of the Group

Consolidated statement of comprehensive income

Total sales revenues of the Group in the third quarter of 2010 amounted to PLN 4,873.6 million, as compared to PLN 4,914.2 million in the third quarter of 2009. The biggest increase in revenues was in the revenues from sales of finished goods and merchandise which grew by PLN 162.0 million mainly as a result of: (i) increase in revenues from sales of electricity to end-users, (ii) increase in revenues from sales of certificates of origin of energy, (iii) increase in revenues from sales of heat, and (iv) increase in revenues from distribution of electric energy. At the same time, revenues from LTC compensations received by producers from PGE Group were lower by PLN 188.0 million.

Cost of goods sold in the third quarter of 2010 was PLN 3,399.5 million, i.e. it grew by ca. 3% as compared to the third quarter of 2009. The increase of the cost of goods sold was caused by higher personnel expenses by PLN 203.6 million, higher costs of materials and energy by PLN 69.8 million and increase of tax and fee expenses by PLN 42.9 million. The growth of cost of goods sold was partly offset by lower cost of external services by PLN 93.5 million, mainly resulting from lower costs of transport services and repairs and exploitation expenses.

Gross profit on sales in the third quarter of 2010 was PLN 1,474.1 million as compared to PLN 1,622.7 million in the third quarter of 2009, i.e. it was down by ca. 9%.

In the third quarter of 2010 total selling and distribution expenses of PGE Group amounted to PLN 367.6 million, what means approximately 23% increase as compared to the third quarter of 2009. The growth of selling and distribution expenses was mainly associated with higher costs of redemption of property rights incurred by PGE Obrót S.A.

In the third quarter of 2010 general and administrative expenses amounted to PLN 243.4 million, what means approximately 10% increase as compared to the third quarter of 2009.

Net income from other operating activities in the third quarter of 2010 was negative and amounted to PLN 70.3 million as compared to the positive figure of PLN 9.5 million in the third quarter of 2009.

Other operating revenues of the Group in the third quarter of 2010 were PLN 45.3 million, which means 31% decrease as compared to PLN 65.8 million achieved in the third quarter of 2009. The decrease in other operating revenues is mainly related to: (i) reversal of write-offs of other assets value lower by PLN 17.2 million, (ii) reversal of balance sheet provisions lower by PLN 11.2 million, (iii) profit from sales of tangible assets lower by PLN 9.3 million and (iv) other operating revenues lower by PLN 10.5 million. The decrease was partly compensated by increase of received compensations, penalties and fines by PLN 9.3 million, revenues from tax reimbursement higher by PLN 6.9 million and surplus/ disclosure related to property inventory in amount of PLN 8.8 million.

The increase in other operating expenses by PLN 59.3 million in the third quarter of 2010 as compared to the third quarter of 2009 resulted mainly from higher costs of damage removal and repairs by PLN 57.0 million, created balance sheet provisions lower by PLN 22.5 million and higher costs of liquidation of tangible assets by PLN 11.5 million. The increase was partially offset by losses from sales of tangible assets lower by PLN 12.9 million and lower other operating expenses by PLN 16.5 million.

In the third quarter of 2010 the net result on financial activities was positive and totalled 94.4 million PLN as compared to the negative result on financial activities in amount of PLN 46.9 million in the third quarter of 2009.

The Group's financial revenues in the third quarter of 2010 amounted to PLN 101.9 million, which means decrease by approximately 1% as compared to PLN 103.3 million achieved in in the third quarter of 2009. The decrease in financial revenues is mainly related to revenues from positive foreign exchange differences lower by PLN 84.9 million. The decrease was almost fully offset by interest received, which were higher by PLN 83.7 million.

The decrease of financial expenses by PLN 142.7 million in the third quarter of 2010 as compared to the third quarter of 2009 resulted mainly from negative foreign exchange differences lower by PLN o

107.5 million, decrease of interest paid by PLN 31.2 million and decrease of financial expenses by PLN 26.5 million as a result of a revaluation of financial instruments. The decrease was partially offset by higher interest expenses due to the effect of unwinding a discount by PLN 15.9 million.

Gross profit of the Group totalled PLN 967.9 million in the third quarter of 2010 as compared to PLN 1,140.8 million in the third quarter of 2009. The decline of gross profit mainly relates to lower by PLN 188.0 million revenues from LTC compensations. Moreover, in the third quarter of 2010 the Group's gross profit margin (gross profit to total sales revenues) decreased to 19.9% from 23.2% in the third quarter of 2009.

As a result of the factors discussed above, the net profit amounted to PLN 899.4 million in the third quarter of 2010 as compared to PLN 927.8 million in the third quarter of 2009. In the third quarter of 2010 the Group identified PLN 0.6 million of profit from discontinued operations in relation to implementation of the "Non-Core" Programme in the Group. As at September 30, 2010 the Group identified two subsidiaries, which complies with the definition of the discontinued operations: Towarzystwo Gospodarcze BEWA Sp. z o.o. and Przedsiębiorstwo Wielobranżowe Agtel Sp. z o.o.

Total comprehensive income of the Group in the third quarter of 2010 amounted to PLN 899.2 million as compared to PLN 926.5 million in the third quarter of 2009.

Consolidated statement of financial position

As at September 30, 2010 and December 31, 2009, non-current assets of the Group were 42,987.1 million and PLN 41,964.4 million, respectively, and represented 79% and 77% of total assets, respectively.

The increase in the value of non-current assets by PLN 1,022.7 million in the 9-month period ended September 30, 2010 as compared to the year ended December 31, 2009 was mainly due to the fact that the value of property, plant and equipment increased by PLN 1,068.2 million (i.e. 3%) and the value of shares in associates accounted for under the equity method increased by PLN 172.9 million (i.e. 13%). That growth was partially offset by a decrease in the value of available-for-sale financial assets by PLN 97.6 million (i.e. 49%) and a decrease in the value of other long-term assets by PLN 112.6 million (i.e. 23%).

Shares in associates accounted for under the equity method totalled PLN 1,527.7 million as at September 30, 2010 and PLN 1,354.8 million as at December 31, 2009. The increase in the value of shares in associates by PLN 172.9 million in the 9-month period ended September 30, 2010 as compared to the year ended December 31, 2009 was caused by higher profit generated by Polkomtel S.A.

Available-for-sale financial assets amounted to PLN 100.6 million as at September 30, 2010 and included mainly shares in entities from outside the Group which are not subject to consolidation. The decrease in available-for-sale financial assets was mainly related to reclassification of a part of shares in entities from outside the Group, from long-term assets to short-term assets.

Other long-term assets totalled PLN 372.5 million as at September 30, 2010 and mainly included prepayments as well as prepayments for property, plant and equipment.

Current assets of the Group as at September 30, 2010 and as at December 31, 2009 amounted to PLN 11,414.3 million and PLN 12,477.6 million, respectively.

The decrease in the value of the Group's current assets by PLN 1,063.3 million in the 9-month period ended September 30, 2010 as compared to the year ended December 31, 2009 was mainly attributable to the decrease in cash and cash equivalents by PLN 617.3 million, decrease in the value of other loans and financial assets by PLN 276.4 million, decrease in trade receivables by PLN 120.0 million, decrease in stocks by PLN 88.1 million and decrease in other short-term assets by PLN 82.6 million. The decrease was partially offset by the increase in short-term available-for-sale financial assets by PLN 117.4 million.

The decrease in cash and cash equivalents in the 9-month period ended September 30, 2010 as compared to the year ended December 31, 2009 was presented in the description of the statement of cash flows.

The decrease in the value of other loans and financial assets during the 9-month period ended September 30, 2010 as compared to the year ended December 31, 2009 was mainly due to the decrease in amounts receivable from LTC compensations by PLN 266.5 million.

The decrease in inventory in the 9-month period ended September 30, 2010 as compared to the year ended December 31, 2009 was mainly connected with the lower level of material stocks, what was partially offset by the increase of the provisions for certificates of origin of energy.

The decrease in other short-term assets during the 9-month period ended September 30, 2010 as compared to the year ended December 31, 2009 was chiefly due to decline in VAT receivables and decline in CO_2 emission rights for the own needs. The decrease was partially offset by the increase in supply prepayments, other costs settled in time, property tax prepayments and level of other short-term assets.

As at September 30, 2010 and as at December 31, 2010 total equity of the Group was 39,902.8 million and 38,849.8 million, respectively, i.e. it represented respectively 73% and 71% of total equity and liabilities. Non-controlling interest as at September 30, 2010 and as at December 31, 2010 amounted to PLN 4,116.5 million and PLN 7,681.4 million. The increase in total equity mainly resulted from General Meetings of Shareholders/ Assemblies of Partners in companies of the Group related to allocation of part of 2009 profit for dividends payment in amount of PLN 1,981.8 million, with the net profit of PLN 2,743.2 million generated in the 9-month period ended September 30, 2010.

