Consolidated quarterly report for the 1st quarter of 2011 PGE Polska Grupa Energetyczna S.A.

May 16, 2011

PGE

Polska Grupa Energetyczna

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

	Period ended March 31, 2011 (not audited)	Period ended March 31, 2010 (not audited) *data restated*	Period ended March 31, 2011 (not audited)	Period ended March 31, 2010 (not audited) *data restated*
	in PLN thousand		in EUR thousand	
Sales revenues	7,294,190	5,321,245	1,835,386	1,341,411
Profit/loss on operating activities	1,519,596	1,335,315	382,365	336,614
Gross profit/loss (before taxation)	1,571,093	1,375,015	395,323	346,622
Net profit/loss for the reporting period	1,261,454	1,113,579	317,411	280,718
Net profit attributable to equity holders of the parent company	1,239,818	899,097	311,967	226,650
Total income	1,262,846	1,112,963	317,761	280,562
Net cash from operating activities	722,004	1,530,480	181,673	385,813
Net cash from investing activities	(1,401,379)	(1,033,031)	(352,619)	(260,413)
Net cash from financial activities	639,088	(332,836)	160,809	(83,903)
Net change in cash and cash equivalents	(40,287)	164,613	(10,137)	41,497
Net earnings per share (in PLN/EUR per share)	0.66	0.52	0.17	0.13
Diluted earnings per share (in PLN/EUR per share)	0.66	0.52	0.17	0.13
Weighted average number of shares	1,869,760,829	1,730,090,000	1,869,760,829	1,730,090,000

	As at March 31, 2011	As at December 31, 2010	As at March 31, 2011	As at December 31, 2010
Non-current assets	44,162,539	44,137,422	11,007,886	11,144,969
Current assets	7,922,450	7,328,945	1,974,738	1,850,603
Non-current assets classified as held for sale	0	7,572	0	1,912
Total assets	52,084,989	51,473,939	12,982,624	12,997,485
Equity	38,945,337	37,682,773	9,707,455	9,515,131
Share capital	18,697,837	18,697,837	4,660,594	4,721,318
Long-term liabilities	7,706,020	7,199,809	1,920,791	1,817,996
Short-term liabilities	5,433,632	6,591,357	1,354,379	1,664,358
Number of shares at the end of reporting period	1,869,760,829	1,869,760,829	1,869,760,829	1,869,760,829
Book value per share (in PLN/EUR per share)	20.50	19.83	5.11	5.01
Diluted book value per share (in PLN/EUR per share)	20.50	19.83	5.11	5.01
Equity attributable to equity holders of the parent	38,325,164	37,083,954	9,552,871	9,363,925

Above financial data for the first quarter of 2011 and 2010 were converted into EUR according to the following rules:

- particular items of the assets and liabilities – according to average exchange rate published by the National Bank of Poland as of March 31, 2011 – EUR/PLN 4.0119 and as of December 31, 2010 – EUR/PLN 3.9603
- particular items of statement of comprehensive income and statement of cash flows – according to the exchange rate constituting an arithmetic average of average exchange rates set out by the National Bank of Poland at the end of every month of the reporting period from January 1, 2011 till March 31, 2011 – EUR/PLN 3.9742 and for the period from January 1, 2010 till March 31, 2010 EUR/PLN 3.9669).

