



PGE Polska Grupa Energetyczna S.A. Capital Group

Condensed interim consolidated financial statements prepared in accordance with International Financial Reporting Standards for the period ended 30 June 2012.

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CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Note	Period ended 30 June 2012 (reviewed)	Period ended 30 June 2011 (reviewed) (restated data)*
Continuing operations			
Total sales revenues	10	14.950.933	13.915.332
Costs of goods sold	10	(10.876.859)	(10.079.368)
Gross profit on sales		4.074.074	3.835.964
Other operating revenues	10	372.240	118.157
Distribution and selling expenses	10	(836.081)	(805.390)
General and administrative expenses	10	(359.287)	(363.018)
Other operating expenses	10	(147.234)	(124.958)
Profit from operations		3.103.712	2.660.755
Financial revenues	10	301.751	126.171
Financial expenses	10	(179.212)	(184.070)
Share of profit of associate		3.437	168.413
Profit before tax		3.229.688	2.771.269
Corporate income tax	12	(705.170)	(512.710)
Net profit from continuing operations		2.524.518	2.258.559
Discontinued operations			
Profit for the period on discontinued operations	25	(149)	1.012
Net profit for the operating period		2.524.369	2.259.571
OTHER COMPREHENSIVE INCOME:			
Valuation of available-for-sale financial assets		777	1.293
Foreign exchange differences from translation of foreign entities		(1.199)	(132)
Other comprehensive income for the period, net		(422)	1.161
TOTAL COMPREHENSIVE INCOME		2.523.947	2.260.732
Net profit attributable to:			
- equity holders of the parent company		2.494.457	2.218.790
- non-controlling interest		29.912	40.781
Total comprehensive income attributable to:			
- equity holders of the parent company		2.494.035	2.219.951
- non-controlling interest		29.912	40.781
Earnings per share (in PLN)			
- basic earnings per share for the period		1,33	1,19
- basic earnings from the continuing operations		1,33	1,19

* For details on comparative data restatement please refer to Note 6 of these financial statements.



CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Note	As at 30 June 2012 (reviewed)	As at 31 December 2011 (audited)	As at 30 June 2011 (reviewed) (restated data)*
ASSETS				
Non-current assets				
Property, plant and equipment		43.058.735	42.974.819	41.732.497
Investment property		30.713	33.286	26.627
Intangible assets		247.643	216.921	189.987
Loans and receivables		331.170	323.473	405.249
Available-for-sale financial assets		97.784	100.751	140.692
Shares in associates accounted for under the equity method		57.996	55.062	59.146
Other long-term assets		614.391	440.157	347.237
Deferred tax asset	13	257.744	296.387	246.329
Non-current assets related to discontinued operations		26.838	4.077	4.472
Total non-current assets		44.723.014	44.444.933	43.152.236
Currents assets				
Inventories		1.558.749	1.305.327	1.274.040
Emission rights	14	2.378.528	3.366.988	2.968.279
Income tax receivables		13.762	31.920	29.384
Short-term financial assets at fair value through profit or loss	12	-	-	-
Trade receivables		1.814.139	1.767.739	1.541.624
Other loans and financial assets		435.979	2.784.000	918.137
Available-for-sale short-term financial assets		3.954	8.432	6.689
Other current assets		997.597	947.056	1.170.710
Cash and cash equivalents		8.039.155	4.052.238	2.838.477
Assets classified as held-for-sale		12.299	33.067	1.328.380
Currents assets related to discontinued operations		11.825	20.931	12.306
Total currents assets		15.265.999	14.317.698	12.088.026
TOTAL ASSETS		59.989.013	58.762.631	55.240.262

* For details on comparative data restatement please refer to Note 6 of these financial statements.



PGE Polska Grupa Energetyczna S.A.

Condensed interim consolidated financial statements for the 6 month period ended
30 June 2012 prepared in accordance with IFRS (in PLN thousand)

("Translation of the document originally issued in Polish")

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Note	As at 30 June 2012 (reviewed)	As at 31 December 2011 (audited)	As at 30 June 2011 (reviewed) (restated data)*
LIABILITIES AND EQUITY				
Equity				
Share capital	15	18.697.608	18.697.837	18.697.837
Revaluation reserve		-	(777)	212
Treasury shares		-	(229)	(229)
Foreign exchange differences from translation of foreign entities		5.093	6.292	813
Reserve capital		9.687.596	8.553.143	8.553.143
Other capital reserves		49.779	49.779	49.779
Retained earnings		11.450.085	13.452.823	10.661.187
Non-controlling interest		332.187	414.392	608.811
Total equity		40.222.348	41.173.260	38.571.553
Long-term liabilities				
Interest-bearing loans and borrowings, bonds and lease	20	1.214.294	1.341.351	1.505.824
Other long-term liabilities	20	17.344	17.864	9.194
Provisions	17	3.290.472	3.216.279	3.012.447
Deferred tax liability	13	1.446.457	1.384.507	1.377.582
Deferred income and government grants	18	1.255.357	1.255.298	1.245.343
Long-term liabilities related to discontinued operations		6.530	667	1.085
Total long-term liabilities		7.230.454	7.215.966	7.151.475
Short-term liabilities				
Trade liabilities	20	851.973	1.117.172	818.548
Financial liabilities at fair value through profit or loss		44.472	48.093	37.142
Interest-bearing loans, borrowings, bonds and lease	20	417.626	697.661	692.263
Other short-term financial liabilities	20	2.141.823	1.826.613	760.402
Other short-term non-financial liabilities		4.898.424	1.499.755	2.576.665
Income tax liabilities		404.979	414.618	67.768
Deferred income and government grants	18	968.411	117.117	1.586.403
Short-term provisions	17	2.798.068	4.634.462	2.970.437
Short-term liabilities related to discontinued operations		10.435	17.914	7.606
Total short-term liabilities		12.536.211	10.373.405	9.517.234
Total liabilities		19.766.665	17.589.371	16.668.709
TOTAL LIABILITIES AND EQUITY		59.989.013	58.762.631	55.240.262

* For details on comparative data restatement please refer to Note 6 of these financial statements.

STATEMENT OF CHANGES IN CONSOLIDATED EQUITY
for the period ended 30 June 2012

<i>(reviewed)</i>	Share capital	Revaluation reserve	Treasury shares	Foreign exchange differences from translation	Reserve capital	Other capital reserves	Retained earnings	Total	Non-controlling interest	Total equity
As at 1 January 2012	18.697.837	(777)	(229)	6.292	8.553.143	49.779	13.452.823	40.758.868	414.392	41.173.260
Total comprehensive income for the period	-	777	-	(1.199)	-	-	2.494.457	2.494.035	29.912	2.523.947
Retained earnings distribution	-	-	-	-	1.134.453	-	(1.134.453)	-	-	-
Dividend	-	-	-	-	-	-	(3.421.662)	(3.421.662)	(909)	(3.422.571)
Purchase of new companies	-	-	-	-	-	-	-	-	19.757	19.757
Redemption of Treasury shares	(229)	-	229	-	-	-	-	-	-	-
Adjustment of purchase cost of stock in subsidiaries	-	-	-	-	-	-	(1.885)	(1.885)	-	(1.885)
Settlement of purchase of additional stock in subsidiaries:	-	-	-	-	-	-	23.687	23.687	(93.847)	(70.160)
<i>Value of the purchased non-controlling interest</i>	-	-	-	-	-	-	93.847	93.847	(93.847)	-
<i>The acquisition cost of shares and stocks in subsidiaries</i>	-	-	-	-	-	-	(70.160)	(70.160)	-	(70.160)
Change of shares in result of mergers of companies within the Capital Group	-	-	-	-	-	-	37.118	37.118	(37.118)	-
As at 30 June 2012	18.697.608	-	-	5.093	9.687.596	49.779	11.450.085	39.890.161	332.187	40.222.348

STATEMENT OF CHANGES IN CONSOLIDATED EQUITY
for the period ended 30 December 2011

<i>(audited)</i>	Share capital	Revaluation reserve	Treasury shares	Foreign exchange differences from translation	Reserve capital	Other capital reserves	Retained earnings	Total	Non-controlling interest	Total equity
As at 1 January 2011	18.697.837	(1.081)	(229)	945	6.727.589	49.779	11.483.867	36.958.707	595.958	37.554.665
Total comprehensive income for the period	-	304	-	5.347	-	-	4.936.095	4.941.746	36.519	4.978.265
Retained earnings distribution	-	-	-	-	1.825.554	-	(1.825.554)	-	-	-
Dividend	-	-	-	-	-	-	(1.215.780)	(1.215.780)	(26.904)	(1.242.684)
Purchase of new companies	-	-	-	-	-	-	-	-	(8.676)	(8.676)
Sale of subsidiaries	-	-	-	-	-	-	-	-	(1)	(1)
Settlement of purchase of additional stock in subsidiaries:	-	-	-	-	-	-	77.321	77.321	(182.472)	(105.151)
<i>Value of the purchased non-controlling interest</i>	-	-	-	-	-	-	182.472	182.472	(182.472)	-
<i>The acquisition cost of shares and stocks in subsidiaries</i>	-	-	-	-	-	-	(105.151)	(105.151)	-	(105.151)
Acquisition of new companies in result of mergers of subsidiaries	-	-	-	-	-	-	(3.126)	(3.126)	(32)	(3.158)
As at 31 December 2011	18.697.837	(777)	(229)	6.292	8.553.143	49.779	13.452.823	40.758.868	414.392	41.173.260

STATEMENT OF CHANGES IN CONSOLIDATED EQUITY

for the period ended 30 June 2011

<i>(reviewed)</i> <i>(restated data)*</i>	Share capital	Revaluation reserve	Treasury shares	Foreign exchange differences from translation	Reserve capital	Other capital reserves	Retained earnings	Total	Non-controlling interest	Total equity
As at 1 January 2011	18.697.837	(1.081)	(229)	945	6.727.589	49.779	11.483.867	36.958.707	595.958	37.554.665
Total comprehensive income for the period	-	1.293	-	(132)	-	-	2.218.790	2.219.951	40.781	2.260.732
Retained earnings distribution	-	-	-	-	1.825.554		(1.825.554)	-	-	-
Dividend	-	-	-	-	-	-	(1.215.780)	(1.215.780)	(27.892)	(1.243.672)
Other changes	-	-	-	-	-	-	(136)	(136)	(36)	(172)
As at 30 June 2011	18.697.837	212	(229)	813	8.553.143	49.779	10.661.187	37.962.742	608.811	38.571.553

* For details on comparative data restatement please refer to Note 6 of these financial statements.

**CONSOLIDATED STATEMENT OF CASH FLOWS**

	Period ended 30 June 2012 (reviewed)	Period ended 30 June 2011 (reviewed) (restated data)*
Cash flow from operating activities		
Profit before tax related to discontinued operations	(251)	1.269
Profit before tax related to continuing operations	3.229.688	2.771.269
Adjustments for:		
Share of profit from associates accounted for under the equity method	(3.437)	(168.413)
Depreciation and amortization	1.430.766	1.325.466
Interest and dividend, net	(35.534)	28.763
Profit / loss on investment activities	(45.818)	(5.166)
Change in receivables	210.743	(50.189)
Change in inventories	(256.497)	(183.491)
Change in liabilities, excluding loans and bank credits	353.735	(134.756)
Change in other non-financial assets, prepayments and accruals, and emission rights	1.637.394	1.142.111
Change in provisions	(1.779.652)	(1.310.376)
Income tax paid	(596.640)	(444.871)
Other	(8.657)	(21.490)
Net cash from operating activities	4.135.840	2.950.126
Cash flow from investing activities		
Disposal of property, plant and equipment and intangible assets	14.059	16.529
Purchase of property, plant and equipment and intangible assets	(2.045.220)	(2.130.382)
Purchase/ disposal of investment property	1.097	-
Disposal of financial assets	2.151.416	20.210
Purchase of financial assets and increase in share capital in Group companies	(6.607)	(85.788)
Purchase/ disposal of subsidiaries after deduction of acquired cash	10.703	-
Dividends received	342	1.533
Interest received	35.097	17.746
Loans repaid	66	134
Other	(284)	(6.310)
Net cash from investing activities	160.669	(2.166.328)

**PGE Polska Grupa Energetyczna S.A.**

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	Period ended 30 June 2012 (reviewed)	Period ended 30 June 2011 (reviewed) (restated data)*
Cash flow from financing activities		
Proceeds from bank credits and issue of bonds	12.877	1.245.636
Repayment of bank credits, bonds and finance lease	(389.578)	(1.780.610)
Dividends paid (including dividend paid to the State Treasury)	(60.395)	(91.533)
Interest paid	(29.606)	(53.643)
Dividend return from non-controlling shareholders	148.260	-
Other	5.104	2.251
Net cash flow from financing activities	(313.338)	(677.899)
Net change of cash and cash equivalents	<u>3.983.171</u>	<u>105.899</u>
Effect of foreign exchange rate changes	(6.144)	3.894
Cash and cash equivalents at the beginning of the period	4.040.902	2.736.858
Cash and cash equivalents at the end of the period, including	8.024.073	2.842.757
Restricted cash	431.321	181.243
Attributed to discontinued operations	2.554	6.111

* For details on comparative data restatement please refer to Note 6 of these financial statements.

EXPLANATORY NOTES

1. General information

PGE Polska Grupa Energetyczna S.A. Group ("Group", "Capital Group", "PGE Group") comprises the parent company PGE Polska Grupa Energetyczna S.A. and subsidiaries (described in Note 3).

Polska Grupa Energetyczna S.A. ("parent company", "the Company", "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.

Company is seated in Warsaw, Mysia Street 2.