The change in long-term liabilities and provisions during the 9-month period ended September 30, 2010 mainly reflected the fact that the debt due to bank loans and borrowings was lower by PLN 2,078.4 million. The decrease in long-term debt primarily resulted from the early repayment of loans by PGE Elektrownia Bełchatów S.A. (currently PGE GiEK S.A. Branch Elektrownia Bełchatów) in total amount of PLN 1,649.0 million. Repayment was made with the funds raised from issue of bonds purchased by PGE S.A.

Liabilities and short-term provisions increased from PLN 5,835.7 million as at December 31, 2009 to PLN 6,861.9 million as at September 30, 2010 mainly due to growth of other non-financial liabilities by PLN 1,369.7 million (mainly caused by higher liabilities due to dividends), growth of accruals by PLN 245.0 million and growth of other non-financial liabilities by PLN 116.8 million (mainly due to the emergence of LTC liabilities). Additionally, the balance of short-term liabilities and provisions as at September 30, 2010 was affected by decrease in short-term debt from the interest bearing loans and credits by PLN 264.1 million, decrease in short-term provisions by PLN 183.8 million (mainly as a result of decline in the provisions for purchase of CO_2 emission rights), decrease in trade liabilities by PLN 169.5 million and decrease in income tax liabilities by PLN 106.9 million.

Consolidated statement of cash flows

Total net cash flows from operating activities for the 9-month period ended September 30, 2010 amounted to PLN 5,006.0 million as compared to PLN 5,486.6 million in the 9-month period ended September 30, 2009. The decrease of cash flows from operating activities in the 9-month period ended September 30, 2010 as compared to the 9-month period ended September 30, 2009 was mainly caused by decrease of the receivables (PLN 403.1 million) and lower inventory (PLN 88.1 million). Moreover, the net cash flows from operating activities in the 9-month period ended September 30, 2010 were affected by decrease in liabilities excluding loans and bank credits (PLN 189.3 million) and income tax paid (PLN 684.4 million).

Negative net cash flow from investing activities for the 9-month period ended September 30, 2010 amounted to PLN 2,874.7 million and was ca. 10% higher comparing to the 9-month period ended September 30, 2009. The balance of net cash flows from investing activities was mainly affected by expenses related to acquisition of property, plant and equipment and intangible assets of PLN 3,021.3 million.

Negative net cash flow from financing activities for the 9-month period ended September 30, 2010 amounted to PLN 2,741.3 million as compared to PLN 2,728.2 million for the 9-month period ended September 30, 2009. The decrease of net expenses on financing activity in the 9-month period ended September 30, 2010 as compared to the 9-month period ended September 30, 2009 was mainly due to lower level of dividends paid to the shareholders by PLN 890.6 million and lower interest expenses by PLN 157.6 million.

Additionally, net cash flow from financing activities was affected by higher negative balance of payments/inflows from loans and borrowings of PLN 2,359.8 million in the 9-month period ended September 30, 2010 as compared to negative balance of payments/inflows of PLN 1,299.7 million in the 9-month period ended September 30, 2010. In April 2010 PGE Elektrownia Bełchatów S.A. (currently PGE GiEK S.A. Branch Elektrownia Bełchatów) made an early repayment of loans amounting to PLN 1,649.0 million. The repayment was made with funds raised from issue of bonds purchased by PGE S.A.

Business segments

Table: Key operational figures.

Key figures	Unit	9M 2010	9M 2009
Lignite extraction	millions of tonnes	32.10	31.89
Net electricity production*, including:	TWh	38.98	39.57
Power plants - lignite	TWh	26.66	26.94
Power plants – hard coal	TWh	9.29	9.54
CHPs – hard coal	TWh	0.94	1.05
CHPs – gas	TWh	1.20	1.26
Pumped storage power plants	TWh	0.38	0.36
Hydro power plants	TWh	0.47	0.38
Wind power plants	TWh	0.04	0.04
Heat sales	GJ millions	15.84	13.98
Sales to Final Customers**, including:	TWh	22.88	22.66
Tariff G***	TWh	6.82	6.65
Distribution of electricity**, including:	TWh	22.60	22.10
Tariff G***	TWh	6.82	6.65

* including productions from biomass in period January–September 2010 – 0.49 TWh, in period January–September 2010– 0.37 TWh
** total sales with additional estimation and with taking into account the sales to customers within PGE Group realized by the Retail Sales companies
*** without additional estimation

Table: Breakdown of the Group's gross income (including flows between segments), by business segments, for the third quarter of 2010 and 2009.

in PLN million	**Total gross income**				
	Q3 2010	_(%) share_	**Q3 2009**	_(%) share_	**% change**
Conventional Mining and Generation	2,900.2	_28%_	3,089.3	_30%_	_-6%_
Renewable Energy	160.7	_2%_	135.8	_1%_	_18%_
Wholesale Trading	2,722.2	_26%_	2,906.1	_28%_	_-6%_
Distribution	1,236.8	_12%_	1,119.5	_11%_	_10%_
Retail Sale	2,962.3	_28%_	2,927.6	_28%_	_1%_
Other activity	460.5	_4%_	124.3	_1%_	_270%_
Total	**10,442.7**	_100%_	**10,302.6**	_100%_	_1%_
Intersegmental eliminations	**-5,569.1**		**-5,388.4**		_3%_
Net income	**4,873.6**		**4,914.2**		_-1%_

Key operating indicators are presented in p. 2.

Table: Key financial indicators for each business segment for the third quarter of 2010 (after eliminations).

in PLN million, unless specified otherwise	Conventional mining and generation	Renewable Energy	Wholesale Trading	Distribution	Retail Sale	Other
	Q3 2010					
EBITDA	896.4	53.2	61.0	354.4	39.9	61.6
EBIT	522.4	20.9	50.8	135.2	36.9	33.1
Capex	928.3	45.3	0.9	259.3	19.1	62.5
Segment Assets	25,679.5	1,640.1	627.3	13,355.8	1,641.6	1,069.0

Table: Key financial indicators for each business segment for the third quarter of 2009 (after eliminations).

in PLN million, unless specified otherwise	Conventional mining and generation	Renewable Energy	Wholesale Trading	Distribution	Retail Sale	Other
	Q3 2009					
EBITDA	1,168.8	48.0	155.6	269.3	84.2	28.8
EBIT	788.8	19.6	149.4	60.2	82.6	12.5
Capex	551.5	7.9	3.5	259.4	1.0	5.8
Segment Assets	24,117.9	1,734.4	792.1	13,271.1	1,495.4	957.2

Conventional Mining and Generation

In the third quarter of 2010 total sales revenues for Conventional Energy amounted to PLN 2,900.2 million, which means 6% decline as compared to the third quarter of 2009. EBIT of the segment in the third quarter of 2010 was PLN 522.4 million, and EBITDA was PLN 896.4 million. In the analogical period of previous year EBIT was PLN 788.8 million, while EBITDA was PLN 1,168.8 million. Decline of EBIT in the third quarter of 2010 as compared to the third quarter of 2009 was mainly due to lower income - by PLN 188.0 million - achieved from LTC compensations and higher labour costs.

In the third quarter of 2010 capital expenditures in Conventional Energy amounted to PLN 928.3 million as compared to PLN 551.5 million in the third quarter of 2009.

Table: Capital expenditures incurred in the Conventional Energy sector, by projects, for the third quarter of 2010 and 2009.

No.	Capital expenditures on property, plant and equipment in PLNm	Branch	Q3 2010	Q3 2009
	Total	**CG**	**928.3**	**551.5**
1	Construction of a 858 MW power unit with connection to the National Power System at the Trębaczew station	ELB	159.0	86.1
2	Comprehensive reconstruction and modernization of units 3-12	ELB	252.1	192.3
3	Construction of a carbon capture and storage facility (CCS)	ELB	9.5	0.0
4	Construction of a combustion waste facility	ELB	16.5	0.9
5	Opole II Project (construction of new pulverised coal-fired units no. 5&6)	ELO	0.7	1.1
6	Commissioning of Szczerców Field	KWBB	81.3	64.8
7	Water treatment plant for water from T-6 pumping station with a discharge to Biedrzychówka stream	KWBT	5.6	0.7
8	Construction of a sliding conveyor with a feed system for the dumping conveyor	KWBT	5.2	0.4

No.	Capital expenditures on property, plant and equipment in PLNm	Branch	Q3 2010	Q3 2009
9	Modernisation of electrofilter of the boiler no. 3	ZECB	4.3	0.0
10	Construction of a steam boiler for energy production from biomass at Szczecin Power Plant	ZEDO	45.3	1.1
11	Other		348.8	204.1

Renewable Energy

In the third quarter of 2010 total sales revenues in the Renewable Energy segment amounted to PLN 160.7 million as compared to PLN 135.8 million in the third quarter of 2009. The segment's EBIT in the third quarter of 2010 was PLN 20.9 million, and EBITDA was PLN 53.2 million. In the corresponding period of the last year, EBIT was PLN 19.6 million, and EBITDA was PLN 48.0 million.

In the third quarter of 2010 capital expenditures in Renewable Energy segment amounted to PLN 45.3 million as compared to PLN 7.9 million in the third quarter of 2009.