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

	Period ended March 31, 2011 (not audited)	Period ended March 31, 2010 (not audited)	Period ended March 31, 2011 (not audited)	Period ended March 31, 2010 (not audited)
	in PLN thousand		in EUR thousand	
Sales revenues	2,880,485	3,228,465	724,796	813,851
Profit/loss on operating activities	54,397	104,435	13,688	26,327
Gross profit/loss (before taxation)	97,116	151,519	24,437	38,196
Net profit/loss for the reporting period	76,443	130,722	19,235	32,953
Total income	77,180	130,735	19,420	32,956
Net cash from operating activities	(298,613)	56,645	(75,138)	14,279
Net cash from investing activities	(22,270)	30,498	(5,604)	7,688
Net cash from financial activities	206,018	(513,516)	51,839	(129,450)
Net change in cash and cash equivalents	(114,865)	(426,373)	(28,903)	(107,483)
Net earnings per share (in PLN/EUR per share)	0.04	0.07	0.01	0.02
Diluted earnings per share (in PLN/EUR per share)	0.04	0.07	0.01	0.02
	As at March 31, 2011 (not audited)	**As at December 31, 2010 (not audited)**	**As at March 31, 2011 (not audited)**	**As at December 31, 2010 (not audited)**
Non-current assets	23,333,700	23,330,403	5,816,122	5,891,070
Current assets	8,249,071	8,581,633	2,056,151	2,166,915
Total assets	31,582,771	31,912,036	7,872,273	8,057,984
Equity	28,533,531	28,456,351	7,112,224	7,185,403
Share capital	18,697,837	18,697,837	4,660,594	4,721,318

Above financial data for the first quarter of 2011 and 2010 were converted into EUR according to the following rules:

- particular items of the assets and liabilities – according to average exchange rate published by the National Bank of Poland as of March 31, 2011 – EUR/PLN 4.0119 and as of December 31, 2010 – EUR/PLN 3.9603
- particular items of statement of comprehensive income and statement of cash flows – according to the exchange rate constituting an arithmetic average of average exchange rates set out by the National Bank of Poland at the end of every month of the reporting period from January 1, 2011 till March 31, 2011 – EUR/PLN 3.9742 and for the period from January 1, 2010 till March 31, 2010 EUR/PLN 3.9669).

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Interim condensed consolidated financial statements prepared in accordance with International Financial Reporting Standards for 3-month period ended March 31, 2011 (all amounts in PLN thousand)

A. INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS PREPARED IN ACCORDANCE WITH IFRS FOR THE PERIOD ENDED MARCH 31, 2011.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Period ended March 31, 2011 (not audited)	Period ended March 31, 2010 (not audited) *Data restated**
CONSOLIDATED COMPREHENSIVE INCOME		
Continuing operations		
Total sales revenues	**7,294,190**	**5,321,245**
Costs of goods sold	(5,156,745)	(3,363,733)
Gross profit on sales	**2,137,445**	**1,957,512**
Other revenues	110,933	140,019
Other expenses	(668,008)	(725,610)
Financial revenues/ expenses	(9,277)	3,094
Profit before tax	**1,571,093**	**1,375,015**
Corporate income tax expense	(310,266)	(261,123)
Net profit from continuing operations	**1,260,827**	**1,113,892**
Discontinuing operations		
Profit for the period on discontinued operations	**627**	**(313)**
Net profit for the operating period	**1,261,454**	**1,113,579**
OTHER COMPREHENSIVE INCOME:		
Valuation of available-for-sale financial assets	737	12
Revaluation of assets of associates	-	-
Foreign exchange differences from translation of foreign entities	655	(628)
Other comprehensive income for the period, net	**1,392**	**(616)**
TOTAL COMPREHENSIVE INCOME	**1,262,846**	**1,112,963**
Net profit attributable to:		
- equity holders of the parent company	1,239,818	899,097
- non-controlling interest	21,636	214,482
Total comprehensive income attributable to:		
- equity holders of the parent company	1,241,210	898,481
- non controlling interest	21,636	214,482
Profit per share (in PLN)		
– basic earnings for the reporting period	0.66	0.52
– basic earnings from the continuing operations	0.66	0.52

** For details on data restatement please refer to Note 5 to the foregoing consolidated financial statements*

Interim condensed consolidated financial statements prepared in accordance with International Financial Reporting Standards for 3-month period ended March 31, 2011 (all amounts in PLN thousand)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