As of the day of preparation of these consolidated financial statements, the Company is registered in the National Court Register of the District Court for the capital city of Warsaw, XII Commercial Department of the National Court Register, under no. KRS 0000059307.

Core operations of the Group companies are as follows:

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

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

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

These condensed interim consolidated financial statements of the Capital Group comprise data for the period from 1 January 2012 to 30 June 2012 ("financial statements", "consolidated financial statements").

2. The composition of the Management Board of the Parent Company

As at 1 January 2012 the composition of the Management Board of the Parent Company was as follows:

- Mr. Paweł Skowroński – acting as the President of the Management Board,
- Mr. Wojciech Ostrowski – the Vice-President of the Management Board,
- Mr. Piotr Szymanek – the Vice-President of the Management Board.

In the period from 1 January 2012 until 30 June 2012 following changes in composition of the Management Board took place:

- on 1 March 2012 the Supervisory Board adopted a resolution for the appointment of President of the Management Board – Mr. Krzysztof Kilian, effective 5 March 2012;
- on 1 March 2012 the Supervisory Board adopted a resolution for the appointment of Vice-President of the Management Board – Mrs. Bogusława Matuszewska, effective 5 March 2012.

As at 30 June 2012, the composition of the Management Board was as follows:

- Mr. Krzysztof Kilian – the President of the Management Board,
- Mrs. Bogusława Matuszewska – the Vice-President of the Management Board,
- Mr. Wojciech Ostrowski – the Vice-President of the Management Board,
- Mr. Paweł Skowroński – the Vice-President of the Management Board,
- Mr. Piotr Szymanek – the Vice-President of the Management Board.

After 30 June 2012 until the date of preparation of these financial statements the following changes in the composition of the Management Board took place:

- on 3 July 2012 the Supervisory Board adopted a resolution for the dismissal of Mr. Paweł Skowroński,
- on 14 August 2012 the Supervisory Board adopted a resolution for the appointment of Vice-President of the Management Board – Mr. Paweł Smoleń, effective 1 October 2012.

As of the day of preparation of these financial statements, the composition of the Management Board was as follows:

- Mr. Krzysztof Kilian – the President of the Management Board,
- Mrs. Bogusława Matuszewska – the Vice-President of the Management Board,
- Mr. Wojciech Ostrowski – the Vice-President of the Management Board,
- Mr. Piotr Szymanek – the Vice-President of the Management Board.

3. Structure of the Group

3.1. Entities included in the Group

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

Entity	Share of Group entities as at 30 June 2012	Entity holding shares as at 30 June 2012	Share of Group entities as at 31 December 2011	Entity holding shares as at 31 December 2011
Segment: wholesale				
1. PGE Polska Grupa Energetyczna S.A. Warszawa		The Parent Company of the Group		
2. ELECTRA Deutschland GmbH * Germany	100,00%	PGE Polska Grupa Energetyczna S.A.	100,00%	PGE Polska Grupa Energetyczna S.A.
Segment: mining and conventional energy				
3. PGE Górnictwo i Energetyka Konwencjonalna S.A. Bełchatów	91,20%	PGE Polska Grupa Energetyczna S.A.	91,04%	PGE Polska Grupa Energetyczna S.A.
	7,37%	PGE Obrót S.A.	7,88%	PGE Obrót S.A.
			0,02%	PGE Energia Odnawialna S.A.
PGE Elektrownia Opole S.A. Bełchatów	-	-	93,25%	PGE Polska Grupa Energetyczna S.A.
4. Przedsiębiorstwo Energetyki Ciepłej sp. z o.o. Zgierz	50,97%	PGE Górnictwo i Energetyka Konwencjonalna S.A.	50,97%	PGE Górnictwo i Energetyka Konwencjonalna S.A.
5. Elektrownia Puławy sp. z o.o. Puławy	50,00%	PGE Górnictwo i Energetyka Konwencjonalna S.A.	-	-
6. PWE Gubin sp. z o.o.** Sękowice	100,00%	PGE Polska Grupa Energetyczna S.A.	100,00%	PGE Polska Grupa Energetyczna S.A.
Segment: renewable energy				
7. PGE Energia Odnawialna S.A. Warszawa	100,00%	PGE Polska Grupa Energetyczna S.A.	100,00%	PGE Polska Grupa Energetyczna S.A.
Elektrownia Wiatrowa Kamieński sp. z o.o. Kamieński	-	-	100,00%	PGE Energia Odnawialna S.A.
8. Elektrownia Wiatrowa Resko sp. z o.o. Czymanowo	100,00%	PGE Energia Odnawialna S.A.	100,00%	PGE Energia Odnawialna S.A.
9. Biogazownia Łapy sp. z o.o. Warszawa	100,00%	PGE Energia Odnawialna S.A.	100,00%	PGE Energia Odnawialna S.A.
10. Biogazownia Wózuczyn sp. z o.o. Warszawa	100,00%	PGE Energia Odnawialna S.A.	100,00%	PGE Energia Odnawialna S.A.
11. Elektrownia Wiatrowa Turów sp. z o.o. Warszawa	100,00%	PGE Energia Odnawialna S.A.	100,00%	PGE Energia Odnawialna S.A.
12. Elektrownia Wiatrowa Gniewino sp. z o.o. Czymanowo	100,00%	PGE Energia Odnawialna S.A.	100,00%	PGE Energia Odnawialna S.A.
13. Elektrownia Wiatrowa Baltica-1 sp. z o.o. Warszawa	95,00%	Elektrownia Wiatrowa Gniewino sp. z o.o.	95,00%	Elektrownia Wiatrowa Gniewino sp. z o.o.
	5,00%	Elektrownia Wiatrowa Resko sp. z o.o.	5,00%	Elektrownia Wiatrowa Resko sp. z o.o.

Entity	Share of Group entities as at 30 June 2012	Entity holding shares as at 30 June 2012	Share of Group entities as at 31 December 2011	Entity holding shares as at 31 December 2011
14. Elektrownia Wiatrowa Baltica-2 sp. z o.o. Warszawa	95,00%	Elektrownia Wiatrowa Gniewino sp. z o.o.	95,00%	Elektrownia Wiatrowa Gniewino sp. z o.o.
	5,00%	Elektrownia Wiatrowa Resko sp. z o.o.	5,00%	Elektrownia Wiatrowa Resko sp. z o.o.
15. Elektrownia Wiatrowa Baltica-3 sp. z o.o. Warszawa	95,00%	Elektrownia Wiatrowa Gniewino sp. z o.o.	95,00%	Elektrownia Wiatrowa Gniewino sp. z o.o.
	5,00%	Elektrownia Wiatrowa Resko sp. z o.o.	5,00%	Elektrownia Wiatrowa Resko sp. z o.o.
16. Bio-Energia S.A. Warszawa	100,00%	PGE Energia Odnawialna S.A.	100,00%	PGE Energia Odnawialna S.A.
Segment: distribution				
17. PGE Dystrybucja S.A. Lublin	89,91%	PGE Obrót S.A.	89,91%	PGE Obrót S.A.
	10,05%	PGE Polska Grupa Energetyczna S.A.	10,05%	PGE Polska Grupa Energetyczna S.A.
Segment: retail sale				
18. PGE Obrót S.A. Rzeszów	99,55%	PGE Polska Grupa Energetyczna S.A.	99,31%	PGE Polska Grupa Energetyczna S.A.
Segment: other				
19. EXATEL S.A. Warszawa	94,938%	PGE Polska Grupa Energetyczna S.A.	94,938%	PGE Polska Grupa Energetyczna S.A.
	0,537%	PGE Inwest sp. z o.o.	0,537%	PGE Inwest sp. z o.o.
	0,137%	PGE Obrót S.A.	0,137%	PGE Obrót S.A.
	0,001%	PGE Dystrybucja S.A.	0,001%	PGE Dystrybucja S.A.
20. MEGA sp. z o.o. Miłocin	75,01%	PGE Energia Odnawialna S.A.	75,01%	PGE Energia Odnawialna S.A.
21. ELBIS sp. z o.o. Rogowiec	100,00%	PGE Górnictwo i Energetyka Konwencjonalna S.A.	100,00%	PGE Górnictwo i Energetyka Konwencjonalna S.A.
22. MEGAZEC sp. z o.o. Bydgoszcz	100,00%	PGE Górnictwo i Energetyka Konwencjonalna S.A.	100,00%	PGE Górnictwo i Energetyka Konwencjonalna S.A.
23. ELBEST sp. z o.o. Bełchatów	91,31%	PGE Górnictwo i Energetyka Konwencjonalna S.A.	91,19%	PGE Górnictwo i Energetyka Konwencjonalna S.A.
	7,50%	PGE Dystrybucja S.A.	7,60%	PGE Dystrybucja S.A.
	1,11%	PGE Obrót S.A.	1,12%	PGE Obrót S.A.
	0,09%	PGE Energia Odnawialna S.A.	0,09%	PGE Energia Odnawialna S.A.
24. "Energoserwis – Kleszczów" sp. z o.o. Kleszczów	51,00%	ELBIS sp. z o.o.	51,00%	ELBIS sp. z o.o.
25. Niepubliczny Zakład Opieki Zdrowotnej "MegaMed" sp. z o.o.*** Bełchatów	100,00%	PGE Górnictwo i Energetyka Konwencjonalna S.A.	97,40%	PGE Górnictwo i Energetyka Konwencjonalna S.A.
			2,60%	PGE Elektrownia Opole S.A.
26. "ELMEN" sp. z o.o. Rogowiec	100,00%	ELBIS sp. z o.o.	100,00%	ELBIS sp. z o.o.
27. "EnBud" sp. z o.o. w likwidacji Czymanowo	100,00%	PGE Energia Odnawialna S.A.	100,00%	PGE Energia Odnawialna S.A.

Entity	Share of Group entities as at 30 June 2012	Entity holding shares as at 30 June 2012	Share of Group entities as at 31 December 2011	Entity holding shares as at 31 December 2011
Dychowskie Przedsiębiorstwo Eksploatacji Elektrowni "ELDEKS" sp. z o.o. <i>Dychów</i>	-	-	100,00%	PGE Energia Odnawialna S.A.
28. "ESP Usługi" sp. z o.o. w likwidacji <i>Warszawa</i>	100,00%	PGE Energia Odnawialna S.A.	100,00%	PGE Energia Odnawialna S.A.
29. Budownictwo Hydroenergetyka - Dychów sp. z o.o. <i>Dychów</i>	100,00%	PGE Energia Odnawialna S.A.	100,00%	PGE Energia Odnawialna S.A.
30. Przedsiębiorstwo Usługowo- Produkcyjne "ELTUR-SERWIS" sp. z o.o. <i>Bogatynia</i>	100,00%	PGE Górnictwo i Energetyka Konwencjonalna S.A.	100,00%	PGE Górnictwo i Energetyka Konwencjonalna S.A.
31. Przedsiębiorstwo Produkcji Sorwentów i Rekultywacji "ELTUR- WAPORE" sp. z o.o. <i>Bogatynia</i>	100,00%	PGE Górnictwo i Energetyka Konwencjonalna S.A.	100,00%	PGE Górnictwo i Energetyka Konwencjonalna S.A.
32. Przedsiębiorstwo Usługowo- Produkcyjne "TOP SERWIS" sp. z o.o. <i>Bogatynia</i>	100,00%	Przedsiębiorstwo Usługowo-Produkcyjne ELTUR-SERWIS sp. z o.o.	100,00%	Przedsiębiorstwo Usługowo-Produkcyjne ELTUR-SERWIS sp. z o.o.
33. ENESTA sp. z o.o. <i>Stalowa Wola</i>	84,85%	PGE Dystrybucja S.A.	84,85%	PGE Dystrybucja S.A.
	2,48%	PGE Górnictwo i Energetyka Konwencjonalna S.A.	2,48%	PGE Górnictwo i Energetyka Konwencjonalna S.A.
34. NOM sp. z o.o. <i>Warszawa</i>	100,00%	EXATEL S.A.	100,00%	EXATEL S.A.
35. ENERGO-TEL S.A. <i>Warszawa</i>	51,10%	EXATEL S.A.	51,10%	EXATEL S.A.
	48,90%	NOM sp. z o.o.	48,90%	NOM sp. z o.o.
36. RAMB sp. z o.o. <i>Piaski</i>	100,00%	PGE Górnictwo i Energetyka Konwencjonalna S.A.	100,00%	PGE Górnictwo i Energetyka Konwencjonalna S.A.
	98,65%	PGE Górnictwo i Energetyka Konwencjonalna S.A.	98,65%	PGE Górnictwo i Energetyka Konwencjonalna S.A.
37. Przedsiębiorstwo Transportowo- Sprzętowe "BETRANS" sp. z o.o. <i>Bełchatów</i>	1,16%	PGE Dystrybucja S.A.	1,16%	PGE Dystrybucja S.A.
	0,17%	PGE Obrót S.A.	0,17%	PGE Obrót S.A.
	0,02%	PGE Energia Odnawialna S.A.	0,02%	PGE Energia Odnawialna S.A.
38. Przedsiębiorstwo Wulkanizacji Taśm i Produkcji Wyróbów Gumowych BESTGUM POLSKA sp. z o.o. <i>Rogowiec</i>	100,00%	PGE Górnictwo i Energetyka Konwencjonalna S.A.	100,00%	PGE Górnictwo i Energetyka Konwencjonalna S.A.
39. ELECTRA Bohemia s.r.o. <i>Czechy</i>	100,00%	PGE Polska Grupa Energetyczna S.A.	100,00%	PGE Polska Grupa Energetyczna S.A.
40. Przedsiębiorstwo Transportowo- Usługowe "ETRA" sp. z o.o. <i>Białystok</i>	100,00%	PGE Dystrybucja S.A.	100,00%	PGE Dystrybucja S.A.
41. Przedsiębiorstwo Produkcyjno- Handlowe EKTO sp. z o.o. <i>Białystok</i>	100,00%	PGE Dystrybucja S.A.	100,00%	PGE Dystrybucja S.A.
42. Energetyczne Systemy Pomiarowe sp. z o.o. <i>Białystok</i>	100,00%	PGE Dystrybucja S.A.	100,00%	PGE Dystrybucja S.A.
43. „EPO” sp. z o.o. <i>Opole</i>	50,00%	PGE Górnictwo i Energetyka Konwencjonalna S.A.	50,00%	PGE Elektrownia Opole S.A.