Table: Capital expenditures incurred in Renewable Energy segment in the third quarter of 2010 and 2009, by particular investment tasks.

No.	Investments in tangible assets in PLNm	Q3 2010	Q3 2009
	Total	**45.3**	**7.9**
1	Wind farms in Poland (Kamieńsk,Resko, Wojciechowo, Kąkolewo, Lotnisko, Osieki, Kowale Oleckie, Choczewo)	1.5	0.9
2	Modernization of approach flume in EW Dychów	14.3	0.0
3	Modernization of lower reservoir in EW Dychów	16.7	0.0
4	Reconstruction and modernization of pumping turbine in EW Żarnowiec	0.0	1.8
5	Other	12.8	5.2

Wholesale Trading

In the third quarter of 2010 total sales revenues in the Wholesale Trading amounted to PLN 2,722.2 million, which means an approximately 6% decrease comparing to the third quarter of 2009. The segment's EBIT In the third quarter of 2010 was PLN 50.8 million, and EBITDA was PLN 61.0 million. In the corresponding period of the last year, EBIT was PLN 149.4 million, while EBITDA was PLN 155,6 million. The lower EBIT in the third quarter of 2010 as compared to the third quarter of 2009 resulted mainly from lower margin achieved by PGE and PGE Electra on electricity sales on the wholesale market. Additionally the wholesale companies sold in the third quarter of 2010 approximately 1.0 TWh less than in the third quarter of 2009.

In the third quarter of 2010 capital expenditures in Wholesale Trading segment amounted to PLN 0.9 million, and constituted approximately 0.1% of total capital expenditures of PGE Group. IT expenditures constituted approximately 77% of capital expenditures in Wholesale Trading, mainly for management support systems in PGE Group and electricity trade systems.

Distribution

In the third quarter of 2010 total sales revenues in the Distribution segment amounted to PLN 1,236.8 million, as compared to PLN 1,119.5 million in the third quarter of 2009. The segment's EBIT was PLN 135.2 million in the third quarter of 2010, while EBITDA was PLN 354.4 million. In the corresponding period last year, EBIT was PLN 60.2 million, and EBITDA was PLN 269.3 million. The ca. 125% growth of EBIT was mainly due to higher revenues from sales of the distribution service as a result of volume of distributed energy higher by 0.1 TWh and higher average rates arising from the 2010 Tariff.

In the third quarter of 2010 capital expenditures in Distribution segment amounted to PLN 259.3 million and constituted 19.7% of total capital expenditures of PGE Group. In the third quarter of 2009 capital expenditures in this segment amounted to PLN 259.4 million, what constituted more than 31% of total capital expenditures of PGE Group.

Table: Capital expenditures incurred in Distribution segment in the first quarter of 2010 and 2009, by particular investment tasks.

No.	Investments in tangible assets in PLNm	Branch	Q3 2010	Q3 2009
	Total	**DSO**	**259.3**	**259.4**
1	Modernisation of street lighting	ŁZE	1.3	0.5
2	Construction of 110/15 kV Rzeszów Krasne substation	RZE	1.2	0.0
3	Modernisation of 110/15 kV Wysokie Mazowieckie substation	ZEB	0.0	1.6
4	Construction of 110/15kV Stobiecko –Radomsko substation with power supply	ZEŁT	0.8	2.7
5	Modernisation of 110/15kV Łask 1 substation	ZEŁT	1.6	0.0
6	Expansion of Radkowice substation with regard 110 and 15 kV switchroom	ZEORK	1.3	0.0
7	Line 110kV and RPZ Nadarzyn	ZEWT	1.6	0.5
8	Construction of 110/15 kV Krasnystaw Rońsko substation	ZKE	2.9	0.5
9	Other		248.6	253.6

Retail Sales

In the third quarter of 2010 total sales revenues in the Retail Sales segment amounted to PLN 2,962.3 million, what means increase by approximately 1% comparing to the third quarter of 2009. EBIT of the segment in the third quarter of 2010 was PLN 36.9 million, and EBITDA was PLN 39.9 million. In the analogical period of the previous year EBIT was PLN 82.6 million, and EBITDA was PLN 84.2 million. Decline of EBIT in Retail Sales segment by approximately 55% in the third quarter of 2010 as compared to the third quarter of 2009 resulted mainly from higher expenses related to obligation of redemption of property rights (certificates of origin of electricity).

Capital expenditures in Retail Sales segment amounted to PLN 19.1 million in the third quarter of 2010 and constituted approximately 1.5% of total capital expenditures of PGE Group, and were mainly related to expenditures for IT (customer support systems).

Other operations

In the third quarter of 2010 total sales revenues in the Other operations amounted to PLN 460.5 million, as compared to PLN 124.3 million in the third quarter of 2009. EBIT of the segment in the third quarter of 2010 was PLN 33.1 million, and EBITDA was PLN 61.6 million. In the analogical period of the previous year EBIT was PLN 12.5 million, while EBITDA was PLN 28.8 million. Increase of EBIT w in the third quarter of 2010 in the Other operations as compared to the third quarter of 2009 resulted mainly from different rules for enclosing the results of the companies from the segment in the third quarter of 2010 as compared to the third quarter of 2009, excluding Exatel S.A. Different recognition principles have no significant impact on revenues, expenses, financial result, assets and liabilities of the PGE Group.

Capital expenditures for property, plant and equipment in Other operations in the third quarter of 2010 amounted to PLN 62.5 million. Within the above amount PLN 29.1 million were spent by Exatel S.A. for IT development in the third quarter of 2010. The rest of the capital expenditures were mostly related to expenses for development and modernization of fixed assets required to render services under ancillary activities.

In the reporting period Company did not record any significant failures in its activities which would have effect on achieved results.

3.2. Publication of financial forecasts

PGE Polska Grupa Energetyczna S.A. did not publish forecasts of the Company's financial results.

4. Other significant factors

Non-core assets management programme within PGE Group

During the nine-month period ended September 30, 2010 as part of implementing the Non-core assets management programme (Non-core Program) the Group sold shares and interests in 30 companies and completed a liquidation process of 6 companies.

In order to create values of non-core assets complex assets consolidation processes are conducted. The processes are in following areas:

- medical area
- hotels-security-services area
- transport area.

At the same time very intensive works on disposal of companies and assets are carried out. The works relates to assets classified as portfolio of assets held for sale no I, II and III and 6 assets with the direct capital involvement of PGE Polska Grupa Energetyczna S.A.

Nuclear Energy

In the third quarter of 2010 PGE Group continued gaining competencies for the development of nuclear energy in Poland, and tighten cooperation with state authorities, research and development institutions, international organizations and foreign companies. Analytical as well as information and education works was conducted, including completion of study on long-term forecast on electricity generation growth in the light of Polish and EU energy policy and the prospects for PGE's investments.

The scope of activities of PGE Group within nuclear energy area encompassed:

- cooperation of PGE Group in creation of the organizational, legal and administrative conditions for building of nuclear power plant in Poland, including cooperation with Government Plenipotentiary of Polish Nuclear Energy, participation in public consultations concerning Polish Nuclear Energy Program, as well as draft guidelines to the Act on nuclear energy and Act on civil liability on nuclear damage.
- initiating and coordinating of study and analytical works on preparation for the construction of nuclear power plants in Poland

PGE S.A. joined WNA – World Nuclear Association, international organization that supports development of the global nuclear energy industry.

In cooperation with the international companies, that signed cooperation memoranda with PGE S.A., i.e. EDF, GE Hitachi Nuclear Americas and Westinghouse Electric Company, study works in working teams was carried out. At the end of July 2010 works on feasibility study for the development of nuclear reactors respectively in EPR, ABWR/ESBWR and AP1000 technologies as well as the potential construction of the first such reactor in Poland by the year 2020 were finalized.

In the next quarter PGE Energia Jądrowa S.A. intends to conduct further discussions and works with a various international entities involved nuclear energy projects in two different ways. On the one hand the company will cooperate with technology supplier, and the works will concentrate on localization, specific requirements connected with given technology and cooperation with Polish nuclear supervision office. On the other hand the company will cooperate with potential partners, and the main task will be to define possible business models and principles of cooperation during preparation and implementation of nuclear project.

Purchase of 84.19% shares of Energa S.A.

On September 29, 2010 PGE Polska Grupa Energetyczna S.A. executed with the State Treasury the agreement for the sale of shares of Energa S.A., concerning the purchase of 4,183,285,468 shares of the company constituting 84.19 % of its share capital.

Effectiveness of the transaction is subject to obtaining consent of the President of the Antimonopoly Office for the concentration.

On October 20, 2010 PGE S.A. filed an application to the Competition and Consumer Protection Office (UOKiK) for consent to buy from the State Treasury Minister 4,183,285,468 shares in Energa S.A., constituting 84.19 per cent of the company's share capital.

PGE's offer is consistent with its strategy of acquisitions and organic growth through selective acquisitions in order to increase the position of PGE as a medium-sized highly profitable European player.