ASSETS	As at March 31, 2011 (not audited)	As at December 31, 2010 (audited)	As at March 31, 2010 (not audited)
Non-current assets			
Property, plant and equipment	41,388,660	41,442,181	39,091,100
Investment property	27,664	24,959	25,380
Intangible assets	192,212	202,629	145,196
Loans and receivables	408,027	407,831	387,200
Available-for-sale financial assets	99,765	95,242	74,794
Shares in associates accounted for under the equity method	1,470,938	1,408,465	1,391,302
Other long-term assets	311,421	264,432	453,394
Deferred tax assets	259,179	286,621	358,936
Non-current assets related to discontinued operations	4,673	5,062	37,321
Total non-current assets	**44,162,539**	**44,137,422**	**41,964,623**
Current assets			
Inventories	1,034,219	1,090,549	1,110,260
Income tax receivables	28,759	29,976	24,228
Trade receivables	2,164,618	2,094,506	2,128,187
Other loans and financial assets	981,016	796,663	697,439
Available-for-sale short-term financial assets	125,144	130,924	124,315
Other current assets	871,734	445,809	616,084
Cash and cash equivalents	2,693,649	2,730,423	7,855,310
Current assets related to discontinued operations	23,311	10,095	23,833
Total current assets	**7,922,450**	**7,328,945**	**12,579,656**
Assets classified as held for sale	-	7,572	5,576
TOTAL ASSETS	**52,084,989**	**51,473,939**	**54,549,855**

Interim condensed consolidated financial statements prepared in accordance with International Financial Reporting Standards for 3-month period ended March 31, 2011 (all amounts in PLN thousand)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

LIABILITIES AND EQUITY	As at March 31, 2011 (not audited)	As at December 31, 2010 (audited)	As at March 31, 2010 (not audited) *data restated**
Equity (attributable to equity holders of the parent)			
Share capital	18,697,837	18,697,837	17,300,900
Revaluation reserve	(344)	(1,081)	(1,149)
Treasury shares	(229)	(229)	-
Foreign exchange differences from translation of foreign entities	1,600	945	(1,440)
Reserve capital	6,727,589	6,727,589	5,449,549
Other capital reserves	49,779	49,779	-
Retained earnings	12,848,932	11,609,114	9,356,999
Non-controlling interest	620,173	598,819	7,910,482
Total equity	**38,945,337**	**37,682,773**	**40,015,341**
Long-term liabilities			
Interest-bearing loans, borrowings, bonds and lease	2,157,402	1,804,429	2,267,248
Other long-term liabilities	15,397	14,403	13,845
Provisions	3,083,560	3,072,295	3,269,207
Deferred tax liabilities	1,331,104	1,194,763	1,351,820
Deferred income and government grants	1,117,255	1,112,553	1,024,439
Long-term liabilities related to discontinued operations	1,302	1,366	1,061
Total long-term liabilities	**7,706,020**	**7,199,809**	**7,927,620**
Trade liabilities	814,593	986,301	861,751
Financial liabilities at fair value through profit or loss	38,747	41,165	41,935
Interest-bearing loans, borrowings, bonds and lease	1,241,806	914,956	2,454,980
Other short-term financial liabilities	311,935	1,259,478	399,899
Other short-term non-financial liabilities	1,333,987	1,396,213	1,164,324
Income tax liabilities	69,257	218,158	146,181
Deferred income and government grants	103,072	100,157	35,332
Short-term provisions	1,514,457	1,668,640	1,490,621
Short-term liabilities related to discontinued operations	5,778	6,289	11,871
Total short-term liabilities	**5,433,632**	**6,591,357**	**6,606,894**
Total liabilities	**13,139,652**	**13,791,166**	**14,534,514**
TOTAL LIABILITIES AND EQUITY	**52,084,989**	**51,473,939**	**54,549,855**

** for details on data restatement please refer to Note 5 to the foregoing consolidated financial statements*

Interim condensed consolidated financial statements prepared in accordance with International Financial Reporting Standards for 3-month period ended March 31, 2011 (all amounts in PLN thousand)