PGE Polska Grupa Energetyczna S.A.

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Entity	Share of Group entities as at 30 June 2012	Entity holding shares as at 30 June 2012	Share of Group entities as at 31 December 2011	Entity holding shares as at 31 December 2011
44. Zakład Obsługi Energetyki sp. z o.o. Zgierz	100,00%	PGE Dystrybucja S.A.	100,00%	PGE Dystrybucja S.A.
45. PGE Serwis sp. z o.o. w likwidacji Warszawa	100,00%	PGE Polska Grupa Energetyczna S.A.	100,00%	PGE Polska Grupa Energetyczna S.A.
46. PGE Systemy S.A. Warszawa	100,00%	PGE Polska Grupa Energetyczna S.A.	100,00%	PGE Polska Grupa Energetyczna S.A.
47. PGE Inwest sp. z o.o. Warszawa	100,00%	PGE Polska Grupa Energetyczna S.A.	100,00%	PGE Polska Grupa Energetyczna S.A.
48. PGE Inwest spółka z ograniczoną odpowiedzialnością II S.K.A. w likwidacji Warszawa	100,00%	PGE Polska Grupa Energetyczna S.A.	100,00%	PGE Polska Grupa Energetyczna S.A.
49. PGE Energia Jądrowa S.A. Warszawa	100,00%	PGE Polska Grupa Energetyczna S.A.	100,00%	PGE Polska Grupa Energetyczna S.A.
50. PGE EJ 1 sp. z o.o. Warszawa	51,00%	PGE Energia Jądrowa S.A.	51,00%	PGE Energia Jądrowa S.A.
	49,00%	PGE Polska Grupa Energetyczna S.A.	49,00%	PGE Polska Grupa Energetyczna S.A.
51. PGE Dom Maklerski S.A. Warszawa	100,00%	PGE Polska Grupa Energetyczna S.A.	-	-

* on 1 August 2012 the name and seat of the ELECTRA Deutschland GmbH were changed. The current name and seat are: PGE Trading GmbH with its seat in Berlin

** on 16 April 2012 the change of the company's name to PGE Gubin sp. z o.o. was registered in the National Court Register. The company's seat was moved to Gubin.

*** on 10 July 2012 the change of the company's name to MegaMed sp. z o.o. was registered in the National Court Register.

Changes in the structure of the PGE Group companies which are subject to full consolidation, and which took place during the period ended 30 June 2012 and until the date of preparation of these financial statements, are mentioned in the table above and include inter alia following transformations:

- On 2 January 2012 merger of PGE Energia Odnawialna S.A. (the taking over company) with "Elektrownia Wiatrowa Kamieński" sp. z o.o. and Dychowskie Przedsiębiorstwo Eksploatacji Elektrowni "ELDEKS" sp. z o.o. (the acquired companies) was registered.
- On 2 January 2012 the division of Przedsiębiorstwo Transportowo Sprzętowe "BETRANS" sp. z o.o. and transfer of the part of its assets to "ELBEST" sp. z o.o. were registered.
- On 1 February 2012 PGE Dom Maklerski S.A. (a brokerage house) was established. On 19 April 2012 the company was registered in the National Court Register.
- On 12 March 2012 merger of PGE Górnictwo i Energetyka Konwencjonalna S.A. and PGE Elektrownia Opole S.A. was registered. Impact of the merger on the equity structure of PGE Capital Group was described in note 15.2 of these financial statements.
- On 18 June 2012 the Agreement on purchase of shares of Elektrownia Puławy sp. z o.o. was signed, under which PGE Górnictwo i Energetyka Konwencjonalna S.A. purchased 11.074 shares that represent 50% of share capital.
- On 20 June 2012 the Management Board of Przedsiębiorstwo Produkcyjno-Handlowe EKTO sp. z o.o. seated in Białystok submitted to the District Court in Białystok petition for bankruptcy with the possibility to make an arrangement. The District Court on 6 July 2012 issued resolution under which proceedings in this case were terminated. Therefore on 9 July 2012 the Management of the company submitted in the District Court in Białystok declaration on initiating reorganization proceedings.
- On 6 July 2012 the liquidation process of ELECTRA Bohemia s.r.o. seated in the Czech Republic started.

Apart from the above mentioned, during year 2011 conditional shares purchase agreements of new companies were signed, however, as at 30 June 2012 these companies are not part of the Capital Group:

- On 25 May 2011 PGE Energia Odnawialna S.A. entered into a conditional purchase agreement with Spanish Gamesa Energia S.A.U. to purchase 100% shares in the company Pelplin sp. z o.o. According to the terms of the agreement the transaction was to be finalized and PGE Energia Odnawialna S.A. was to become a 100%-shareholder after the investment is put into usage. Eventually PGE Energia Odnawialna S.A. purchased Pelplin sp. z o.o. on 2 August 2012.
- On 28 September 2011 PGE Energia Odnawialna S.A. concluded another conditional purchase agreement with Spanish company Gamesa Energia S.A.U. concerning purchase of 100% shares in Żuromin sp. z o.o. According to the terms of the agreement PGE Energia Odnawialna S.A. will become a 100%-shareholder after the investment is put into usage.

4. The basis for the preparation of the financial statements

Statement of compliance

These Condensed Interim Consolidated Financial Statements of PGE Polska Grupa Energetyczna S.A. were prepared in accordance with International Accounting Standard 34 *Interim financial reporting*, in accordance with International Accounting Standards, which regard interim financial reporting as adopted by the European Union, published and effective during the period of preparation of these financial statements and in the scope required under the Minister of Finance Regulation of 19 February 2009 on current and periodic information provided by issuers of securities and conditions of recognition as equivalent information required by the law of a non-Member State (Official Journal no. 33, item 259) (“Regulation”).

International Financial Reporting Standards (“IFRS”) include standards and interpretations accepted by the International Accounting Standards Board (“IASB”) and the International Financial Reporting Standards Interpretations Committee (IFRIC).

These consolidated financial statements are prepared based on the same accounting policy and methods of computation as compared with the most recent annual consolidated financial statements. Financial statements are to be read together with the audited consolidated financial statements of the Capital Group PGE Polska Grupa Energetyczna S.A. prepared in accordance with IFRS for the year ended 31 December 2011.

General rules of preparation

These financial statements were prepared under the assumption that the Company will continue to operate as a going concern in the foreseeable future. As at the date of preparation of these financial statements, there is no evidence indicating that the Company will not be able to continue its operations as a going concern.

With regards to financial reporting obligations resulting from listing of the parent company PGE Polska Grupa Energetyczna S.A., the Management Board decided to implement the International Financial Reporting Standards (IFRS) as adopted by the European Union (EU). The first consolidated financial statement of the PGE Group comprising a statement of unconditional compliance with IFRS were the consolidated financial statements prepared for the year ended 31 December 2007.

The most significant entities of the Capital Group PGE Polska Grupa Energetyczna S.A. maintain their accounting books in accordance with the IFRS approved by the EU. ELECTRA Deutschland GmbH and ELECTRA Bohemia s.r.o., seated in Germany and Czech Republic, maintain their accounting books in compliance with German and Czech reporting regulations respectively. The accounting books in other entities are maintained in accordance with the accounting policies (rules) specified in the Accounting Act dated 29 September 1994 (“the Accounting Act”) and related bylaws, and other regulations published on their basis, therefore the consolidated financial statements includes 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 adopted by the EU.

5. Presentation currency

The financial statements are presented in Polish Zloty („PLN”) and all amounts are in PLN thousand, unless indicated otherwise.

The following exchange rates were applied to valuation of positions of the statement of financial position:

	30 June 2012	31 December 2011	30 June 2011
USD	3,3885	3,4174	2,7517
EUR	4,2613	4,4168	3,9866

6. Changes in applied accounting policies and data presentation

During the reporting period ended 31 December 2011 the Group changed selected accounting principles relating to recognition of greenhouse gas emission allowances and presentation of selected positions of assets, liabilities, revenues and expenses. The changes were designed in order to give the most true and fair view of economic performance as well as assets and liabilities.

Changes in applied accounting principles relating to recognition of carbon dioxide emission rights and provision relating to gas emissions

In prior reporting periods PGE Group companies recognized European Union Allowances for carbon emission (EUA) received free of charge within the National Allowances Allocation Plan (NAAP) in zero value. In turn, the provision for liabilities relating to gas emissions included in the system of emission allowances was created, when the real emission and production plans showed a shortage of emission rights in the whole settlement period. Companies settled the shortage of emission rights on the basis of allowances allocation in the settlement period in accordance with the planned production and emission for the particular period.

In accordance with the updated accounting Policy the received free of charge EUA within the NAAP are evidenced at the beginning of the period, for which they were allocated, in the fair value as at first recognition. The EUA received free of charge are recognized in correspondence with deferred income. During the reporting period EUA are settled in equal instalments from the position of deferred income in correspondence with adequate positions of statement of comprehensive income. In turn the provision for liabilities relating to the CO₂ emission is recorded in relation to total CO₂ emission. The cost of the provision in line with the settlement of EUA from the position of deferred income is presented in the statement of comprehensive income after compensation.

Change in valuation of financial instruments and selected assets, liabilities, revenues and expenses

The Capital Group changed the presentation of selected revenues and expenses. Additionally the Group changed within the assets and liabilities presentation of accrued income of electric energy (the estimation of electric energy that was not read on measuring instruments as at the balance sheet date) and adjusted valuation of selected financial instruments.

Therefore, the Group restated data presented in the consolidated statement of financial position, consolidated statement of comprehensive income, statement of changes in consolidated equity and consolidated statement of cash flows for the comparative period as at 30 June 2011 and for the period ended that date. The restatement is presented in tables below. Information presented in explanatory notes to these financial statements was restated accordingly.



PGE Polska Grupa Energetyczna S.A.

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CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Period ended 30 June 2011 (published)	Change in presenting revenues, expenses and adjustment of CO ₂	Period ended 30 June 2011 (restated data)
Operating activities			
Sales of finished foods and merchandise with excise tax	13.375.441	-	13.375.441
Excise tax	(218.676)	-	(218.676)
Revenues from sale of products and merchandise	13.156.765	-	13.156.765
Revenues from services rendered	439.538	-	439.538
Revenues from lease	15.802	-	15.802
Revenues from LTC compensations	303.227	-	303.227
Total sales revenue	13.915.332	-	13.915.332
Costs of goods sold	(10.043.079)	(36.289)	(10.079.368)
Gross profit on sales	3.872.253	(36.289)	3.835.964
Other operating revenues	118.157	-	118.157
Distribution and selling expenses	(785.279)	(20.111)	(805.390)
General and administrative expenses	(352.313)	(10.705)	(363.018)
Other operating expenses	(189.321)	64.363	(124.958)
Profit from operations	2.663.497	(2.742)	2.660.755
Financial revenues	149.202	(23.031)	126.171
Financial expenses	(207.101)	23.031	(184.070)
Share of profit of associate	168.413	-	168.413
Profit before tax	2.774.011	(2.742)	2.771.269
Corporate income tax	(513.231)	521	(512.710)
Net profit from continuing operations	2.260.780	(2.221)	2.258.559
Discontinued operations			
Profit/ (loss) for the period on discontinued operations	1.012	-	1.012
Net profit for the operating period	2.261.792	(2.221)	2.259.571
Other comprehensive income for the period, net	1.161	-	1.161
TOTAL COMPREHENSIVE INCOME	2.262.953	(2.221)	2.260.732
Net profit attributable to:			
- equity holders of the parent company	2.220.232	(1.442)	2.218.790
- non-controlling interest	41.560	(779)	40.781
Total comprehensive income attributable to :			
- equity holders of the parent company	2.221.393	(1.442)	2.219.951
- non controlling interest	41.560	(779)	40.781
Earnings per share (in PLN)			
- basic earnings per share for the period	1,19	-	1,19
- basic earnings from the continuing operations	1,19	-	1,19

**PGE Polska Grupa Energetyczna S.A.**

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CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	As at 30 June 2011 (published)	Adjustment of CO ₂	As at 30 June 2011 (restated data)
Current assets			
Inventories	1.274.040	-	1.274.040
Emission rights	-	2.968.279	2.968.279
Income tax receivables	29.384	-	29.384
Trade receivables	1.541.624	-	1.541.624
Other loans and financial assets	918.137	-	918.137
Available-for-sale short-term financial assets	6.689	-	6.689
Other current assets	1.297.503	(126.793)	1.170.710
Cash and cash equivalents	2.838.477	-	2.838.477
Assets classified as held for-sale	1.328.380	-	1.328.380
Current assets related to discontinued operations	12.306	-	12.306
Total current assets	9.246.540	2.841.486	12.088.026



PGE Polska Grupa Energetyczna S.A.