Adoption of the resolution concerning initiation of the process aiming at conduction of IPO of PGE Energia Odnawialna S.A.

On June 16, 2010 Extraordinary General Meeting of PGE Energia Odnawialna S.A. adopted the resolution on initiation of the process aiming at conduction of IPO of PGE Energia Odnawialna S.A.

Establishment of guaranteed bond issue program amounting to PLN 10bn

On November 9, 2010 the Company signed two agreements concerning the bond issue program ("Program"):

(i) Bond Purchase Commitment Agreement ("Commitment Agreement") whose parties, apart from the Company, are Bank Polska Kasa Opieki S.A., Banca Infrastrutture Innovazione e Sviluppo S.p.A., Nordea Bank Polska S.A., ING Bank Śląski S.A. (acting as Lead Arrangers) and Bank Polska Kasa Opieki S.A., Banca Infrastrutture Innovazione e Sviluppo S.p.A., Nordea Bank AB, Nordea Bank Polska S.A. and ING Bank N.V. (acting as Underwriters of the Programme) and ING Bank Śląski S.A. (acting as Issue Agent),

(ii) Bond Issue Program Agreement ("Program Agreement") whose parties, apart from the Company, are ING Bank Śląski S.A. (acting as Agent, Issue Agent, Paying Agent and Depository) and Bank Polska Kasa Opieki S.A. and Nordea Bank Polska S.A. (acting as Agents, Paying Sub-Agents and Sub-Depositories).

The maximum Program amount (representing a maximum aggregate nominal amount of bonds issued and outstanding under the Program) is PLN 10 billion. The Program was signed for a period of 36 months from the agreements signing date and shall expire no later than on November 8, 2013.

The Underwriters of the Program have an obligation to purchase bonds issued by the Company under the Program, as it is stated in the Commitment Agreement. After the accession of any additional underwriter (as defined in the Commitment Agreement) the aggregate underwriting amount cannot exceed the maximum Program amount, i.e. PLN 10 billion. Underwriters of the Program are obliged to purchase bonds during the period from November 15, 2010 till October 31, 2013.

Bonds are to be issued as specified in article 9 paragraph 3 of the Act on Bonds dated June 29, 1995 (Journal of Laws of 2001 No. 120, item 1300 as amended), based on the Program Agreement and the Issue Terms, as bearer discount bonds (bearer zero-coupon bonds) having immaterial form.

Under the Program, the company is entitled to issue, as a rule, zero-coupon bonds with maturity of 1, 3 or 6 months but their maturity cannot exceed 6 months. The maturity of the last issue of bonds may be different (but not shorter than 7 days and not longer than 6 months), however the last issue maturity date cannot fall after the Program maturity date.

Bonds under the Program will be denominated in Polish zlotys (PLN) and the nominal value of one bond will amount to PLN 100,000. As a rule, the bonds will have a guaranteed profitability, defined as the reference rate increased by a guaranteed margin. The reference rate is the appropriate WIBOR for deposits with maturity corresponding to the bond issue maturity (different rules apply for establishing the profitability of the last bond issue and bonds issued for the purpose of, so called, rollovers of the previous bond issues). The bondholders are only entitled to the benefits of monetary nature.

5. Factors, which in Company's opinion, will affect the results within at least the next quarter.

Factors, which in opinion of the Management Board, will affect the results within at least the next quarter of 2010:

- demand for electricity and heat;
- electricity prices on wholesale market;
- prices of property rights;
- availability and prices of fuels used in generation of electricity and heat, in particular prices of hard coal, fuel gas and oil;
- availability and costs of CO_2 emission rights;
- availability of cross-border transmission capacities;
- progressing liberalisation of retail electricity market;
- decisions of the ERO President related to realisation of Act on LTCs;
- amendment to the Energy Law and others acts concerning the introduction of an obligation to sell electricity by way of tender or through a commodity exchange by generators incorporated in vertically integrated groups and entitled to receive compensations related with Act on LTCs and introduction of support system for the electricity production in highly efficient co-generation in units fired by methane released and captured at lower mining works in active, under liquidation or closed coal mines or by gas obtained from biomass processing;
- possible different decision in law, tax and other contingent liabilities disputes, from which most relevant were presented in note 15 of the consolidated financial statements;
- changes in Group macroeconomic factors, including in particular interest rates and exchange rates, values of which affects evaluation of assets and liabilities shown by the Group;
- changes in the organisation of the wholesale trading in PGE Group as a result of resolution by the Management Board of PGE on intention to merge PGE with PGE Electra S.A.

6. Shareholders holding directly or indirectly by subsidiaries at least 5% of the total votes at Company's General Meeting.

As at the date of this consolidated quarterly report, according to the information hold by the Company, the only shareholder holding at least 5% of the total number of votes on the General Meeting of PGE Polska Grupa Energetyczna S.A. was the State Treasury, which held 1,295,640,538 shares of the Company, what constitutes 69.29% of the share capital and entitles to exercise the same amount of the votes at the General Meeting of the Company.

Table: Shareholders holding directly or indirectly by subsidiaries at least 5% of the total votes at the General Meeting of PGE Polska Grupa Energetyczna S.A.

Shareholder	**Number of shares**	**Number of votes**	**% in total votes on General Meeting**
Shareholder	**Number of shares**	**Number of votes**	**% in total votes on General Meeting**
State Treasury	1,295,640,538	1,295,640,538	69.29%
Others	574,143,189	574,143,189	30.71%
Total	**1,869,783,727**	**1,869,783,727**	**100.00%**

As of the publication date of this consolidated quarterly report, PGE S.A. has held 22,897 own shares with a nominal value of PLN 10 each representing 22,897 of the total number of votes in the Company.

On October 8, 2010 the State Treasury disposed of 186,978,000 ordinary shares in PGE with a nominal value of PLN 10 each, representing 9.99% of the Company's share capital and entitling to

186,978,000 votes at general meetings of the Company, constituting 9.99% of the total number of votes.

7. Number of shares or rights to shares of the Company held by Company's managers and supervisors, as of the date of submission of the quarterly report.

According to the best knowledge of the Management Board of PGE S.A., as of the date of submission of this quarterly report, Company's managers and supervisors had following number of shares:

Shareholder	Number of shares (pieces)
The Management Board	**-**
The Supervisory Board	**2,087**
Marcin Zieliński	500
Maciej Bałtowski	964
Grzegorz Krystek	350
Katarzyna Prus	273

Management Board members and other Supervisory Board members did not own PGE shares.

8. Information on issue, redemption and repayment of debt securities and other securities.

Information on issue, redemption and repayment of debt securities and other securities were described in note 16 of the consolidated financial statements and part B p. 1.1. of the foregoing report.

9. Information on granting by the Company or its subsidiary of loan securities or guarantees – jointly to a single entity or its subsidiary, if the total value of the existing securities or guarantees is equivalent to at least 10% of Company's equity.

Within the Group, in the period from January 1, 2010 to September 30, 2010 PGE S.A. and its subsidiaries did not grant any loan securities or guarantees to another entity or its subsidiary, where the value of securities and guarantees constituted at least 10% of the Company's equity.

10. Information concerning proceedings in front of court, body appropriate for arbitration proceedings or in front of public administration authorities.

As at September 30, 2010 PGE S.A. and its subsidiaries were not a party in proceedings concerning liabilities or claims, in which the total value of a dispute constitutes at least 10% of Company equity except for applying by generators from PGE Group with application of statement of the overpaid excise tax and tax return with provisions for years 2006-2008 and first two months of 2009. The total overpaid tax to be returned to the PGE Group may amount to approximately PLN 3.4 billion, excluding interest (the generators are entitled to interest on the overpaid tax accrued from the date of payment of the overstated tax). This proceeding was described in Note 19.1 to the consolidated financial statements.

Significant proceedings pending in front of the court, competent arbitration authority or public administration authority were described in note 15 of the consolidated financial statements.

C THE QUARTERLY FINANCIAL INFORMATION OF PGE POLSKA GRUPA ENERGETYCZNA S.A. PREPARED IN ACCORDANCE WITH POLISH ACCOUNTING PRINCIPLES

PGE Polska Grupa Energetyczna S.A. manages its accounting books in accordance with the accounting policies (principles) specified by the Accounting Act dated September 29, 1994 ("Act") with later changes and the regulations issued on the basis thereof ("Polish accounting principles"). In connection with the above and pursuant to § 83 section 1 Regulation stated below the quarterly financial information of the parent entity which includes: the stand-alone balance sheet, stand-alone income statement, stand-alone statement of changes in equity, and stand-alone cash flow statement, prepared in accordance with Polish accounting principles. In the reporting period Company didn't change the accounting policies (principles).

On August 31, 2010 PGE S.A. was merged with PGE Górnictwo i Energetyka S.A. and PGE Energia S.A. As a result of the merger, the acquired companies (PGE Górnictwo i Energetyka S.A. and PGE Energia S.A.) were dissolved without liquidation process and the share capital of PGE S.A. was increased by the amount of PLN 1,396,937,270.