STATEMENT OF CHANGES IN CONSOLIDATED EQUITY

For the period ended March 31, 2011

(not audited)	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 January 1, 2011	**18,697,837**	**(1,081)**	**(229)**	**945**	**6,727,589**	**49,779**	**11,609,114**	**37,083,954**	**598,819**	**37,682,773**
Total comprehensive income for the period	***-***	***737***	***-***	***655***	***-***	***-***	***1,239,818***	***1,241,210***	***21,636***	***1,262,846***
Changes in accounting policy	-	-	-	-	-	-	-	**-**	-	**-**
Retained earnings distribution	-	-	-	-	-	-	-	**-**	-	**-**
Dividend	-	-	-	-	-	-	-	**-**	(282)	**(282)**
As at March 31, 2011	**18,697,837**	**(344)**	**(229)**	**1,600**	**6,727,589**	**49,779**	**12,848,932**	**38,325,164**	**620,173**	**38,945,337**

Interim condensed consolidated financial statements prepared in accordance with International Financial Reporting Standards for 3-month period ended March 31, 2011 (all amounts in PLN thousand)

STATEMENT OF CHANGES IN CONSOLIDATED EQUITY

For the year ended December 31, 2010

(audited)	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 January 1, 2010	**17,300,900**	**(1,161)**	**-**	**(812)**	**5,449,549**	**-**	**8,419,848**	**31,168,324**	**7,681,428**	**38,849,752**
Total comprehensive income for the period	***-***	***80***	***-***	***1,757***	***-***	***-***	***3,014,120***	***3,015,957***	***612,967***	***3,628,924***
Retained earnings distribution	-	-	-	-	136,441	49,779	(186,220)	**-**	-	-
Dividend	-	-	-	-	-	-	(1,335,330)	**(1,335,330)**	(673,996)	(2,009,326)
Purchase of new companies	-	-	-	-	-	-		**-**	7,648	7,648
Sale of subsidiaries	-	-	-	-	-	-		**-**	(13,786)	(13,786)
Changes in accounting policy	-	-	-	-	-	-	19,435	**19,435**	7,465	26,900
Purchase of treasury shares	-	-	(229)	-	(350)	-		**(579)**	-	(579)
Settlement of purchase of additional stock in subsidiaries:	-	-	-	-	-	-	531,526	**531,526**	(3,646,201)	(3,114,675)
Value of the purchased non-controlling interest	*-*	*-*	*-*	*-*	*-*	*-*	*3,646,201*	***3,646,201***	*(3,646,201)*	*-*
The acquisition cost of shares and stocks in subsidiaries	*-*	*-*	*-*	*-*	*-*	*-*	*(3,114,675)*	***(3,114,675)***	*-*	*(3,114,675)*
Settlement of the merger of parent company with subsidiaries:	1,396,937	-	-	-	1,141,949	-	1,145,735	**3,684,621**	(3,376,706)	307,915
Issue of shares as a result of the merger	*1,396,937*	*-*	*-*	*-*	*1,141,949*	*-*	*(2,538,886)*	*-*	*-*	*-*
Transfer of non-controlling interest as a result of the merger	*-*	*-*	*-*	*-*	*-*	*-*	*3,376,706*	***3,376,706***	*(3,376,706)*	*-*
Dividends taken over (attributable to non-controlling interest before the merger)	*-*	*-*	*-*	*-*	*-*	*-*	*307,915*	***307,915***	*-*	*307,915*
As at December 31, 2010	**18,697,837**	**(1,081)**	**(229)**	**945**	**6,727,589**	**49,779**	**11,609,114**	**37,083,954**	**598,819**	**37,682,773**

Interim condensed consolidated financial statements prepared in accordance with International Financial Reporting Standards for 3-month period ended March 31, 2011 (all amounts in PLN thousand)

STATEMENT OF CHANGES IN CONSOLIDATED EQUITY

For the period ended March 31, 2010

(not audited)	Share capital	Revaluation reserve	Treasury shares	Foreign exchange differences from translation	Reserve capital	Other capital reserves	Retained earnings	Total	Non-controlling interest
As at January 1, 2010	**17,300,900**	**(1,161)**	**(812)**	**5,449,549**	**-**	**8,419,848**	**31,168,324**	**7,681,428**	**38,849,752**
Total comprehensive income for the period	***-***	***12***	***(628)***	***-***	***-***	***899,097***	***898,481***	***214,482***	***1,112,963***
Changes in accounting policy	-	-	-	-	-	38,054	**38,054**	14,616	52,670
Other	-	-	-	-	-	-	**-**	(44)	(44)
As at March 31, 2010	**17,300,900**	**(1,149)**	**(1,440)**	**5,449,549**	**-**	**9,356,999**	**32,104,859**	**7,910,482**	**40,015,341**