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CONSOLIDATED STATEMENT OF FINANCIAL POSITION (continued)

	As at 30 June 2011 (published)	Adjustment of CO ₂	As at 30 June 2011 (restated data)
Equity attributable to equity holders of the parent			
Share capital	18.697.837	-	18.697.837
Revaluation reserve	212	-	212
Treasury shares	(229)	-	(229)
Foreign exchange differences from translation of foreign entities	813	-	813
Reserve capital	8.553.143	-	8.553.143
Other capital reserves	49.779	-	49.779
Retained earnings	10.737.203	(76.016)	10.661.187
Non-controlling interest	612.453	(3.642)	608.811
Total equity	38.651.211	(79.658)	38.571.553
Long-term liabilities			
Interest-bearing bank credits, loans, bonds and lease	1.505.824	-	1.505.824
Other liabilities	9.194	-	9.194
Provisions	3.043.614	(31.167)	3.012.447
Deferred tax liabilities	1.396.267	(18.685)	1.377.582
Deferred income and government grants	1.245.343	-	1.245.343
Long-term liabilities related to discontinued operations	1.085	-	1.085
Total long-term liabilities	7.201.327	(49.852)	7.151.475

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION (continued)**

	As at 30 June 2011 (published)	Adjustment of CO₂	As at 30 June 2011 (restated data)
Short-term liabilities			
Trade liabilities	818.548	-	818.548
Financial liabilities at fair value through profit or loss	37.142	-	37.142
Interest-bearing loans, borrowings, bonds and lease	692.263	-	692.263
Other short-term financial liabilities	760.402	-	760.402
Other short-term non-financial liabilities	2.576.665	-	2.576.665
Income tax liabilities	67.768	-	67.768
Deferred income	104.874	1.481.529	1.586.403
Short-term provisions	1.480.970	1.489.467	2.970.437
Short-term liabilities related to discontinued operations	7.606	-	7.606
Total short-term liabilities	6.546.238	2.970.996	9.517.234

**CONSOLIDATED STATEMENT OF CASH FLOWS**

	Period ended 30 June 2011 <i>(published)</i>	Adjustment of CO₂	Period ended 30 June 2011 <i>(restated data)</i>
Cash flow from operating activities			
Profit before tax related to discontinued operations	1.269	-	1.269
Profit before tax related to continuing operations	2.774.011	(2.742)	2.771.269
Adjustments for:			
Share of profit from associates accounted for under the equity method	(168.413)	-	(168.413)
Depreciation and amortization	1.325.466	-	1.325.466
Interest and dividend, net	28.763	-	28.763
Profit /loss on investment activities	(5.166)	-	(5.166)
Change in receivables	(50.189)	-	(50.189)
Change in inventories	(183.491)	-	(183.491)
Change in liabilities excluding loans and bank credits	(134.756)	-	(134.756)
Change in prepayments and accruals	45.344	1.096.767	1.142.111
Change in provisions	(216.351)	(1.094.025)	(1.310.376)
Income tax paid	(444.871)	-	(444.871)
Other	(21.490)	-	(21.490)
Net cash from operating activities	2.950.126	-	2.950.126

7. New standards and interpretations published, not yet effective

The following standards, changes in already effective standards and interpretations are not approved by the European Union and are not effective as at 1 January 2012:

- IFRS 9 *Financial Instruments* (with amendments) – effective for the periods starting 1 January 2015.
- IFRS 10 *Consolidated Financial Statements* – effective for the periods starting 1 January 2013.
- IFRS 11 *Joint Agreements* – effective for the periods starting 1 January 2013.
- IFRS 12 *Disclosure of Interests in Other Entities* – effective for the periods starting 1 January 2013.
- Transitional guidance to IFRS 10, IFRS 11 and IFRS 12 – effective for the periods starting 1 January 2013.
- IFRS 13 *Fair Value Measurement* – effective for the periods starting 1 January 2013.
- IFRIC 20 *Stripping Costs in the Production Phase of a Surface Mine* – effective for the periods starting 1 January 2013.
- Amended IAS 27 *Separate Financial Statements* – effective for the periods starting 1 January 2013.
- Amended IAS 28 *Investments in Associates and Joint Ventures* – effective for the periods starting 1 January 2013.
- Amendments to IFRS 1 *First-time Adoption of International Financial Reporting Standards* (issues related to hyperinflation and the dates) – effective for the periods starting 1 July 2011.
- Amendments to IFRS 1 *First-time Adoption of International Financial Reporting Standards* (issues related to government loans) – effective for the periods starting 1 January 2013.
- Amendments to IFRS 7 *Financial Instruments: Disclosures* – effective for the periods starting 1 January 2013.
- Amendments to IAS 12 *Income Taxes* – effective for the periods starting 1 January 2012.
- Amendments to IAS 32 *Financial Instruments: Presentation* – effective for the periods starting 1 January 2014.
- Amendments to different IFRS – effective for the periods starting 1 January 2013.

The following standards, changes in already effective standards and interpretations are approved by the European Union but are not effective as at 1 January 2012:

- Amendments to IAS 1 *Presentation of Financial Statements* – effective for the periods starting 1 July 2012,
- Amended IAS 19 *Employee Benefits* – effective for the periods starting 1 January 2013.

The influence of new regulations on future financial statements of the Company

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

Amended IAS 19 introduces a new presentation of actuarial gains and losses in the statement of comprehensive income. In accordance with accounting principles applied by the Group, all actuarial gains and losses are recognized in net profit for the period. Amended IAS 19 regulates, that the actuarial gains and losses relating to provisions for post-employment benefits are recognized in other comprehensive income. In the case of significant actuarial gains and losses in the following periods, amended IAS 19 might have a significant impact on costs and net financial result presented by the Group. If PGE Capital Group adopted the amended IAS 19 to prepare the consolidated financial statements for the year ended 31 December 2011, the consolidated gross profit would be lower by approximately PLN 63.227 thousand. The Group did not adjust actuarial assumptions in the foregoing financial statements.

New interpretation of IFRIC 20 unifies the recognition of stripping costs in the production phase of a surface mine. According to currently applied accounting policy the Group recognizes such costs in the statement of comprehensive income the moment the cost is incurred. If the Group's entities would fulfil the criteria presented in IFRIC 20, a part of the above mentioned costs would be recognized as asset and subsequently amortized. As at the date of preparation of these financial statements the Company is in the process of analyzing the eventual impact of the interpretation on future financial statements.

Other standards, interpretations and their changes should have no significant impact on future financial statements of the PGE Capital Group.

8. Change of estimates

In the period covered by the consolidated financial statements, the following significant changes to estimates influencing the numbers presented in the consolidated financial statements 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 estimations are presented in Note 17 of these financial statements.
- During the reporting period the Group updated the value of impairment allowances on financial and other assets. The changes are described in Note 10 and 11 of these financial statements.

9. Operating segments

The Group presents the business segments in accordance with IFRS 8 *Operating segments* for the current and comparative reporting period. The Group reporting is based on business segments:

- Conventional Energy includes exploration and mining of lignite and production of energy in the Group's 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. Assignment of particular entities to operating segments is described in Note 3 of these financial statements. Transactions between segments are settled within the Group as if they were concluded with third parties – under market conditions.

Seasonality of business segments

Atmospheric conditions cause seasonality of demand for electricity and heat, and have an impact on technical and economic conditions of their production, distribution and transmission, and thus influence the results obtained by the companies of PGE Group.

The level of electricity sales per year is variable and depends primarily on air temperature and day length. As a rule, lower air temperature in winter and shorter days cause the growth of electricity demand, while higher temperatures and longer days during the summer contribute to its decline. Moreover, seasonal changes are evident among selected groups of end users. Seasonality effects are more significant in particular for households than for the industrial sector.

Sales of heat depend in particular on air temperature and are higher in winter and lower in summer.

Changes in presenting business segments

Preparing the consolidated financial statements for the year ended 31 December 2011 the Group introduced changes in presenting results achieved by particular segments and assigned assets and liabilities. According to the new presentation policy consolidation adjustments recognized at the level of the Parent Company are not assigned to particular business segments but presented separately, and they reconcile segment values to consolidated values of the Group. The above mentioned change and updates to accounting policy are described in Note 6 of these financial statements and resulted in data restatement of comparatives.

Information on business segments

Period ended 30 June 2012	Segment: Conventional energy	Segment: Renewable energy	Segment: Wholesale	Segment: Distribution	Segment: Retail sale	Other activities	Consolidation adjustments	Total continued operations
Revenues								
Revenues from sales to external	6.812.700	279.531	541.213	537.707	6.298.169	424.800	20.813	14.950.933
Revenues from sales between segments	393.506	7.927	4.597.269	2.189.841	100.733	390.652	(7.679.928)	-
Total revenues from segments	7.206.206	287.458	5.138.482	2.763.548	6.398.902	815.452	(7.659.115)	14.950.933
Result								
EBIT *)	2.227.441	78.918	153.626	604.875	58.258	(2.538)	(16.868)	3.103.712
EBITDA **)	3.072.552	146.209	163.497	1.069.658	62.584	52.049	(32.071)	4.534.478
Net financial revenues (expenses)								122.539
Share profit of associates								3.437
Profit before tax								3.229.688
Income tax								(705.170)
Net profit for the reporting period								2.524.518
Assets and liabilities								
Assets of the segments excluding trade receivables	31.201.123	1.930.083	514.356	14.220.570	733.479	1.145.105	(858.360)	48.886.356
Trade receivables	291.386	63.971	552.068	377.067	1.214.281	281.358	(993.992)	1.814.139
Shares in associates								57.996
Unallocated assets								9.230.522
Total assets								59.989.013
Liabilities of the segment excluding trade liabilities	8.030.367	95.411	3.920.900	1.372.341	1.609.133	384.421	1.798	15.414.371
Trade liabilities	519.410	20.759	405.547	185.544	501.445	181.326	(962.058)	851.973
Unallocated liabilities								3.500.321
Total liabilities								19.766.665
Other information on business segments								
Capital expenditure	1.026.434	23.438	1.463	504.502	2.237	55.493	(59.619)	1.553.958
Impairment allowances on financial and non-financial assets	9.074	5.877	19.579	611	17.247	(60)	(4.131)	48.197
Amortization, depreciation and impairment allowances	845.111	67.291	9.872	464.783	4.326	54.588	(15.205)	1.430.766
Other non-monetary expenses***)	1.139.949	5.552	(5.964)	78.069	645.503	25.040	(4.937)	1.883.212

*) EBIT = profit (loss) before tax and financial revenues / expenses

**) EBITDA = EBIT + depreciation + amortization

***) Non-cash charges of provisions for inter alia: retirement benefits, recultivation, CO₂ emission rights, jubilee benefits, employee tariff



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Period ended 30 June 2011 (restated data)	Segment: Conventional energy	Segment: Renewable energy	Segment: Wholesale	Segment: Distribution	Segment: Retail sale	Other activities	Consolidation adjustments	Total continued operations
Revenues								
Revenues from sales to external	6.374.715	259.152	404.440	415.700	6.062.433	382.262	16.630	13.915.332
Revenues from sales between segments	340.057	13.598	4.669.010	2.196.417	164.905	467.994	(7.835.981)	-
Total revenues from segments	6.714.772	272.750	5.073.450	2.612.117	6.227.338	850.256	(7.835.351)	13.915.332
Result								
EBIT *)	2.018.950	41.981	108.403	416.059	85.691	20.423	(30.752)	2.660.755
EBITDA **)	2.765.124	106.622	120.485	865.597	90.060	76.840	(38.503)	3.986.225
Net financial revenues (expenses)								(57.899)
Share profit of associates								168.413
Profit before tax								2.771.269
Income tax								(512.710)
Net profit for the reporting period								2.258.559
Assets and liabilities								
Assets of the segments excluding trade receivables	30.299.801	1.803.065	2.809.448	13.682.564	1.143.841	1.068.979	(3.098.321)	47.709.377
Trade receivables	219.957	16.677	615.641	249.437	1.124.122	237.670	(921.880)	1.541.624
Shares in associates								59.146
Unallocated assets								5.930.115
Total assets								55.240.262
Liabilities of the segment excluding trade liabilities	9.381.115	202.870	1.662.087	1.701.486	1.872.602	294.405	(2.916.532)	12.198.033
Trade liabilities	536.655	7.841	384.039	186.434	452.300	123.004	(871.725)	818.548
Unallocated liabilities								3.652.128
Total liabilities								16.668.709
Other information on business segments								
Capital expenditure	1.160.071	68.785	3.654	392.792	1.885	46.248	(62.729)	1.610.706
Impairment allowances on financial and non-financial assets	11.169	117	212	526	749	(391)		12.382
Amortization, depreciation and impairment allowances	746.174	64.641	12.081	449.538	4.369	56.417	(7.750)	1.325.470
Other non-monetary expenses***)	1.636.272	4.323	11.948	89.633	597.146	6.614	7.926	2.353.862

*) EBIT = profit (loss) before tax and financial revenues / expenses

**) EBITDA = EBIT + depreciation + amortization

***) Non-cash charges of provisions for inter alia: retirement benefits, recultivation, CO₂ emission rights, jubilee benefits, employee tariff

10. Revenues and expenses

10.1. Sales revenues

	6 months ended 30 June 2012	6 months ended 30 June 2011
Revenues from operating activities		
<i>Sales of finished goods and merchandise with excise tax</i>	14.629.733	13.375.441
<i>Excise tax</i>	(227.090)	(218.676)
Revenues from sale of finished goods and merchandise	14.402.643	13.156.765
Revenues from sale of services	423.446	439.538
Revenues from lease	17.370	15.802
Revenues from LTC compensations	107.474	303.227
Total sales revenues	14.950.933	13.915.332

The issue of revenues from LTC compensations is described in Note 26.1 of these financial statements.