The merger was accounted for using pooling of interest method. More detail information concerning the merger was presented in the Note 4 to the financial statement.

Quarterly standalone financial information for the 9-month period ended September 30, 2010 (in PLN thousand)

BALANCE SHEET

		As at September, 30 2010 (not audited)	As at December, 31 2009 restated data* (not audited)**	As at September, 30 2009 restated data* (not audited)**
ASSETS				
Non-current assets				
I	Intangible assets	4,420	7,650	8,069
II	Tangible fixed assets	81,514	81,661	80,589
III	Long-term receivables	2,000	2,042	1,981
IV	Long-term investments	22,651,574	23,225,913	22,770,531
1	Real property	-	-	-
2	Intangible assets	-	-	-
3	Long-term financial assets	22,651,574	23,225,913	22,770,531
4	Other long-term investments	-	-	-
V	Long-term prepayments	223,995	237,436	243,800
	Total non-current assets	**22,963,503**	**23,554,702**	**23,104,970**
Current assets				
I	Inventory	294	578	1,061
II	Short-term receivables:	1,403,151	842,409	777,085
1	Receivables from related parties	1,397,020	804,757	758,082
2	Receivables from other entities	6,131	37,652	19,003
III	Short-term investments	6,193,336	4,203,624	789,708
1	Short-term financial assets	6,193,336	4,203,624	789,708
a	in related parties	4,050,889	881,524	765,272
b	in other entities	117,623	-	-
c	cash and other pecuniary assets	2,024,824	3,322,100	24,436
2	Other short-term investments	-	-	-
IV	Short-term prepayments	41,161	22,097	60,912
	Total current assets	**7,637,942**	**5,068,708**	**1,628,766**
TOTAL ASSETS		**30,601,445**	**28,623,410**	**24,733,736**

** restatement of data for the period ended September 30, 2009 is presented in Note 4 to the financial statements.*

*** Balance sheet as at December 31, 2009 was prepared using pooling of interest method on the basis of audited financial statements of the consolidated entities. Information on comparatives is presented in Note 4 to the financial statements.*

Quarterly standalone financial information for the 9-month period ended September 30, 2010 (in PLN thousand)

	LIABILITIES AND EQUITY	As at September 30, 2010 (not audited)	As at December 30, 2009 restated data* (not audited)**	As at September 30, 2009 restated data* (not audited)
Equity		**28,220,342**	**26,876,245**	**20,571,993**
I	Share capital	18,697,837	17,300,900	14,705,765
II	Capital of subsidiaries increasing the share capital of PGE S.A.	-	1,396,937	1,396,937
III	Called up share capital (negative value)	-	-	-
IV	Own shares (negative value)	-	-	-
V	Supplementary capital	6,721,706	6,591,499	3,286,383
VI	Revaluation reserve	3,694	3,695	3,696
VII	Other reserve capitals	-	-	-
VIII	Previous year profit	117,677	132,282	132,282
IX	Net profit	2,679,428	1,471,569	1,067,567
X	Write-offs on net profit during the financial year (negative value)	-	(20,637)	(20,637)
Liabilities and provisions for liabilities		**2,381,103**	**1,747,165**	**4,161,743**
I	**Provisions for liabilities**	**394,464**	**399,684**	**407,587**
1	Provision for deferred income tax	42,527	27,880	30,878
2	Provision for retirement and similar benefits	18,442	19,345	20,251
3	Other provisions	333,495	352,459	356,458
II	**Long-term liabilities**	**-**	**-**	**597,466**
1	To related parties	-	-	84
2	To other entities	-	-	597,382
III	**Short-term liabilities**	**1,975,369**	**1,337,819**	**3,145,044**
1	To related parties	599,308	1,282,331	2,343,063
2	To other entities	1,373,323	53,231	799,430
3	Special funds	2,738	2,257	2,551
IV	**Accruals**	**11,270**	**9,662**	**11,646**
1	Other accruals	11,270	9,662	11,646
TOTAL LIABILITIES AND EQUITY		**30,601,445**	**28,623,410**	**24,733,736**

** restatement of data for the period ended September 30, 2009 is presented in Note 4 to the financial statements.*

*** Balance sheet as at December 31, 2009 was prepared using pooling of interest method on the basis of audited financial statements of the consolidated entities. Information on comparatives is presented in Note 4 to the financial statements.*

Quarterly standalone financial information for the 9-month period ended September 30, 2010 (in PLN thousand)

PROFIT AND LOSS ACCOUNT

		3-month period ended	9-month period ended	3-month period ended	9-month period ended
		September 30,2010		**September 30, 2009**	
				restated data*	restated data*
		(not audited)		(not audited)	
A	**Net revenues from sales of products, goods and materials, including:**	**2,454,780**	**7,608,491**	**2,696,932**	**8,098,464**
	- from related parties	*2,452,704*	*7,538,229*	*2,688,026*	*8,040,735*
	Net revenues from sales of products	21,660	62,609	22,740	70,485
	Net revenues from sales of goods and materials	2,433,120	7,545,882	2,674,192	8,027,979
B	**Cost of products, goods and materials sold, including:**	**2,384,697**	**7,443,162**	**2,556,003**	**7,660,235**
	Manufacturing cost of products sold	22,516	59,571	25,112	65,799
	Value of goods and materials sold	2,362,181	7,383,591	2,530,891	7,594,436
C	**Gross profit on sales (A-B)**	**70,083**	**165,329**	**140,929**	**438,229**
D	Selling costs	(1,179)**	12,469	15,805	54,457
E	General and administrative costs	23,996	70,878	22,818	56,342
F	**Profit on sales (C-D-E)**	**47,266**	**81,982**	**102,306**	**327,430**
G	Other operating revenues	11,787	38,309	21,537	7,739
H	Other operating expenses	7,615	14,997	1,249	58,007
I	**Profit on operating activities (F+G-H)**	**51,438**	**105,294**	**122,594**	**277,162**
J	Financial revenues	2,426,956	2,657,261	251,048	1,192,184
K	Financial expenses	16,526	30,990	69,635	164,967
L	**Profit on business activities (I+J-K)**	**2,461,868**	**2,731,565**	**304,007**	**1,304,379**
M	**Result on extraordinary events**	**-**	**-**	**-**	**-**
N	**Gross profit (L+M)**	**2,461,868**	**2,731,565**	**304,007**	**1,304,379**
O	Income tax	21,616	52,127	3,888	54,623
-	Current income tax	12,674	38,666	13,755	55,521
-	Deferred income tax	8,942	13,461	(9,867)	(898)
P	Other statutory reductions in profit	-	10	61,312	182,189
R	**Net profit (N-O-P)**	**2,440,252**	**2,679,428**	**238,807**	**1,067,567**

** restatement of comparatives is presented in Note 4 to the financial statements.*
*** Selling costs for the 3-month period ended September 30, 2010 was presented as a negative value due to the fact that in August 2010 expenses for transmission services in the amount of PLN 3,196 thousand were written off, previously recognized in the first quarter of 2010. Without that adjustment selling cost for the 3-mont period ended September 30, 2010 would amount to PLN 2,017 thousand.*

Quarterly standalone financial information for the 9-month period ended September 30, 2010 (in PLN thousand)

STATEMENT OF CHANGES IN EQUITY

		As at September 30, 2010	As at December 31, 2009 *restated data**	As at September 30, 2009 *restated data**
		(not audited)	(not audited)**	(not audited)
I	**Opening balance of equity**	**26,876,245**	**20,488,134**	**20,488,134**
	change in the measurement principles applied to financial assets	**-**	**-**	**-**
	Opening balance of equity after adjustments	**26,876,245**	**20,488,134**	**20,488,134**
1.1	**Opening balance of share capital**	**17,300,900**	**14,705,765**	**14,705,765**
	Changes in share capital	1,396,937	2,595,135	-
	- *share issue*	-	*2,595,135*	-
	- *merger of PGE S.A. with PGE Energia S.A. and PGE GiE S.A.*	*1,396,937*	-	-
1.2	**Closing balance of share capital**	**18,697,837**	**17,300,900**	**14,705,765**
2.	**Opening balance of capital of subsidiaries increasing the share capital of PGE S.A.**	**1,396,937**	**1,396,937**	**1,396,937**
2.1	Changes in capital of subsidiaries	(1,396,937)	-	-
	- *merger of PGE S.A. with PGE Energia S.A. and PGE GiE S.A.*	*(1,396,937)*	-	-
2.2	**Closing balance of capital of subsidiaries increasing the share capital of PGE S.A.**	**-**	**1,396,937**	**1,396,937**
3	**Opening balance of called up share capital**	**-**	**-**	**-**
3.1	Changes in called up share capital	-	**-**	**-**
3.2	**Closing balance of called up share capital**	**-**	**-**	**-**
4	**Opening balance of own shares**	**-**	**-**	**-**
4.1	Changes in own shares	-	-	-
4.2	**Closing balance of own shares**	**-**	**-**	**-**
5	**Opening balance of supplementary capital**	**6,591,499**	**3,234,104**	**3,234,104**
5.1	Changes in supplementary capital	130,207	3,357,395	52,279
	- profit distribution	*130,206*	*62,410*	*62,410*
	- issue premium	-	*3,305,115*	-
	- reclassification from the revaluation reserve due to a contribution in kind, disposal or liquidation of fixed assets	*1*	*1*	-
	- dividend paid	-	*(10,131)*	*(10,131)*
5.2	**Closing balance of supplementary capital**	**6,721,706**	**6,591,499**	**3,286,383**
6	**Opening balance of revaluation reserve**	**3,695**	**3,696**	**3,696**
6.1	Changes in revaluation reserve	(1)	(1)	-
	- reclassification from the revaluation reserve due to a contribution in kind, disposal or liquidation of fixed assets	*(1)*	*(1)*	-
6.2	**Closing balance of revaluation reserve**	**3,694**	**3,695**	**3,696**
7	**Opening balance of other reserve capitals**	**-**	**415,103**	**415,103**
7.1	Changes in other reserve capitals	-	(415,103)	(415,103)
	- dividend paid	-	*(415,103)*	*(415,103)*
7.2	**Closing balance of other reserve capitals**	-	-	-
8	**Opening balance of previous year profit (loss)**	**1,583,214**	**732,528**	**732,528**
8.1	**Opening balance of previous year profit**	**1,583,214**	**885,158**	**885,158**
8.2	Changes in previous year profit	(1,465,537)	(752,876)	(752,876)
	- liquidation of founds	-	*1,800*	*1,800*
	- transfer to supplementary capital	*(130,206)*	*(62,410)*	*(62,410)*