Interim condensed consolidated financial statements prepared in accordance with International Financial Reporting Standards for 3-month period ended March 31, 2011 (all amounts in PLN thousand)

CONSOLIDATED STATEMENT OF CASH FLOWS

	Period ended March 31, 2011 (not audited)	Period ended March 31, 2010 (not audited) *data restated**
Cash flows – operating activities		
Gross profit related to discontinued operations	**794**	**(313)**
Gross profit related to continuing operations	**1,571,093**	**1,375,015**
Adjustments for:		
Share of profit from associates accounted for under the equity method	(60,774)	(36,605)
Depreciation and amortization	659,075	657,863
Interest and dividend, net	25,859	26,476
Profit / (loss) on investment activities	(15,993)	46,290
Change in receivables	(246,593)	227,607
Change in inventories	56,330	156,343
Change in liabilities (excluding loans and bank credits)	(426,552)	(167,660)
Change in prepayments and accruals	(418,308)	(264,345)
Change in provisions	(142,917)	(50,238)
Income tax paid	(290,364)	(428,703)
Other	10,354	(11,250)
Net cash from operating activities	**722,004**	**1,530,480**
Cash flows – investment activities		
Disposal of property, plant and equipment and intangible assets	8,876	1,744
Purchase of property, plant and equipment and intangible assets	(1,406,642)	(1,030,637)
Purchase/disposal of investment property	-	-
Disposal of financial assets	6,133	93,678
Purchase of financial assets	(16,338)	(97,603)
Dividends	-	-
Interest received	9,611	2,828
Loans repaid	906	981
Loans granted	-	-
Other	(3,925)	(4,022)
Net cash from investment activities	**(1,401,379)**	**(1,033,031)**
Cash flows – financial activities		
Proceeds from the issue of shares	-	-
Proceeds from bank credits and issue of bonds	1,402,229	69,483
Repayment of loans, bonds and finance lease	(720,755)	(341,448)
Dividends paid	(17,523)	(1,015)
Interest paid	(25,653)	(60,030)
Other	790	174
Net cash from financial activities	**639,088**	**(332,836)**
Net change of cash and cash equivalents	**(40,287)**	**164,613**
Effect of foreign exchange rate changes	4,073	(8,882)
Cash and cash equivalents, beginning of the period	**2,736,859**	**7,705,934**
Cash and cash equivalents, end of the period, including	**2,696,572**	**7,870,547**
restricted cash and cash equivalents	110,245	188,836
related to discontinued operations	3,693	5,729

** For details on data restatement please refer to Note 5 to the foregoing consolidated financial statements*

1. General information

PGE Polska Grupa Energetyczna S.A. Capital Group

These interim condensed consolidated financial statements were prepared by PGE Polska Grupa Energetyczna S.A. („PGE S.A.", „Company") with its registered office in Warsaw, 2 Mysia St. and comprise 3-month period ended March 31, 2011 ("financial statements"). The financial statements contain comparative data for the 3-month period ended March 31, 2010 and as of December 31, 2010.

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

PGE Polska Grupa Energetyczna S.A. was founded on the basis of the Notary Deed of August 2, 1990 and registered in the District Court in Warsaw, XVI Commercial Department on September 28, 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.

Core operations of the Group companies are as follows:
- production of electricity,
- production and distribution of heat,
- wholesale trade and retail sale of electricity,
- distribution of electricity,
- rendering of other services related to the above mentioned activities.