10.2. Costs by type and functions

	6 months ended 30 June 2012	6 months ended 30 June 2011 (restated data)
Cost by type		
Depreciation/amortization	1.430.766	1.325.470
Materials and energy	2.102.033	1.939.077
External services	1.208.181	1.201.923
Taxes and charges	1.237.252	1.156.384
Personnel expenses	2.192.563	2.040.195
Other costs by type	164.622	124.369
Total costs by type	8.335.417	7.787.418
Change in inventories	(20.326)	(34.257)
Cost of products and services for the entity's own needs	(356.835)	(383.580)
Distribution and selling expenses	(836.081)	(805.390)
General and administrative expenses	(359.287)	(363.018)
Cost of merchandise and materials sold	4.113.971	3.878.195
Cost of goods sold	10.876.859	10.079.368

As it was described in Note 6 to these financial statements, while preparing the consolidated financial statements for the year ended 31 December 2011, the Capital Group changed selected accounting principles regarding the recognition of greenhouse emission rights and presentation of selected positions of revenues and costs. In order to ensure comparability particular positions of costs by type for the period ended 30 June 2011 has been restated appropriately.

10.3. Other operating revenues and expenses

Other operating revenues	6 months ended 30 June 2012	6 months ended 30 June 2011
Adjustment of settlement related to LTC compensation	130.318	-
Profit on disposal of property, plant and equipment	9.954	6.353
Reversal of impairment allowances for receivables	13.139	14.499
Reversal of impairment allowances for other assets	312	577
Provisions reversed	48.829	16.952
Compensations, penalties and fines received	111.163	52.520
Grants received	8.184	5.812
Taxes refunded	6.071	1.640
Court fees refunded	1.705	1.222
Redemption of liabilities	133	28
Assets acquired free of charge	15.444	1.712
Re-invoiced revenues	-	6
Surpluses / disclosures of assets	12.692	117
Revenues from illegal energy consumption	3.541	3.593
Other	10.755	13.126
Total other operating revenues	372.240	118.157

The issue of an adjustment of settlement related to LTC compensation presented in the table above was described in Note 26.1 of these financial statements.

Other operating expenses	6 months ended 30 June 2012	6 months ended 30 June 2011 (restated data)
Impairment allowances raised for receivables	53.398	17.803
Impairment allowances raised for other assets	6.102	4.959
Loss on disposal of property, plant and equipment and intangible assets	240	1.083
Provisions raised	37.894	25.704
Donations granted	2.570	635
Compensation paid	1.985	1.574
Court fees paid	3.579	2.768
Liquidation of damages/ removal of failures	9.544	34.385
Scrapping of non-current assets	6.120	9.994
Forgiveness of receivables	2.572	3.619
Costs of social activities	2.169	3.056
Settlement of inventory surplus	5.860	-
Other	15.201	19.378
Total other operating expenses	147.234	124.958

10.4. Financial revenues and expenses

Financial revenues	6 months ended 30 June 2012	6 months ended 30 June 2011 (restated data)
Financial revenue from financial instruments	294.928	123.325
Dividends	818	1.729
Interest income	211.676	84.797
Revaluation / Reversal of impairment allowance	4.643	6.825
Profit on disposal of investments	41.740	3.895
Exchange gains	36.051	26.079
Other financial revenues	6.823	2.846
Interest on statutory receivables	3.249	43
Provision reversed	2.161	1.272
Other	1.413	1.531
Total financial revenues	301.751	126.171

Profit on disposal of investment refer primarily to disposal of minority interest in Towarowa Gielda Energii S.A.

Financial expenses	6 months ended 30 June 2012	6 months ended 30 June 2011 (restated data)
Financial expenses from financial instruments	77.205	88.958
Interest expenses	50.730	71.822
Revaluation	687	1.676
Impairment losses	1.244	4.098
Loss on disposal of investments	-	169
Exchange losses	24.544	11.193
Other financial expenses	102.007	95.112
Interest expenses (including effect of discount unwinding)	99.781	92.392
Interest paid relating to state liabilities	1.421	494
Other	805	2.226
Total financial expenses	179.212	184.070

11. Impairment allowances of assets – recognition and reversal

	6 month ended 30 June 2012	6 month ended 30 June 2011
Impairment allowances on property plant and equipment		
- impairment allowance raised	3.670	2.446
- impairment allowance reversed	303	1.943
Impairment allowances on inventories		
- impairment allowance raised	26.610	14.576
- impairment allowance reversed	16.369	2.697

The above impairment allowance of inventories related mainly to energy origin rights and was raised due to significant decline in the market value of these assets.

Moreover impairment allowances raised and reversed for financial assets are described in Note 10 of these financial statements.

Prepayment (loan) granted Vattenfall AB

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 28 May 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. Taking into consideration the character of transactions mentioned above, 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 in the financial statements prepared in accordance with IFRS.

The prepayments were settled under the execution of the above mentioned agreement which terminated in 2010. During the reporting period the Company undertook proceedings in order to finalize the issue of prepayments remaining after the termination of the agreement with VAB. As the date of preparation of these financial statements PGE S.A. signed agreements under which restructuring of SwePol Link AB as well as settlement of prepayments between parties will occur. Accordingly, the Management Board of the Company is deeply convinced about collectability of prepayments presented in statement of financial position as at 30 June 2012.

12. Income tax

	6 month ended 30 June 2012	6 month ended 30 June 2011 (restated data)
Income tax presented in the statement of comprehensive income		
Current income tax	605.098	296.433
Deferred income tax	100.072	216.277
Total	705.170	512.710

Moreover the Capital Group recognized deferred tax liability of PLN 303 thousand in other comprehensive income in the period ended 30 June 2011 and amount of PLN 182 thousand due to reversal of deferred tax asset in the period ended 30 June 2012.

13. Deferred tax asset and liability

Components of deferred tax liability

	As at 30 June 2012	As at 31 December 2011
1996-2000 investment relief	857	997
Difference between tax value and carrying value of property, plant and equipment	1.733.652	1.609.978
Accrued interest on deposits, loans granted, bonds and receivables	52.156	78.081
Difference between tax value and carrying value of other financial assets	5.477	3.614
Difference between tax value and carrying value of financial liabilities	9.888	10.012
Current period revenues unrealized for tax purposes	126.196	144.730
Difference between tax value and carrying value of energy origin units of ownership	52.886	37.128
Revenues from accrued LTC compensations	709.765	588.597
Upward valuation of revenues	131.513	132.073
CO ₂ emission rights	418.289	544.978
Other	52.818	114.373
Gross deferred tax liability	3.293.497	3.264.561

Components of deferred tax asset

	As at 30 June 2012	As at 31 December 2011
Difference between tax value and carrying value of property, plant and equipment	90.905	96.987
Current period costs not realized for tax purpose	116.927	128.147
Provisions for employee benefits	394.487	386.747
Provisions for recultivation of excavations and recultivation of ash storages	201.715	193.615
Accrued employee bonuses	36.262	16.404
Difference between tax value and carrying value of financial assets	17.264	19.331
Difference between tax value and carrying value of financial liabilities	31.878	30.490
Difference between tax value and carrying value of inventories	27.143	27.474
Payroll and other employee benefits	19.722	33.114
Tax losses	2.613	1.485
Energy infrastructure acquired free of charge and connection payments received	161.596	167.201
Provision due to CO ₂ emission	233.101	588.972
Other provisions	64.168	65.028
Provision for energy origin units	111.858	120.128
Compensations from reversal of LTC	342.557	208.152
Accrued income related to CO ₂ emission rights acquired free of charge	165.150	-
Other	88.388	93.611
Gross deferred tax asset	2.105.734	2.176.886
Impairment allowances on tax asset	(950)	(445)
Deferred tax asset before off-set of balances	2.104.784	2.176.441
After off-set of balances at the Group companies' level the deferred tax of the Group is presented as:		
Deferred tax asset	257.744	296.387
Deferred tax liability	1.446.457	1.384.507

14. Carbon dioxide emission rights

A separate item in the statement of financial position is used for presentation of European Union Allowances (EUA) for carbon emissions, designated for the PGE Group companies' own purposes, and other units redeemed pursuant to greenhouse gas emissions (CER, ERU) – both received free of charge under the National Allowance Plan (NAP) and acquired otherwise. EUA received gratuitously under the NAP are recognized in the records at the beginning of the period for which they were assigned, at fair value effective as at the date of initial recognition. EUA received free of charge are recorded in correspondence with deferred income. Purchased allowances are presented at purchase price.

As at the balance sheet date, units designed for own use are tested for impairment together with the respective cash generating unit.

	EUA		CER/ERU		Total Value
	Amount	Value	Amount	Value	
As at 1 January 2012	56.405	3.038.286	8.238	328.702	3.366.988
Purchase	1.900	53.422	2.284	38.816	92.238
Allocation within NAAP	57.042	1.738.417	-	-	1.738.417
Redemption	(54.185)	(2.642.323)	(4.935)	(176.792)	(2.819.115)
Reclassification to/ from inventories	-	-	-	-	-
As at 30 June 2012	61.162	2.187.802	5.587	190.726	2.378.528

15. Share capital

	As at 30 June 2012	As at 31 December 2011
Number of Series A ordinary Shares with a nominal value of 10 PLN each	1.470.576.500	1.470.576.500
Number of Series B ordinary Shares with a nominal value of 10 PLN each	259.513.500	259.513.500
Number of Series C ordinary Shares with a nominal value of 10 PLN each	73.228.888	73.241.482
Number of Series D ordinary Shares with a nominal value of 10 PLN each	66.441.941	66.452.245
Total	1.869.760.829	1.869.783.727

All shares are paid up.

Ownership structure of the Company of the balance sheet date is presented below:

	State Treasury	Other Shareholder	Total
As at 1 January 2012	69,29%	30,71%	100,00%
As at 30 June 2012	61,89%	38,11%	100,00%

The ownership structure as at balance sheet dates was prepared on the basis of data available to the Company.

On 29 February 2012, the State Treasury sold shares in PGE S.A., constituting 7,01% of the share capital of the Company.

In accordance with a notification received from the State Treasury, in result of the above mentioned sale transaction the shareholding in the Company owned by the State Treasury amounts to 61,89%.

After balance sheet date of these financial statements no changes regarding the share capital of the Company occurred.

Treasury shares of the parent company

As a consequence of PGE S.A. merger with PGE Górnictwo i Energetyka S.A. and PGE Energia S.A. in 2010, PGE S.A. acquired 22.898 treasury shares for the amount of PLN 579 thousand. The value of each share was based on the valuation made for purpose of merger. The acquisition of shares had the sole purpose of their redemption. On 30 May 2012 the General Meeting of Shareholders of PGE S.A. adopted a resolution on redemption of shares through decrease of the share capital. On 23 June 2012 the decrease of the share capital was registered in the National Court Register.

15.1. Earnings per share

Basic earnings per share shall be calculated by dividing profit or loss attributable to ordinary equity holders of the Company by the weighted average number of ordinary shares outstanding during the period.

The Company calculates diluted earnings per share by dividing profit or loss attributable to ordinary equity holders of the parent entity (after deduction of interest on redeemable convertible preference shares) by the weighted average number of shares outstanding during the period (adjusted on the number of dilutive options or dilutive redeemable convertible preference shares).

15.2. Changes in value of retained earnings

Settlement of the purchase of additional stock in subsidiaries

In the statement of changes in consolidated equity PGE Capital Group presented cost of purchase of shares in subsidiaries in amount of PLN 70 million. The amount includes:

- purchase of shares of PGE Obrót S.A. from non-controlling shareholders in amount of PLN 20 million;
- purchase of treasury shares by PGE Obrót S.A. in amount of PLN 49 million.

Consolidated equity of PGE Capital Group includes influence of these transactions on ownership structure of subsidiaries, despite the fact that treasury shares of PGE Obrót S.A. have not yet been redeemed. In result of settlement the above transactions the equity attributable to non-controlling shareholders was decreased and retained earnings increased by nearly PLN 94 million.

Merger of PGE Górnictwo i Energetyka Konwencyjna S.A with PGE Elektrownia Opole S.A.

On 12 March 2012 the merger of PGE Górnictwo i Energetyka Konwencyjna S.A. with PGE Elektrownia Opole S.A. was registered. The shareholders of PGE Elektrownia Opole S.A. received shares of PGE Górnictwo i Energetyka Konwencyjna S.A.

In result of this transaction share of the parent company in equity of PGE Górnictwo i Energetyka Konwencyjna S.A. and equity of its subsidiaries changed. Consequently the amount of PLN 37 million was transferred from equity attributable to non-controlling shareholders to retained earnings attributable to equity holders of the parent company.

16. Dividends paid and dividends declared

	Dividends paid from the profit for the period/year ended		
	30 June 2012	31 December 2011	31 December 2010
<i>Cash dividends from ordinary shares</i>			
Dividend paid from retained earnings	-	3,421.662	1,215.345
Dividend paid from other capital reserve	-	-	-
Total cash dividends from ordinary shares	-	3,421.662	1,215.345
Cash dividends per share (in PLN)	-	1,83	0,65

Dividend from the profit for the year 2011

On 30 May 2012 the General Shareholders' Meeting of PGE S.A. adopted a resolution on distribution of the net profit for 2011 of PLN 4,556,115,489,08 and decided to allocate:

- the amount of PLN 3,421,662,317,07, which is PLN 1,83 per share, as dividend payout,
- the amount of PLN 1,134,453,172,01 thousand to reserve capital.

The General Shareholders' Meeting set the dividend date on 22 August 2012 and the repayment date on 6 September 2012.

The declared dividend liabilities are disclosed in the statement of financial position as at 30 June 2012 as other non-financial liabilities.