Quarterly standalone financial information for the 9-month period ended September 30, 2010 (in PLN thousand)

	- dividend paid	*(1,335,331)*	*(539,636)*	*(539,636)*
	- to cover previous year losses	-	*(152,630)*	*(152,630)*
8.3	**Closing balance of previous year profit**	**117,677**	**132,282**	**132,282**
8.4	**Opening balance of previous year losses**	**-**	**(152,630)**	**(152,630)**
8.5	Changes in previous year losses	-	152,630	152,630
	- to cover previous year losses	-	*152,630*	*152,630*
8.6.	**Closing balance of previous year losses**			
9	**Net result**	**2,679,428**	**1,450,932**	**1,046,930**
	- net profit	*2,679,428*	*1,471,569*	*1,067,567*
	- profit allocation (negative value)	-	*(20,637)*	*(20,637)*
II	**Closing balance of equity**	**28,220,342**	**26,876,245**	**20,571,993**

** restatement comparatives are presented in Note 4 to the financial statements.*

*** Statement of changes in equity was prepared using pooling of interest method based on the audited financial statements of merged companies. Information concerning comparatives is presented in Note 4 to the financial statements.*

Quarterly standalone financial information for the 9-month period ended September 30, 2010 (in PLN thousand)

CASH FLOW STATEMENT

	Item	As at September 30, 2010 *restated data**	As at September 30, 2009 *restated data**
		(not audited)	(not audited)
A	**Cash flows from operating activities**		
I	***Net profit***	***2,679,428***	***1,067,567***
II	***Total adjustments***	***(2,554,804)***	***(852,955)***
1	Depreciation/amortization	10,958	11,484
2	Foreign exchange gains (losses)	6,603	(1,238)
3	Interest and profit sharing (dividend)	(2,568,523)	(966,268)
4	Profit (loss) on investment activities	(10,256)	22,884
5	Change in provisions	(5,220)	63,150
6	Change in inventory	283	208
7	Change in receivables	209,968	(89,103)
8	Change in short-term liabilities, except for loans and credit facilities	(194,654)	173,969
9	Change in prepayments and accruals	(4,014)	(68,041)
10	Other adjustments	51	-
III	***Net cash flows from operating activities***	***124,624***	***214,612***
B	***Cash flows from investment activities***		**.**
I	***Inflows***	***3,658,111***	***2,102,602***
1	Disposal of intangible assets and tangible fixed assets	820	90
2	Disposal of investments in real property and in intangible assets	-	-
3	Disposal of financial assets	3,657,291	2,101,906
4	Other inflows from investment activities	-	606
II	***Outflows***	***4,539,370***	***1,218,812***
1	Acquisition of intangible assets and tangible fixed assets	9,476	12,958
2	Investments in real property and in intangible assets	-	-
3	For financial assets	4,529,894	1,205,854
4	Originated short-term loans	-	-
5	Other outflows from investment activities	-	-
III	***Net cash flows on investment activities (I-II)***	***(881,259)***	***883,790***
C	***Cash flows from financial activities***		
I	***Inflows***	**-**	***15,477,334***
1	Net inflows from issuance of shares, other capital instruments and from capital contributions	-	-
2	Credit facilities and loans	-	-
3	Issuance of debt securities	-	15,477,334
4	Other inflows from financial activities	-	-
II	***Outflows***	***534,604***	***16,676,649***
1	Acquisition of own shares	-	-

Quarterly standalone financial information for the 9-month period ended September 30, 2010 (in PLN thousand)

Item		**As at September 30, 2010 *restated data****	**As at September 30, 2009 *restated data****
		(not audited)	**(not audited)**
2	Dividend and other payments to shareholders	17,656	1,083,286
3	Profit distribution expenses other than payments to shareholders	-	-
4	Repayment of credit facilities and loans	1	114,953
5	Redemption of debt securities	509,982	15,374,788
6	Due to other financial liabilities	-	-
7	Payment of liabilities arising from finance leases	113	178
8	Interest	6,852	103,444
9	Other outflows from financial activities	-	-
III	***Net cash flows from financial activities (I-II)***	***(534,604)***	***(1,199,315)***
D	***Total net cash flows (A.III ± B.III ± C.III)***	**(1,291,239)**	**(100,913)**
E	***Balance sheet change in cash, including:***	**(1,297,276)**	**(101,141)**
	Change in cash due to exchange differences	496	(228)
F	***Cash opening balance***	**3,313,795**	**125,819**
G	***Cash closing balance (F±D), including:***	**2,022,556**	**24,906**
	Of limited disposability	1,530	1,609

** restatement of data for the period ended September 30, 2009 is presented in Note 4 to the financial statements.*

Quarterly standalone financial information for the 9-month period ended September 30, 2010 (in PLN thousand)

Condensed additional information

1. Long-term and short-term financial assets.

Item	Long-term financial assets as at September 30, 2010	Short-term financial assets as at September 30, 2010
Shares	19,310,436	2,177,485
Other securities	3,341,138	1,991,027
Other long-term financial assets	-	-
Cash and other pecuniary assets	-	2,024,824
TOTAL	**22,651,574**	**6,193,336**

Shares in subsidiaries as at September 30, 2010.

Entity	Book value of shares
Long-term	
PGE Górnictwo i Energetyka Konwencjonalna S.A.	11,517,730
PGE Obrót S.A.	5,176,178
PGE Serwis Sp. z o.o	3,800
PGE Dystrybucja S.A.	745,316
PGE Electra S.A.	70,000
PGE Energia Odnawialna S.A.	323,615
PGE Systemy S.A.	1,502
PWE Gubin Sp. z o.o.	34,948
PGE EJ 1 Sp. z o.o.	18,620
PGE Energia Jądrowa S.A.	25,000
ELECTRA Deutschland GmbH	1,449
PGE INWEST Sp. z o.o.	1,050
PGE Inwest Sp. z o.o. II s.k.a.	100
PGE Elektrownia Opole S.A.	1,387,768
Total	**19,307,076**
Short-term	
Exatel S.A.	402,329
Total	**402,329**
Total shares in subsidiaries	**19,709,405**

Quarterly standalone financial information for the 9-month period ended September 30, 2010 (in PLN thousand)

Shares in associates as at September 30, 2010.

Entity	Book value of shares
Long-term	
Swe-Pol Link AB	1,321
Total	**1,321**
Short-term	
Polkomtel S.A.	1,656,469
Energopomiar Sp. z o.o.	1,064
Total	**1,657,533**
Total shares in associates	**1,658,854**

Shares in other entities as at September 30, 2010.

Entity	Book value of shares
Long-term	
SYGNITY S.A.	2,039
Enesta S.A. in liquidation	-
Telewizja Familijna S.A. in liquidation	-
Pracownicze Towarzystwo Emerytalne "Nowy Świat" S.A.	-
Total	**2,039**
Short-term	
AWSA Holland II	115,173
Towarowa Giełda Energii S.A.	2,350
Agencja Rynku Energii S.A.	100
Total	**117,623**
Total shares in other entities	**119,662**

Other securities

The main items of other securities are acquired bonds of subsidiaries from PGE Capital Group and bonds issued by „Autostrada Wielkopolska" S.A.