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

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

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2. Entities included in the Group

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

	Entity	Share of Capital Group entities as at March 31, 2011	The entity holding shares as at March 31, 2011	Share of Capital Group entities as at December 31, 2010	The entity holding shares as at December 31, 2010
	Segment: wholesale				
1.	PGE Polska Grupa Energetyczna S.A. *Warsaw*	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 generation				
3.	PGE Górnictwo i Energetyka Konwencjonalna S.A. *Bełchatów*	91.03%	PGE Polska Grupa Energetyczna S.A	91.03%	PGE Polska Grupa Energetyczna S.A
		7.88%	PGE Obrót S.A.	7.88%	PGE Obrót S.A.
		0.02%	PGE Energia Odnawialna S.A.	0.02%	PGE Energia Odnawialna S.A.
4.	PGE Elektrownia Opole S.A. *Brzezie*	85.00%	PGE Polska Grupa Energetyczna S.A	85.00%	PGE Polska Grupa Energetyczna S.A
5.	Przedsiębiorstwo Energetyki Cieplnej Sp. z o.o. *Zgierz*	50.97%	PGE Górnictwo i Energetyka Konwencjonalna S.A.	50.97%	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. *Warsaw*	100.00%	PGE Polska Grupa Energetyczna S.A.	100.00%	PGE Polska Grupa Energetyczna S.A.
8.	Elektrownia Wiatrowa Kamieńsk Sp. z o.o. *Kamieńsk*	100.00%	PGE Energia Odnawialna S.A.	100.00%	PGE Energia Odnawialna S.A.
9.	Elektrownia Wiatrowa Resko Sp. z o.o. *Czymanowo*	100.00%	PGE Energia Odnawialna S.A.	100.00%	PGE Energia Odnawialna S.A.
10.	Biogazownia Łapy Sp. z o.o. *Warsaw*	100.00%	PGE Energia Odnawialna S.A.	100.00%	PGE Energia Odnawialna S.A.
11.	Biogazownia Wożuczyn Sp. z o.o. *Warsaw*	100.00%	PGE Energia Odnawialna S.A.	100.00%	PGE Energia Odnawialna S.A.
12.	Elektrownia Wiatrowa Turów Sp. z o.o. *Warsaw*	100.00%	PGE Energia Odnawialna S.A.	100.00%	PGE Energia Odnawialna S.A.
13.	EO Baltica Sp. z o.o. *Warsaw*	100.00%	PGE Energia Odnawialna S.A.	100.00%	PGE Energia Odnawialna S.A.
14.	Bio-Energia ESP S.A. *Gdynia*	99.65%	PGE Energia Odnawialna S.A.	99.65%	PGE Energia Odnawialna S.A.
	Segment: distribution				
15.	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.