Dividend from the profit for the period 30 June 2012

During the reporting period and till the day of preparation of these financial statements the Company made no advance payments of dividends.

17. Provisions

	Post-employment benefits	Provisions for jubilee benefits	Provisions for third parties claims	Provisions for legal disputes	Provisions for obligatory redemption of CO ₂ emission rights	Provisions for employee claims	Provisions for recultivation costs	Provisions for scrapping of property, plant and equipment	Provisions for energy origin units held for redemption	Other provisions	TOTAL
As at 1 January 2012	1.226.670	762.532	408.333	127.679	3.099.855	13.926	1.102.039	84.649	633.290	391.768	7.850.741
Actuarial gains and losses	-	-	-	-	-	-	-	-	-	-	-
Costs of past employment	4.025	-	-	-	-	-	-	-	-	-	4.025
Interest costs	36.062	20.900	8.834	-	-	-	29.455	2.231	-	-	97.482
Costs of present employment / provisions used	(35.837)	(27.422)	-	(1.095)	(2.819.115)	(1.155)	(602)	(4.571)	(660.797)	(189.983)	(3.740.577)
Raised during the year	-	-	-	28.164	948.788	525	18.213	-	643.761	338.636	1.978.087
Reversed	-	-	(14.301)	(20.370)	(2.683)	(4.739)	-	-	(27.165)	(30.871)	(100.129)
Transfer to discontinued operations	(1.216)	(2.840)	-	-	-	-	-	-	-	(685)	(4.741)
Other changes	-	14	6	-	-	(840)	1.999	-	922	1.551	3.652
As at 30 June 2012	1.229.704	753.184	402.872	134.378	1.226.845	7.717	1.151.104	82.309	590.011	510.416	6.088.540
Short-term	93.083	94.266	402.872	65.053	1.226.845	2.347	482	404	590.011	322.705	2.798.068
Long-term	1.136.621	658.918	-	69.325	-	5.370	1.150.622	81.905	-	187.711	3.290.472

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

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	Post- employment benefits	Provisions for jubilee awards	Provisions for third parties claims	Provisions for legal disputes	Provisions for obligatory redemption of CO ₂ emission rights	Provisions for employee claims	Provisions for recultivation costs	Provisions for scrapping of property, plant and equipment	Provisions for energy origin units held for redemption	Other provisions	TOTAL
As at 1 January 2011	1.236.661	781.541	350.293	91.529	2.875.058	18.932	930.166	95.441	563.336	350.302	7.293.259
Costs of present employment	26.443	35.534	-	-	-	-	-	-	-	-	61.977
Actuarial gains and losses excluding discount rate adjustment	(25.114)	4.585	-	-	-	-	-	-	-	-	(20.529)
Costs of past employment	9.895	-	-	-	-	-	-	-	-	-	9.895
Revaluation of provision/Discount rate adjustments	(38.113)	(12.567)	-	-	-	-	79.500	-	-	-	28.820
Interest costs	70.407	39.477	17.361	-	-	-	53.875	1.977	-	-	183.097
Benefits paid/ provisions used	(53.784)	(89.353)	(763)	(4.037)	(2.908.512)	(4.802)	(4.028)	(12.769)	(1.100.390)	(253.461)	(4.431.899)
Raised during the year	-	-	41.442	57.268	3.133.309	6.551	38.952	-	1.174.704	352.502	4.804.728
Reversed	-	-	-	(20.419)	-	(6.853)	-	-	(3.995)	(54.790)	(86.057)
Other changes	275	3.315	-	3.338	-	98	3.574	-	(365)	(2.785)	7.450
As at 31 December 2011	1.226.670	762.532	408.333	127.679	3.099.855	13.926	1.102.039	84.649	633.290	391.768	7.850.741
Short-term	100.595	95.421	408.333	59.373	3.099.855	3.073	585	4.974	633.290	228.963	4.634.462
Long-term	1.126.075	667.111	-	68.306	-	10.853	1.101.454	79.675	-	162.805	3.216.279

17.1. Provisions for post employment benefits

The amount of provisions disclosed in the financial statements results from the forecasts prepared by the independent actuary.

17.2. Provisions for jubilee benefits

According to the corporate system of remuneration the employees of the Group's entities are entitled to jubilee awards. These awards are paid after an employee has worked a specified period of time. The amount of awards paid depends on the period of employment and the average remuneration of the employee. The entity recognizes a provision for future obligations relevant to jubilee awards in order to assign costs to the periods they refer to. The present value of these obligations is measured by an independent actuary at each balance sheet date.

17.3. Provisions for liability due to carbon dioxide emission rights

Particular Group entities record provisions for liabilities of carbon dioxide emissions in relation to total amount of emissions. The provision is calculated taking into account the most accurate estimation of the expenditures needed to fulfil current obligation as at balance sheet date, including recorded EUA's value received as free of charge and acquired EUA, and also possible coverage of the deficiency of certificates CER or ERU.

17.4. Provisions for third-party claims

Provisions presented in this position relate to dispute of the parent company with Alpiq Holding AG. The issue was described in Note 19.4 to these financial statements.

17.5. Provision for legal disputes**Provisions for the use of land**

Entities of the PGE Group raise provisions for damages related to a non-agreed usage of property. This issue mainly relates to distribution companies, which own distribution networks. As of the reporting date the provision amounted to ca. PLN 100 million. The provision is created to cover claims under court proceedings.

17.6. Provisions for costs of recultivation**Provision for recultivation of mine excavation**

According to regulations of the Act of 3 February 1995 on Agricultural and Forest grounds and regulations of the Act of 4 February 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. Oddział Kopalnia Węgla Brunatnego Bełchatów and PGE Górnictwo i Energetyka Konwencjonalna S.A. Oddział Kopalnia Węgla Brunatnego Turów raise provisions for recultivation of final mine 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 divided by the rate of coal excavation, less period-end value of Mine Liquidation Fund created in accordance with Geological and Mining Law.

Provision for recultivation of ash storages

The PGE Group producers raise 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.

17.7. Scrapping of property, plant and equipment

The provision for scrapping of property, plant and equipment relates to the part of assets of PGE Górnictwo i Energetyka Konwencjonalna S.A. Oddział Elektrownia Turów, which is going to be excluded from the production until year 2013. The obligation of scrapping 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 scrapping expenses and was recognized on the debit side in initial value of property, plant and equipment. Depreciation of activated scrapping 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 change in provision value resulting from the discount unwinding as at the balance sheet date influence the financial result of the Group. As at the balance sheet date, the value of provision amounts to PLN 82 million.

17.8. Provision for energy origin units held for redemption

The companies from the Group raise provision for the amount of certificates of origin related to sales in the current or previous reporting periods, in amount of certificates not redeemed till the balance sheet date. The provision as at 30 June 2012 amounted to PLN 590 million.

17.9. Other provisions**Dispute concerning the scope of taxation with real estate tax.**

The main component 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 24.2 of these financial statements.

Dispute concerning the redemption of energy origin units of ownership

PGE Obrót S.A is a party to proceedings against the Energy Regulatory Office, related to an obligation of redemption of energy units of origin – so called green and red certificates. As at 30 June 2012 the provision created to cover possible penalties amounted to PLN 28,5 million. The final value of possible penalties will depend on the results of the court proceedings and may be subject to change.

Annual bonus

Employees of PGE Group are entitled to the “annual bonus” paid on the basis of the corporate collective labour agreement or regulations applicable to individual entities. As at 30 June 2012 created provisions amounted to PLN 147 million.

Provision for unused annual holiday

The Group creates provision for employee benefits related to unused holiday. As at balance sheet date the provision amounted to PLN 99 million.

Provision related to the Voluntary Leave Program

In the current reporting period, four PGE Group companies realized Voluntary Leave Program (VLP). The total value of expenses reported in the consolidated statement of comprehensive income for the year ended 30 June 2012 amounted PLN 86,9 million. As a result of the fact that companies have already started to pay compensations related to the VLP, the created provision was partially used and as at 30 June 2012 amounted PLN 17 million. Additionally as at 30 June 2012 a liability for VLP account was recognized in amount of PLN 21 million.

18. Deferred income and government grants

	As at 30 June 2012	As at 31 December 2011
Deferred income and Government grants		
Long-term:		
Government grants	389.821	361.114
Other deferred income	865.536	894.184
Total long-term deferred income and government grants	1.255.357	1.255.298
Short-term:		
Government grants	6.193	4.666
Other deferred income	962.218	112.451
Total short-term deferred income and government grants	968.411	117.117

The table below presents positions comprising government grants and deferred income

Government grants	As at 30 June 2012	As at 31 December 2011
Redemption of loans from environmental funds	55.371	54.594
Grants received from NFEP&WM (environmental fund)	74.192	66.951
Grants from EU for CCS	242.755	219.307
Other government grants	23.696	24.928
Total deferred income, including:	396.014	365.780
Long-term	389.821	361.114
Short-term	6.193	4.666

Other deferred income	As at 30 June 2012	As at 31 December 2011
Greenhouse gases emission rights	869.208	-
Property, plant and equipment acquired free of charge	124.410	130.410
Subsidies granted and connection fees	767.255	799.515
Lease income	5.117	2.987
Other deferred income	61.764	73.723
Total deferred income, including:	1.827.754	1.006.635
Long-term	865.536	894.184
Short-term	962.218	112.451

In May 2010, PGE Elektrownia Bełchatów S.A. (current name: PGE Górnictwo i Energetyka Konwencjonalna S.A.) entered into an agreement with the European Commission for co-financing of a demonstration project entitled "Construction of a Carbon Capture and Storage System", with a value of EUR 180 million. The funds obtained by Bełchatów Power Plant for co-financing the project will be allocated to one of the key components of the CCS system, i.e. the CO₂ capture component.

Subsidies granted in caption of other deferred income comprise mainly fees received until 1 July 2010 for connection to power network, which are presented as grants to property, plant and equipment in these consolidated financial statements.

The greenhouse emission rights disclosed in the table above constitute the value of emission rights acquired free of charge under the National Allocation Plan for the year 2012. The item is settled into the consolidated statement of comprehensive income during the reporting period.

19. Contingent liabilities and receivables. Legal claims

19.1. Contingent liabilities

Contingent liabilities	As at 30 June 2012	As at 31 December 2011
Guarantee for repayment of grants from environmental funds	248.480	220.891
Legal claims	12.117	12.184
Contractual fines and penalties	33.987	13.858
Employee claims	52.056	52.009
Compensations related to non-agreed usage of property	4.195	7.296
Other contingent liabilities	182.832	197.524
Total contingent liabilities	533.667	503.762

Guarantee for repayment of grants from environmental funds

Liabilities present the value of potential future reimbursements of funds received by PGE Group companies from environmental funds for the particular investments. The funds will be reimbursed, if the investment for which they were granted, will not reach the expected environmental effect.

Liabilities related to legal claims

This position presents mainly claims from contractors against Group companies related to services rendered or products delivered.

Claims related to contractual fines and penalties

The contingent liability comprises mainly accrued contractual fines in amount of PLN 14 million relating to delay in realization of the investment issued by the Mayor of the City and Municipality of Gryfino to Zespół Elektrowni Dolna Odra S.A. (currently PGE Górnictwo i Energetyka Konwencjonalna S.A.) and fines resulting from a claim filed by Agricultural Property Agency against PGE EO for payment of PLN 19 million for not renewing lease contract relating to property intended for construction of wind power plant in Polanów.

Employee claims

This position mainly present the values of potential claims which may be raised by some employees at one of the PGE Group entity employer, who work continuous shifts, regarding payment of overtime work compensation. Employees who work continuous shifts with this employer are entitled to a specific number of days off work in the given month, in accordance with the Labour Code and the Company Bargaining Agreement.

Potential claims may be raised by these employees in relation to a judgment by a Regional Court, resolving on the interpretation of the concept of day off work (which is not defined by labour legislation) to the advantage of one of these employees. In the opinion of the Company, a day off work should mean 24 consecutive hours following the end of the employee's work on a given shift, which is the principle applied by the company when awarding days off work to employees. However, according to the judgment - with which the company does not agree - a day off work should mean 24 consecutive hours following the end of 24-hour workday and not following the end of work on a given shift.

Therefore, more employees may raise claims for payment of compensation for overtime work. Conditional liability was calculated for those employees who requested the employer to present their work timing for the last three years.

Other contingent liabilities

The other contingent liabilities comprise mainly the unsettled value of funds received by PGE Górnictwo i Energetyka Konwencjonalna S.A. on the basis of a signed agreement on financing of the demonstrative project under the name: "Construction of a Carbon Capture and Storage System" in the amount of PLN 169 million and the value of potential cash fines in the amount of almost PLN 13 million resulting from proceeding relating to environmental protection (breach of the conditions of disposal of sewage and deforestation in some PGE Group companies).

19.2. Other issues related to contingent liabilities**Non-agreed usage of property**

Due to the nature of its activities the companies of the Group use many properties, on which the buildings and structures or devices used to the transmission of the electricity are based. In respect of many properties there are doubts as to the title of usage. In the case of property, for which the Group companies have no legal title or the title is doubtful, there is a risk of claims by their owners, the alleged owner or other person for compensation in respect of non-agreed usage of these properties. As described in note 17.5 to these financial statements the relevant provision is created to cover claims under court proceedings. Moreover, there are disputes at an early stage in the Group as well as there is a possibility of increased number of disputes in the future.

Contractual liabilities related to the purchase of gas from PGNiG

According to the concluded agreements on the purchase of gas, 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, is obliged to pay 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 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 non-collection of significant volumes of 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.