Bonds issued by subsidiaries from PGE Group and acquired by the Company as at September 30, 2010 are presented below:

Entity	Short-term part	Long-term part	Total book value as at September 30, 2010
PGE Elektrownia Turów S.A.*	1,375,086	290,800	1,665,886
PGE Zespół Elektrowni Dolna Odra S.A.*	325,610	-	325,610
PGE KWB Bełchatów S.A.*	207,947	-	207,947
PGE ZEC Bydgoszcz S.A.*	24,685	-	24,685
PGE Elektrownia Bełchatów S.A.*	57,699	2,801,425	2,859,124
Total	**1,991,027**	**3,092,225**	**5,083,252**

**) After the Consolidation of PGE Capital Group the companies merged and currently they are part of the holding PGE Górnictwo i Energetyka Konwencjonalna S.A.*

Quarterly standalone financial information for the 9-month period ended September 30, 2010 (in PLN thousand)

Bond issue program directed to companies from PGE Group is described in Note 16 to the financial statements for the period ended September 30, 2010.

Bonds issued by “Autostrada Wielkopolska” S.A. were acquired by the Company on October 30, 2000. Those securities have characteristics of interest-bearing and non-interest-bearing securities. Till November 30, 2018 those bonds do not bear interest. From November 30, 2018 interests will be calculated based on 6M EURIBOR and a margin specified in the agreement. Interests will be payable in six-month intervals starting from May 31, 2019 based on Euro bond value. Bonds mature not later than on May 31, 2037. The issuer has the right to earlier redemption on any interest payment date based on the notice send to the bondholders not later than 30 days prior to the planned redemption.

As at September 30, 2010 book value of bonds of “Autostrada Wielkopolska” S.A. amounted to PLN 248,913 thousand.

2. Contingent liabilities.

Type of liability	As at September 30, 2010		As at December 31,2009	
	related parties	other entities	related parties	other entities
Total contingent liabilities:	**24,752**	**-**	**26,423**	**-**
guaranties	22,000	-	22,000	-
Other	2,752	-	4,423	-

Contingent liabilities presented above relate to guaranties for the subsidiary PGE Electra S.A. for liabilities resulting from energy trading agreements.

3. Differences between the financial statement of the parent prepared in accordance with the Polish Accounting Act and the financial statements prepared in accordance with IFRS.

	Equity as at September 30, 2010	Net profit for the period ended September 30, 2010	Assets as at September 30, 2010
Data from stand-alone financial statements prepared in accordance with Polish Accounting Act	**28,220,342**	**2,679,428**	**30,601,445**
Fixed assets valuation	124,562	(4,241)	153,780
Intangible assets valuation	4,548	(715)	5,615
Employee benefits provisions valuation	175	(13)	(41)
Net presentation of deferred taxes	-	-	(51,149)
Net presentation of social funds	-	-	(2,597)
Financial instruments valuation	(171,136)	11,819	(166,987)
Other	-	10	-
Total IFRS adjustments	**(41,851)**	**6,860**	**(61,379)**
Parent financial data according to IFRS used for consolidation purposes	**28,178,491**	**2,686,288**	**30,540,066**

4. Merger of PGE Polska Grupa Energetyczna S.A. with PGE Górnictwo i Energetyka S.A. (PGE GiE S.A.) and PGE Energia S.A.

Description of the Consolidation Programme

The consolidation process of PGE Capital Group, realized under the Consolidation Programme (Programme) of PGE Capital Group, commenced in 2009. The main purpose of the Programme was a strong market and financial position ensuring among others further development of PGE Capital Group through legal and organizational consolidation in the following business lines:

- retail sale of electricity;
- distribution of electricity;
- conventional energy (mining and generation);
- renewable energy.

Legal and organizational part of the Consolidation Programme assumes consolidation of 38 subsidiaries into 4 holdings and merger of PGE Polska Grupa Energetyczna S.A. (acquiring company) with PGE GiE S.A. and PGE Energia S.A. (acquired companies). On January 26, 2010, regarding the Consolidation Programme, PGE S.A. with PGE GiE S.A. and PGE Energia S.A. adopted the Consolidation Plan. According to the art 499 § 1 of the Commercial Code, the Plan specifies consolidation method and the exchange parity of shares according to art 501 of the Commercial Code.

On August 31, 2010 National Court Register of the District Court for the capital city of Warsaw in Warsaw registered the merger of PGE S.A. with PGE GiE S.A. and PGE Energia S.A. As a result of the merger acquired companies were dissolved without liquidation. Share capital of the acquiring company was increased by the amount of PLN 1,396,937,270, as a result of the exchange parity, by way of an issue of 73,241,482 series C shares and 66,452,245 series D shares with a par value of PLN 10 each. Shareholders of the acquired companies received shares in increased share capital of PGE, subject to provisions of art 514 of Commercial Code.

Settlement of the merger in the financial statements of the Company

As a result of the consolidation described above, shareholders of PGE S.A. had a controlling stake in acquired companies and after the consolidation didn't lose control. Therefore according to art 44c of the Polish Accounting Act the merger could have been settled in PGE S.A. financial statements using pooling of interest method.

As a general rule by using the pooling of interest method each position of assets and equity and liabilities as well as income and expenses of the consolidated entities are added as at the date of the merger, after unification of valuation methods and eliminations. Differences between net assets value of acquired companies and the increase of share capital connected with share issue were included directly in the share capital of the acquiring company. Financial statements of the acquiring company include comparatives prepared as if the consolidation took place at the beginning of previous reporting period.

The consolidation was settled using pooling of interest method in the following way:

- In the financial statements of PGE S.A. assets and equity and liabilities were accounted for at value resulting from financial statements of acquired companies, after they were adjusted to ensure comparability.
- Eliminations were made to receivables and liabilities, income and expenses of business operations in the financial year, including dividends received from acquired companies and shares held in acquired companies.
- Share capital of the acquiring company was increased by the amount of PLN 1,396,937 thousand for the comparable period and till the registration date in 2010 the capital was presented in separate position in equity and liabilities – "Capital of subsidiaries increasing the share capital of PGE"
- Share capital of acquired companies was eliminated. After the elimination, reserve capital of the consolidated entities was adjusted by the difference between acquired assets and equity and liabilities. In the financial statement prepared after the merger, reserve capital, other capital

reserves and retained earnings were presented in the total amount of positions from the financial statements of consolidated companies

- Expenses related to the consolidation were accounted for in financial expenses
- To achieve the comparability of assets valuation of consolidated companies, shares valuation of acquired companies from PGE GiE S.A. was revalued using valuation method applied for capital increase in PGE S.A. in 2007. Following that, book value of PGE GiEK S.A. shares was increased by the amount of PLN 3,392,550 thousand and the book value of PGE Elektrownia Opole S.A. shares by the amount of PLN 812,285 thousand. The difference was recognized in reserve capital.

Changes in comparatives

Restatement of balance sheet and profit and loss account for the previous reporting period, as a result of the merger with PGE GiE S.A and PGE Energia S.A., are presented below. Presented data are taken from approved financial statements of consolidating companies from previous period, after adjustments resulting from application of pooling of interest method described above.

Quarterly standalone financial information for the 9-month period ended September 30, 2010 (in PLN thousand)

Assets as at December 31, 2009

No.	Item	PGE S.A.	PGE GiE S.A.	PGE Energia S.A.	Adjustments resulting from using pooling of interest method	Total amount presented as comparatives
A	**Non-current assets**	**21,018,516**	**5,120,273**	**7,519,923**	**(10,104,010)**	**23,554,702**
I	Intangible assets	3,811	3,738	101	-	7,650
II	Tangible fixed assets	74,424	7,006	231	-	81,661
III	Long-term receivables	2,042	-	-	-	2,042
IV	Long-term investments	20,701,200	5,109,165	7,519,533	(10,103,985)	23,225,913
V	Long-term prepayments	237,039	364	58	(25)	237,436
B	**Current assets**	**4,937,968**	**100,465**	**49,357**	**(19,082)**	**5,068,708**
I	Inventory	243	335	-	-	578
II	Short-term receivables	836,912	5,151	523	(177)	842,409
III	Short-term investments	4,079,601	94,107	48,821	(18,905)	4,203,624
IV	Short-term prepayments	21,212	872	13	-	22,097
	TOTAL ASSETS	**25,956,484**	**5,220,738**	**7,569,280**	**(10,123,092)**	**28,623,410**

Quarterly standalone financial information for the 9-month period ended September 30, 2010 (in PLN thousand)