Fulfilment of the so-called stock exchange commitment in 2010

On 9 August 2010 amendment of the Energy Law Act entered into force, imposing an obligation on power companies engaged in production of electricity to sell the energy they produce on commodity exchanges. Questionable is the interpretation of Article 49a of the amended Act and interpretation of Article 19 of the Energy Law Amendment Act dated 8 January 2010, which apply to electricity unsold until the date of entry into force of the amended Acts.

According to the interpretation adopted by PGE Group entities, electricity contracted before the date of entry into force of the Act is recognized as sold electricity and therefore regulations of Article 49a(1) and (2) of the Act - Energy Law relating to the sale of energy on the commodity exchanges do not apply to such electricity.

In year 2012 the President of the Energy Regulatory Office initiated formal proceedings regarding the matter. Company PGE Górnictwo i Energetyka Konwencjonalna S.A (and PGE Elektrownia Opole S.A. until merger) filed relevant explanations and documents. Until the date of preparation of these financial statements proceeding has not been completed and it is not possible to foresee its outcome.

19.3. Contingent receivables

As at balance sheet date, the Group has ca. PLN 54 million of contingent receivables related to financing received from the National Fund for Environmental Protection and Water Management to realize the project of building cogeneration unit, reimbursement of VAT and registered claims for compensations from insurers relating to damage events.

Additionally, the matter of a possible excise tax refund for the years 2006-2008 and issue of dispute concerning certificates of origin of energy were described in detail in note 26.4 of these financial statements.

19.4. Other legal claims and court issues

Risk related to the PGE - ATEL (presently Alpiq Holding AG) dispute

Since 2009 PGE Polska Grupa Energetyczna S.A. is a party to arbitration proceedings with the company Atel. The proceeding is held before the Court of Arbitration in Vienna. The subject of the arbitration proceeding is the claim of Atel, raised against PGE, resulting from the default on a electricity supply agreement signed on 28 October 1997. Claims submitted by Atel in a supplemented (rephrased) lawsuit from 4 October 2010 amount to EUR 155 million. The arbitration proceeding is held in written form and were based on the exchange of pleadings between the parties and presentation of written statements of witnesses, experts and the parties as evidence to the Tribunal.

Oral hearing, summarizing the outcome of written procedure, was held in Vienna on 12-16 September 2011. Witnesses of both parties as well as experts were interviewed during the hearing. The Tribunal did not give a ruling after the hearing. The arbitrators set the following deadlines for submission of *post hearing briefs*: 16 November 2011 (first round, which was postponed to 22 November at the request of both parties) and 17 January 2012 (second round). Both sides submitted the required papers within the period set. In the document submitted by Atel, among others, new calculation of Atel's claim was presented, which increased to total value of approx. EUR 168 million. Despite the fact that an additional date of a final hearing was set (for 18 February), it did not take place.

On the basis of available information, to the best of its knowledge, PGE S.A. made a reasonable estimation of claims which are likely to be reasonably considered justified by the Arbitration Tribunal. The Company established a provision for the claim thus estimated, in the amount exceeding EUR 94 million (including the main amount of EUR 79 million). At the present stage of arbitration proceedings, it is not possible to foresee the outcome or to determine the final amount of compensation.

Disputes concerning share prices of subsidiaries

During the reporting period shares of PGE Obrót S.A. and PGE Górnictwo i Energetyka Konwencjonalna S.A. were acquired from non-controlling shareholders. These companies are parties to disputes concerning prices of the acquired shares. Disputes are at different stages and their final result cannot be foreseen. The final settlement of the acquisition of shares from non-controlling shareholders will be recognized in the consolidated statement of financial position through changes of retained earnings of PGE Capital Group.

20. Financial liabilities

Financial liabilities at amortized cost (as at 30 June 2012)	Long-term	Short-term	Total
Interest bearing loans and credits	1.209.907	413.993	1.623.900
Leasing	4.387	3.633	8.020
Trade liabilities	-	851.973	851.973
LTC compensations	-	1.378.715	1.378.715
Other financial liabilities	17.344	763.108	780.452
Total	1.231.638	3.411.422	4.643.060

Other financial liabilities comprise mainly liabilities due to purchase of property, plant and equipment in amount of PLN 377 million and received deposits in total amount of PLN 337 million (mainly deposit received by PGE Górnictwo i Energetyka Konwencjonalna S.A. Oddział Elektrownia Opole from Rafako S.A. relating to construction of new power units).

In the caption loans and credits, the Group presents the following facilities:

- investment credit facility drawn by PGE Górnictwo i Energetyka Konwencjonalna S.A. Oddział Elektrownia Opole from Bank PEKAO S.A. for financing construction of power units 1 to 4, with a carrying value of PLN 203 million as at 30 June 2012.
- investment credit facility drawn by PGE Górnictwo i Energetyka Konwencjonalna S.A. Oddział Elektrownia Bełchatów from Nordycki Bank Inwestycyjny to finance construction of 858 MW power plant - with a carrying value of PLN 631 million as at 30 June 2012.

Additionally, in the first half of 2012 PGE Polska Grupa Energetyczna S.A. held a possibility to issue bonds within 3 programmes: the programme addressed to external investors for the maximum amount of PLN 10 billion, the programme addressed to Polish capital market investors for the maximum amount of PLN 5 billion and the programme addressed to PGE Group companies for the maximum amount of PLN 5 billion.

21. Future investment commitment

As at the balance sheet date, the Group has committed to incur capital expenditures on property, plant and equipment in the amount of PLN 13.511 million. These amounts relate to modernization of Group's assets and purchase of machinery and equipment. Significant investment commitments concern:

- construction of new power units in PGE Górnictwo i Energetyka Konwencjonalna S.A. Oddział Elektrownia Opole of the total value of approx. PLN 9.209 million;
- modernization of power units no 7-12 in PGE Górnictwo i Energetyka Konwencjonalna S.A. Oddział Elektrownia Bełchatów for the total amount of approx. PLN 3.024 million;
- investment commitments of PGE Dystrybucja S.A. of the total value of approx. PLN 638 million.

22. Information on significant purchase transactions of property, plant and equipment

During the reporting period PGE Capital Group purchased property, plant and equipment and construction in progress of PLN 1.504 million. Majority of expenditures were bore by PGE Górnictwo i Energetyka Konwencjonalna S.A. (PLN 960 million) and PGE Dystrybucja S.A. (PLN 500 million). The most significant expenditures of PLN 403 million are related to general construction and modernization of power units 7 and 8 in Elektrownia Bełchatów. In current period there were no significant disposals of fixed assets.

23. Information on related party

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

23.1. Associates

	Sales to associates	Purchases from associates	Trade receivables from associates	Trade liabilities towards associates
01.01.-30.06.2012	3.521	88	382	5
01.01.-30.06.2011	21.581	16.063	3.592	3.473

23.2. Transactions with State Treasury entities

The State Treasury is the dominant shareholder of PGE Polska Grupa Energetyczna S.A. and as a result in accordance with IAS 24 *Related Party Disclosures*, State Treasury companies are recognized as related entities. The Company identifies 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.

	Sale to State Treasury entities	Purchases from State Treasury entities	Trade receivables from State Treasury entities	Trade liabilities towards State Treasury entities
01.01.-30.06.2012	1.173.197	2.325.428	217.058	365.905
01.01.-30.06.2011	1.034.816	2.682.868	186.596	467.005

The largest transactions with the participation of State Treasury companies involve PSE-Operator S.A., public utility power generating plants, electricity trading companies, retailers involved in sales and purchases of coal from Polish mines.

Moreover, PGE Group concludes significant transactions on the energy market via the Towarowa Gielda Energii S.A. However, because this entity is only engaged in organization of exchange trading activities, purchases and sales transacted through this entity are not recognized as transactions with related parties.

23.3. Key management personnel remuneration

The key management comprises the Management Boards and Supervisory Boards of the parent company, group entities included in main business lines, PGE Energia Jądrowa S.A., PGE EJ1 sp. z o.o., PGE Systemy S.A. and Exatel S.A.

	Period ended 30 June 2012	Period ended 30 June 2011 (restated data)
Short-term employee benefits (salaries and salary related costs)	10.653	9.658
Post-employment and termination benefits	3.881	309
Total remuneration of key management personnel	14.534	9.967

	Period ended 30 June 2012	Period ended 30 June 2011 (restated data)
The Management Board of the Parent	3.069	815
The Supervisory Board of the Parent	180	187
The Management Boards – subsidiaries	10.780	8.159
The Supervisory Boards – subsidiaries	505	806
Tal	14.534	9.967

Members of the Management Board are employed on the basis of civil law contracts for management (Management contracts). The mentioned remuneration is included in other costs by type in the statement of comprehensive income.

The above data presents remuneration costs paid to key management recognized in the reporting period in PGE Capital Group Companies. For the period ended 30 June 2012 remuneration costs include also an appropriate part of provisions for bonuses, to which the management members are entitled on the basis of the contracts signed. The final amount of bonuses and premiums will depend, among others, on the results generated by the Company and the PGE Capital Group.

Remuneration of Management Boards and Supervisory Boards of the other Group's entities in reporting period amounted to PLN 9.641 thousand, and PLN 12.251 thousand in comparable period.

24. 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 year 2011 and 2012 were as follows: corporate income tax – 19%, basic value added tax rate – 23%, lowered: 8%, 5%, 0%, furthermore some goods and products are VAT exempt.

The tax system in Poland is characterized by a significant volatility 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 Group entities are presented below.

24.1. Excise tax

As a result of non-compliance of Polish legal regulations on excise tax on electricity with the European Union law, on 11 February 2009, power plants and heat and power stations of PGE Group 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.

The matter of tax repayment is currently a subject of disputes between producers and tax authorities. Different aspects of these disputes are being subjects to legal proceedings held by administrative courts. Due to significant uncertainty regarding the final outcome of the above matter the Group does not recognize any consequences arising from the repayment of overpaid excise tax in 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). 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.

24.2. Real estate tax

There are tax proceedings carried out to determine the scope subject to real estate tax in PGE Group power stations. 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 represent 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 2 February 2010 sign. II FSK 1292/08) indicate that the machinery located in buildings might be a subject of taxation as autonomous constructions.

Taking into consideration changes mentioned above and proceedings carried out in the Group entities, the Group recognized appropriate provisions. No further details are disclosed due to the confidentiality of the case based on IAS 37.92.

25. Discontinued operations

Since 2009, a "Non-core" Programme is being implemented at PGE Group, which purpose is to transparently separate core business activities from other activities and disposal and reorganization of so called non-energetic assets. As at the day of preparation of these financial statements the Group recognized two subsidiaries which met the definition of discontinued operations under IFRS 5: Budownictwo-Hydroenergetyka Dychów sp. z o.o. and Niepubliczny Zakład Opieki Zdrowotnej MegaMed sp. z o.o. Revenues and expenses of those companies are presented separately from other entities of the Capital Group in the financial statements as at 30 June 2012.

The table below presents amounts related to operations, which during the reporting period met criteria of discontinued operations:

	Revenues	Expenses	Profit before tax/ (Loss)	Income tax	Net profit/ loss
BH Dychów sp. z o.o.	7.517	(7.991)	(474)	142	(332)
NZOZ MegaMed sp. z o.o.	20.609	(20.386)	223	(40)	183
TOTAL	28.126	(28.377)	(251)	102	(149)

The parent company own indirectly 100% shares in capital of BH Dychów sp. z o.o. and 98,52% in capital of NZOZ MegaMed sp. z o.o. The participation of shareholders of the parent company in the net loss attributable to discontinued operations for the 6 months ended 30 June 2012 amounted to PLN 152 thousand. In the comparative period of 2011 the net profit of the above mentioned companies amounted to PLN 1.171 thousand. As at 31 December 2011 the total assets of these companies amounted to PLN 55.409 thousand and total liabilities amounted to PLN 31.190 thousand.

26. Significant events during the reporting period and subsequent events

26.1. Compensation for long term contracts

Pursuant to the Act of June 29, 2007 on the Rules of Coverage of Costs Occurring at Production Plants as a Consequence of Early Termination of Long-Term Power and Electricity Sales Contracts (Journal of Laws No. 130, item 905, of 2007) (the "Long-Term Contracts Act"), some entities of PGE Górnictwo i Energetyka Konwencjonalna S.A. („PGE GiEK S.A.”) became entitled to receive funds to cover stranded costs (so-called "compensation"). The maximum value of stranded costs including stranded costs relating to 2007 and additional costs (according to 44 article of the LTC Act), according to an appendix 2 amounted to PLN 6.317 million. Under the Long-Term Contracts Act, PGE Capital Group companies receive compensation to cover stranded cost in the form of quarterly advances. Yearly adjustments are made after the end of each year, followed by a final adjustment upon the lapse of the entire term of Long-Term Contract.

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 made based on planned revenues from the sale of electric energy and system services in the adjustment period.

The LTC Act is ambiguous in many points and raise important questions of interpretation. The calculation of the estimated results of each company and resulting compensations, annual adjustments of stranded costs and final adjustments as well as resulting revenues recognized in the statement of comprehensive income was performed by the Group with the best of its knowledge in this area and with support of external experts.

Dispute with the President of the Energy Regulatory Office related to the annual adjustments of stranded costs and costs related to natural gas fired entities.

Until the date of preparing these financial statements, entitled producers from PGE Group received decisions on annual adjustments of stranded costs and costs related to natural gas fired entities for 2008, 2009, 2010 and 2011. The majority of these decisions were disadvantageous for the particular entities and the Group believes that they were issued in violation of the Long-Term Contracts Act.