Liabilities and equity as at December 31, 2009

No.	Item	PGE S.A.	PGE GiE S.A.	PGE Energia S.A.	Adjustments resulting from using pooling of interest method	Total amount presented as comparatives
A	**Equity**	**24,196,441**	**5,215,239**	**7,568,625**	**(10,104,060)**	**26,876,245**
I	Share capital	17,300,900	3,827,810	7,519,861	(11,347,671)	17,300,900
II	Capital of subsidiaries increasing the share capital of PGE S.A.	-	-	-	1,396,937	1,396,937
III	Called up share capital (negative value)	-	-	-	-	-
IV	Own shares (negative value)	-	-	-	-	-
V	Supplementary capital	5,449,549	1,277,069	18,133	(153,252)	6,591,499
VI	Revaluation reserve	3,695	-	-	-	3,695
VII	Other reserve capitals	-	-	-	-	-
VIII	Previous year profit	1,800	-	-	130,482	132,282
IX	Net profit	1,440,497	221,367	57,205	(247,500)	1,471,569
X	Write-offs on net profit during the financial year (negative value)	-	(111,007)	(26,574)	116,944	(20,637)
B	**Liabilities and provisions for liabilities**	**1,760,043**	**5,499**	**655**	**(19,032)**	**1,747,165**
I	Provisions for liabilities	398,055	1,634	20	(25)	399,684
II	Long-term liabilities	-	-	-	-	-
III	Short-term liabilities	1,352,752	3,647	427	(19,007)	1,337,819
IV	Accruals	9,236	218	208	-	9,662
	TOTAL LIABILITIES AND EQUITY	**25,956,484**	**5,220,738**	**7,569,280**	**(10,123,092)**	**28,623,410**

Quarterly standalone financial information for the 9-month period ended September 30, 2010 (in PLN thousand)

Profit and loss account – for the period ended September 30, 2009

No.	Item	PGE S.A.	PGE GiE S.A.	PGE Energia S.A.	Adjustments resulting from using pooling of interest method	Total amount presented as comparatives
A	Net revenues from sales of products, goods and materials	8,092,283	33,802	396	(28,017)	8,098,464
B	Cost of products, goods and materials sold	7,656,793	30,594	590	(27,742)	7,660,235
C	**Gross profit on sales**	**435,490**	**3,208**	**(194)**	**(275)**	**438,229**
D	Selling costs	54,457	-	-	-	54,457
E	General and administrative costs	53,955	573	1,845	(31)	56,342
F	**Profit on sales**	**327,078**	**2,635**	**(2,039)**	**(244)**	**327,430**
G	Other operating revenues	7,545	189	6	(1)	7,739
H	Other operating expenses	57,904	97	7	(1)	58,007
I	**Profit on operating activities**	**276,719**	**2,727**	**(2,040)**	**(244)**	**277,162**
J	Financial revenues	1,160,096	222,994	60,051	(250,957)	1,192,184
K	Financial expenses	168,434	65	-	(3,532)	164,967
L	**Profit on business activities**	**1,268,381**	**225,656**	**58,011**	**(247,669)**	**1,304,379**
M	Result on extraordinary events	-	-	-	-	-
N	**Gross profit**	**1,268,381**	**225,656**	**58,011**	**(247,669)**	**1,304,379**
O	Income tax	53,052	1,282	289	-	54,623
P	Other statutory reductions in profit	182,189	-	-	-	182,189
R	**Net profit (loss)**	**1,033,140**	**224,374**	**57,722**	**(247,669)**	**1,067,567**

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Quarterly standalone financial information for the 9-month period ended September 30, 2010 (in PLN thousand)

5. Transactions with related parties

No.	Entity	Receivables as at September 30, 2010	Liabilities as at September 30, 2010	Transactions recognized in assets as at September 30, 2010	Revenues (from January 1, 2009 to September 30, 2010)			Expenses (from January 1, 2009 to September 30, 2010)		
					From sales	Other operating	financial	Operating activity	Other operating	financial
1	PGE Dystrybucja S.A.	335	8	-	2,449	169	19,930	161	-	1.075
2	PGE Energetyka Odnawialna S.A.	5,222	-	-	1,514	-	59,855	7	4	110
3	PGE Obrót S.A.	347,279	2	-	3,815,403	-	189,255	166	-	123
4	PGE Górnictwo i Energetyka Konwencjonalna S.A.	543,586	483,487	5,083,252	25,963	283	2,058,670	6,131,541	-	426
5	PGE Elektrownia Opole S.A.	226,461	114,064	-	2,417	-	225,913	1,123,834	-	508
6	PGE Electra S.A.	273,230	666	-	3,686,692	-	25	9,514	-	-
7	Exatel S.A.	65	152	-	617	60	-	407	-	51
8	Energopomiar Sp. z o .o.	-	-	-	-	-	134	-	-	-
9	PGE Inwest Sp. z o .o.	3	-	-	26	-	-	-	-	-
10	PGE Inwest Spółka z o .o. II Sp. Komandytowo-Akcyjna	1	-	-	16	-	-	-	-	-
11	PGE Energia Jądrowa S.A.	13	-	-	173	-	-	-	-	-
12	PGE EJ 1 Sp. z o .o.	9	-	-	55	-	-	-	-	-
13	PGE Serwis Sp. z o .o.	67	74	3,553	550	2	23	5,699	-	-
14	PGE Systemy S.A.	662	61	127	2,309	11	562	10,262	-	-
15	Niezależny Operator Międzystrefowy Sp. z o .o.	-	1	-	-	-	-	4	-	-
16	Górniczy Klub Sportowy Bełchatów S.S.A.	-	732	-	-	-	-	4,900	-	-
17	Polkomtel S.A.	-	29	3	26	-	21,545	216	-	-
18	Przedsiębiorstwo Transportowe Eltur-Trans Sp. z o .o.	85	32	-	-	-	-	171	-	8
19	Przedsiębiorstwo Handlowo-Usługowe Eltur-Global Sp. z o .o.	-	-	-	-	-	-	7	-	-
20	E-Telbank Sp. z o .o.	-	-	-	-	-	-	-	-	-
21	Energo - Tel S.A.	2	-	-	19	-	-	-	-	-
22	PTS Betrans Sp. z o. o.	-	-	-	-	-	-	3	-	-

Quarterly standalone financial information for the 9-month period ended September 30, 2010 (in PLN thousand)

23	Bestur Sp. z o .o.	-	-	19	-	-	-	12	-	-
24	Elbest Sp z o.o. w Rogowcu Hotel Wodnik	-	-	5	-	-	-	95	-	-
25	Energo Inwest Broker S.A.	-	-	-	-	-	-	2	-	-
26	Energetyk Spa Sp. z o .o.	-	-	-	-	-	-	2	-	-
	Total	**1,397,020**	**599,308**	**5,086,959**	**7,538,229**	**525**	**2,575,912**	**7,287,003**	**4**	**2,301**

6. Change of relevant estimates in the reporting period

In the period ended September 30, 2010 the Company received updated third party claim. As a result of that the Company changed the estimates and reversed the provision for third party claims related to execution of trade agreements in the amount of PLN 31,534 thousand.

7. Prepayments made to Vattenfall Aktiebolag

In periods before the balance sheet date, the parent company made prepayments for transmission services to Vattenfall Aktiebolag („VAB"). These prepayments were related to an execution of Restructuring Agreement signed by PGE S.A. and VAB on May 28, 2003 and were associated with a purchase of SwePol Link AB shares as well as a construction and exploitation of a permanent electricity link between Polish and Swedish electric system. The prepayments were settled within a realization of the above agreement, which expires in August 2010. In the condensed financial statements prepared in accordance with Polish Accounting Act, the prepayments made are presented as long-term and short-term prepayments in the total amount of PLN 206,932 thousand as at September 30, 2010.

8. Legal claims connected with dividend payment in subsidiaries for the year 2009

Dozens of minority shareholders of following subsidiaries: PGE Elektrownia Turów S.A., PGE KWB Bełchatów S.A., PGE KWB Turów S.A., PGE Elektrownia Bełchatów S.A., PGE Zespół Elektrowni Dolna Odra S.A. (currently PGE Górnictwo i Energetyka Konwencjonalna S.A.) and PGE Elektrownia Opole S.A., filed lawsuit to the District Courts with a claim to partially void the resolutions on distribution of profit from 2009 in the scope of determining the dividend date and to possible partial repeal the resolutions concerning that issue. Basic claim was based on the fact that, the announcement about the convening of OGMs as well as approved agenda did not include a point concerning dividend date, which caused that the resolutions are in conflict with Commercial Code principles. Any claim was based on the fact that the dividend date of August 17, 2010, i.e. later than the date of resolution on profit distribution, was determine with the objective not to pay the dividend to the minority shareholders that decided to swap their shares before that date.

Subsidiaries received the lawsuits with a claim to partially void the resolutions on distribution of profit from 2009. Therefore the payment of part of dividends was suspended. In the opinion of subsidiaries the resolutions were adopted correctly and they appealed. Currently the lawsuits are on a different stage of judicial proceedings.

Due to above mentioned, as at the date of this financial statements PGE S.A. recognizes dividend receivable and revenues in profit and loss account in the amount of PLN 765,638 thousand. Following scenarios are possible:

- to dismiss the claim of minority shareholders and keep adopted resolution on profit distribution in force
- to accept minority shareholders claims and determine the resolution date as a dividend date.

Both of the scenarios should not have any significant impact on the data presented in the financial statements. In the Company's opinion there is limited risk to repeal of the resolution as a whole.

Signatures of Members of the Management Board of PGE Polska Grupa Energetyczna S.A.

……………………………………………..	*……………………………………………..*
Tomasz Zadroga	*Wojciech Topolnicki*
President of the Management Board	*Vice-President of the Management Board*

PGE

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