The total amount of annual adjustments of stranded costs and costs incurred in natural gas-fired entities resulting from decisions of the President of the Energy Regulatory Office for PGE Group producers for the years 2008-2011 amounts to PLN (-) 1.477,6 million.

Since 2009, a number of proceedings have been pending before the Regional Court in Warsaw - Competition and Consumer Protection Court ("CCP Court") concerning appeals by PGE Group producers against the Decision of the President of the Energy Regulatory Office. These proceedings are currently at various levels of advancement.

Verdicts given by the Court of Appeals in February- April 2012

In February – April 2012, the Court of Appeals issued verdicts in five cases related to adjustment of stranded costs for 2008, issued for PGE GiEK S.A.:

- On 2 February 2012, the Court of Appeals issued a verdict on determining the amount of annual adjustment of stranded costs due to PGE GiEK S.A. Oddział Elektrociepłownia Rzeszów for 2008, dismissing the appeal of the President of the Energy Regulatory Office against the verdict of the CCP Court, which was considered unsubstantiated, and amended the decision of the President of the Energy Regulatory Office according to the company's demand. The value of the object of dispute was PLN 14,6 million. The President of the Energy Regulatory Office filed a cassation complaint against this verdict to the Supreme Court.
- On 7 March 2012 the Court of Appeals issued a verdict in which the appeal of the President of the Energy Regulatory Office against the verdict of the CCP Court was accepted with regard to determination of the amount of annual adjustment of stranded costs due to PGE GiEK S.A. Oddział Elektrociepłownia Lublin-Wrotków and amended the ruling of the CCP Court through dismissing the producer's appeal. The value of the subject

of dispute was PLN 26,7 million. PGE GiEK S.A. filed a cassation complaint against this verdict to the Supreme Court.

- On 12 March 2012, in a case related to annual adjustment of stranded costs for 2008, determined by the President of the Energy Regulatory Office for PGE GiEK S.A. Oddział Zespół Elektrowni Dolna Odra, the Court of Appeals issued a verdict repealing the ruling of the CCP Court and referred it for reconsideration by the CCP Court. The value of the object of dispute was PLN 42,4 million.
- On 27 March and 24 April 2012 in cases related to annual adjustments of stranded costs for 2008 determined by the President of the Energy Regulatory Office for PGE GiEK S.A. Oddział Elektrociepłownia Gorzów and Oddział Elektrownia Turów the Court of Appeals issued verdicts dismissing the appeal of the President of the Energy Regulatory Office against the verdict of the CCP Court, which was considered unsubstantiated, and amended the decision of the President of the Energy Regulatory Office according to the company's demand. The value of the object of dispute was PLN 7,7 million in case of PGE GiEK S.A. Oddział Elektrociepłownia Gorzów and PLN 164,5 million in case of PGE GiEK S.A. Oddział Elektrownia Turów. The verdicts are valid, however the President of the Energy Regulatory Office is entitled to file a cassation complaint against this verdict to the Supreme Court. In case of Oddział Elektrociepłownia Gorzów the President of the Energy Regulatory Office filed a cassation complaint against the verdict.

Verdicts of the Competition and Consumer Protection Court related to annual adjustment for 2009

On 4 and 19 June 2012 the CCP Court issued two verdicts, in which it included PGE GiEK S.A. Oddział Zespół Elektrowni Dolna Odra and PGE GiEK S.A. Oddział Elektrociepłownia Gorzów appeals and amended the decision of the President of the Energy Regulatory Office from 30 July 2010 on determining the value of the annual adjustments of the stranded costs due to the producers for 2009. The value of the object of dispute was PLN 92,9 million in case of PGE GiEK S.A. Oddział Zespół Elektrowni Dolna Odra and (-) PLN 7,7 million in case of PGE GiEK S.A. Oddział Elektrociepłownia Gorzów. Both verdicts are not valid, The President of the Energy Regulatory Office is still entitled to file an appeal to the Supreme Court.

The President's of the Energy Regulatory Office decisions related to annual adjustments of the stranded costs and costs related to natural gas fired entities for 2011

On 31 July 2012 the President of the Energy Regulatory Office issued a decision on determining the annual adjustments of the stranded costs and costs related to natural gas fired entities for 2011. These decisions were disadvantageous for PGE GiEK S.A. and the Group believes that they were issued in violation of the Long-Term Contracts Act (the total value of adjustments resulting from the decision of the President of the Energy Regulatory Office for producers from PGE GiEK S.A. for 2011 is (-) PLN 536,5 million. On 16 August 2012 PGE GiEK S.A. appealed against the above described decision of the President of the Energy Regulatory Office to the Regional Court in Warsaw, the Competition and Consumer Protection Court. The value of the object of dispute was PLN 451,6 million. In case of LTC compensations for 2011 the difference in interpretation of the LTC Act between PGE Capital Group and the President of ERO relates to other issues than in case of disputes in years 2008-2010.

Summary and recognition in the financial statements

The Management Boards of PGE S.A. and PGE GiEK S.A. do not agree with the ruling concerning the Elektrociepłownia Lublin-Wrotków, which is even more the case considering that, as discussed above, the Court of Appeals in Warsaw gave a different verdict in a similar case concerning the Elektrociepłownia Rzeszów, Elektrociepłownia Gorzów and Elektrownia Turów, where the appeal of the President of the Energy Regulatory Office was dismissed as unsubstantiated. Thus, the Court upheld the verdict given by the CCP Court on this case, accepting the producer's appeal and amending the decision of the President of the Energy Regulatory Office according to the company's demand. PGE S.A. and PGE GiEK S.A. intend to take all measures prescribed by the law in order to obtain an advantageous resolution of the dispute. On 11 June 2012 a cassation appeal to the Supreme Court was filed.

Because the verdict related to Elektrociepłownia Lublin-Wrotków was issued before the date of preparation of the financial statements for the year ended 31 December 2011, the Capital Group changed its estimations regarding revenues from LTC compensation for years 2008-2010 to the value of received prepayments adjusted by annual adjustments determined in the decisions of the President of the Energy Regulatory Office and an appropriate part of the planned final adjustment. The adjustment has not been made for revenues recognized in Elektrociepłownia Rzeszów for 2008, for which the decisions of the Court of Appeal was advantageous. As a result in other operating expenses for 2011 the amount of PLN 1.037,6 million was recognized.

Positive verdicts of the Court of Appeal in case of Elektrociepłownia Gorzów and Elektrownia Turów resulted in adjustment of LTC compensation in the financial statements for the period ended 30 June 2012 of PLN 130.3 million. The value of the adjustment was recognized in the statement of comprehensive income as other operating income.

The President's of the Energy Regulatory Office decisions on annual adjustments for 2011 had no impact on reporting revenues and profit of the PGE Capital Group, however, they may have impact on cash flows in year 2012. The resolution of this dispute may influence the final adjustment of the stranded costs which will take place in 2017.

26.2. Framework agreement on the exploration for and extraction of shale gas

On 4 July 2012 PGE S.A signed a framework agreement on the exploration for and extraction of shale gas. The parties to the Agreement are PGE Polska Grupa Energetyczna S.A., Polskie Górnictwo Naftowe i Gazownictwo S.A. ("PGNiG"), ENEA S.A., KGHM Polska Miedź S.A. and TAURON Polska Energia S.A.

The subject of cooperation of the Parties based on the Agreement will be the exploration, evaluation and extraction of shale gas in geological formations for which concessions have been granted for the exploration and evaluation of deposits of crude oil and natural gas in relation to the Wejherowo concession held by PGNiG (the "Wejherowo Concession"). With respect to the Wejherowo Concession, there will be close cooperation involving an area of approximately 160 km². The Agreement also provides for preferential treatment of the Parties with regard to the possibility of cooperation in relation to the remaining area of the Wejherowo Concession (with the exception of a situation where PGNiG on its own engages in exploration, evaluation or extraction of shale gas and excluding the area in the vicinity of Opalino and Lubocino where PGNiG is already conducting exploratory work).

Estimated expenditures on exploration, evaluation and extraction with respect to the first three zones (the Kochanowo, Częstkowo and Tępcz pads) within the Area of Cooperation are projected to be in the amount of PLN 1,720 million. Details regarding the terms of cooperation, including a detailed project budget and timeline, the shares of the Parties in financing the expenditures arising from the agreed-on budget, shares in the project's profits and the principles of responsibility, including contractual penalties in the case of the failure, in particular by PGNiG, to fulfil certain obligations resulting from the Agreement, will be determined by the Parties within four months from the date the Agreement is signed. Should such specific arrangements not be forthcoming, the Agreement may be terminated by each of the Parties. If within three months after reaching such arrangements the Parties have not received all of the required corporate approvals, or if by 30 December 2012 the required antimonopoly clearances have not been received, the Agreement will expire.

26.3. Voluntary Leave Program

The purpose of the Voluntary Leave Program (VLP) is optimization of employment in the PGE Group and is directed to employees who have guarantee of employment on the basis of social contracts. Program is described in Note 17.9 of these financial statements.

26.4. Dispute concerning certificates of energy origin

During the current reporting period, investigations were pending before the Energy Regulatory Office regarding issuance of certificates of energy origin produced in 2011 from biomasses at Oddział Elektrownia Bełchatów (branch Bełchatów Power Plant) and Oddział Zespół Elektrowni Dolna Odra (branch Dolna Odra Group of Power Plants), being parts of PGE Górnictwo i Energetyka Konwencjonalna S.A. subsidiary. The President of the Energy Regulatory Office

questions the fulfilment of biodegradability requirements by types of biomass used in these branches (post-hydrolysis lignocelluloses) and shea pulp. Therefore the President of the Energy Regulatory Office withholds the decision to issue the certificates despite that in prior years certificates of origin for energy produced of both types of biomass in the preceding years were issued.

In response to subsequent calls for clarification, the branches presented all the results of additional tests required by the Energy Regulatory Office, as well as explanations and opinions of accredited laboratory testing authorities, confirming that the requirements had been met. Until the balance sheet date, the Energy Regulatory Office issued the outstanding Certificates of Energy Origin for 2011 in the value of approximately PLN 86 million, which was recognized in revenues of year 2012. Because other disputes have not been resolved, the Group did not recognize energy certificates of energy origin for 2011 of a value of approximately PLN 15 million.

26.5. Fire in Elektrownia Turów

On 24 July 2012 on the area of Elektrownia Turów which belongs to PGE Górnictwo i Energetyka Konwencjonalna S.A. the ignition of coal dust and biomass took place. Fire caused by the explosion damaged the coal belt conveyors. Moreover, the explosion shock wave damaged walls of the boiler building and partially the roof and the bevel coaling galleries. Significant part of control cables as well as control and measurement equipment and automatics of coaling system as well as coaling dust cleaning system of blocks 1 -4 were damaged. Main production facilities were not damaged.

The Group preliminary estimates that repair and reconstruction expenditures of damages will amount to approximately PLN 50 million. The Company plans to claim compensation from the insurance companies based on the binding insurance agreements.

26.6. Issues regarding acquisition of Energa S.A. Return of tax on civil law transactions.

On 29 September 2010, the Management Board of PGE Polska Grupa Energetyczna S.A. concluded with the State Treasury, represented by the Minister of the State Treasury, agreement on sales of shares of Energa S.A., seated in Gdańsk ("Agreement"). The subject of the agreement was to acquire 4,183,285,468 shares of Energa S.A. representing 84,19% of its share capital. The purchase price of all shares representing 84,19% of share capital of this company is PLN 7,529,9 million.

The transaction would have been effective after obtaining by PGE S.A. the consent to a concentration of capital from the President of the Office of Competition and Consumer Protection ("the President of the Office") (condition precedent). On 13 January 2011, the President of the Office of Competition and Consumer Protection issued a Decision preventing PGE S.A. from buying shares of Energa S.A. Therefore, on 18 January 2011 PGE S.A. entered into an annex to the Agreement of sale of Energa S.A. shares, with the Seller. Under that Annex, the term of Agreement was set as 12 months of the effective date, whereby the State Treasury and PGE S.A. decided to withhold the term of Agreement until a valid and binding closing of court proceedings concerning appeal against the Decision.

On 28 January 2011, the Regional Court in Warsaw, Competition and Consumer Protection Court, received an appeal filed through intermediation of the President of the Office by PGE S.A. against the Decision of the President of the Office for Competition and Consumer Protection, preventing amalgamation of PGE S.A. with Energa S.A. In its appeal, the Company requested that the said decision be replaced in its entirety by another Decision to the effect of permitting amalgamation of PGE S.A. with Energa S.A., or that the former decision be revoked.

On 14 May 2012, the Regional Court in Warsaw, Competition and Consumer Protection Court issued a Decision rejecting the appeal of PGE S.A. against the Decision of the President of the Office for Competition and Consumer Protection dated 13 January 2011, preventing amalgamation of PGE S.A. with Energa S.A. through taking control by PGE S.A. over Energa S.A. The Decision stated that there are no grounds to sustain PGE S.A.'s appeal. PGE S.A. did not appeal against the last Decision. Therefore, on 12 June 2012 the Decision was validated and PGE S.A. becomes obliged not to transact the concentration of capital. Sales Agreement was terminated.



Therefore, PGE S.A. claimed to the Head of First Mazowiecki Tax Office in Warsaw return of PLN 75.299 thousand of tax paid on the conclusion of the contract. The tax was returned on 18 July 2012. As at 30 June 2012 the amount mentioned above was presented in the statement of financial position as other short-term assets.

Warsaw, 28 August 2012

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

Krzysztof Kilian

President of the Management Board

Bogusława Matuszewska

*Vice-President of the Management
Board*

Wojciech Ostrowski

*Vice-President of the Management
Board*

Piotr Szymanek

*Vice-President of the Management
Board*