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	Entity	Share of Capital Group entities as at March 31, 2011	The entity holding shares as at March 31, 2011	Share of Capital Group entities as at December 31, 2010	The entity holding shares as at December 31, 2010
	Segment: retail sale				
16.	PGE Obrót S.A. *Rzeszów*	99.31%	PGE Polska Grupa Energetyczna S.A.	99.31%	PGE Polska Grupa Energetyczna S.A.
	Segment: Other				
17.	EXATEL S.A. *Warsaw*	94.938% 0.537% 0.137% 0.001%	PGE Polska Grupa Energetyczna S.A. PGE Inwest Sp. z o.o. PGE Obrót S.A. PGE Dystrybucja S.A.	94.938% 0.537% 0.137% 0.001%	PGE Polska Grupa Energetyczna S.A. PGE Inwest Sp. z o.o. PGE Obrót S.A. PGE Dystrybucja S.A.
18.	ELBIS Sp. z o.o. *Rogowiec*	100.00%	PGE Górnictwo i Energetyka Konwencjonalna S.A.	100.00%	PGE Górnictwo i Energetyka Konwencjonalna S.A.
19.	MEGAZEC Sp. z o.o. *Bydgoszcz*	100.00%	PGE Górnictwo i Energetyka Konwencjonalna S.A.	100.00%	PGE Górnictwo i Energetyka Konwencjonalna S.A.
20.	ELBEST Sp. z o.o. *Rogowiec*	100.00%	PGE Górnictwo i Energetyka Konwencjonalna S.A.	100.00%	PGE Górnictwo i Energetyka Konwencjonalna S.A.
21.	BESTUR Sp. z o.o. *Bełchatów*	100.00%	PGE Górnictwo i Energetyka Konwencjonalna S.A.	100.00%	PGE Górnictwo i Energetyka Konwencjonalna S.A.
22.	Przedsiębiorstwo Handlowo-Usługowe GLOBAL - TUR Sp. z o.o. *Bogatynia*	100.00%	PGE Górnictwo i Energetyka Konwencjonalna S.A.	100.00%	PGE Górnictwo i Energetyka Konwencjonalna S.A.
23.	Centrum Szkolenia i Rekreacji „Energetyk" Sp. z o.o. *Krasnobród*	99.50%	PGE Obrót S.A.	99.50%	PGE Obrót 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*	97.40% 2.60%	PGE Górnictwo i Energetyka Konwencjonalna S.A PGE Elektrownia Opole S.A.	97.40% 2.60%	PGE Górnictwo i Energetyka Konwencjonalna S.A 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. *Czymanowo*	100.00%	PGE Energia Odnawialna S.A.	100.00%	PGE Energia Odnawialna S.A.
28.	Dychowskie Przedsiębiorstwo Eksploatacji Elektrowni ELDEKS Sp. z o.o. *Dychów*	100.00%	PGE Energia Odnawialna S.A	100.00%	PGE Energia Odnawialna S.A
29.	ESP Usługi Sp. z o.o. in liquidation *Warsaw*	100.00%	PGE Energia Odnawialna S.A.	100.00%	PGE Energia Odnawialna S.A.
30.	Budownictwo Hydroenergetyka - Dychów Sp. z o. o *Dychów*	100.00%	PGE Energia Odnawialna S.A	100.00%	PGE Energia Odnawialna S.A
31.	Przedsiębiorstwo Usługowo-Produkcyjne ELTUR-SERWIS Sp. z o.o. *Bogatynia*	100.00%	PGE Górnictwo i Energetyka Konwencjonalna S.A.	100.00%	PGE Górnictwo i Energetyka Konwencjonalna S.A.

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	Entity	Share of Capital Group entities as at March 31, 2011	The entity holding shares as at March 31, 2011	Share of Capital Group entities as at December 31, 2010	The entity holding shares as at December 31, 2010
32.	Przedsiębiorstwo Produkcji Sorbentów i Rekultywacji ELTUR–WAPORE Sp. z o.o. *Bogatynia*	100.00%	PGE Górnictwo i Energetyka Konwencjonalna S.A.	100.00%	PGE Górnictwo i Energetyka Konwencjonalna S.A.
33.	Przedsiębiorstwo Usługowo-Produkcyjne TOP SERWIS Sp. z o.o. *Bogatynia*	100.00%	Przedsiębiorstwo Usługowo-Produkcyjne ELTUR-SERWIS Sp. z o.o.	100.00%	Przedsiębiorstwo Usługowo-Produkcyjne ELTUR-SERWIS Sp. z o.o.
34.	ENESTA Sp. z o.o. *Stalowa Wola*	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.
35.	NOM Sp. z o.o. *Warsaw*	100.00%	EXATEL S.A.	100.00%	EXATEL S.A.
36.	Energo-Tel S.A. *Warsaw*	51.10%	EXATEL S.A.	51.10%	EXATEL S.A.
		48.90%	NOM Sp. z o.o.	48.80%	NOM Sp. z o.o.
37.	E-Telbank Sp. z o.o. *Warsaw*	100.00%	EXATEL S.A.	100.00%	EXATEL S.A.
38.	RAMB Sp. z o.o. *Bełchatów*	100.00%	PGE Górnictwo i Energetyka Konwencjonalna S.A.	100.00%	PGE Górnictwo i Energetyka Konwencjonalna S.A.
39.	Przedsiębiorstwo Transportowo Sprzętowe BETRANS Sp. z o.o. *Rogowiec*	100.00%	PGE Górnictwo i Energetyka Konwencjonalna S.A.	100.00%	PGE Górnictwo i Energetyka Konwencjonalna S.A.
	Przedsiębiorstwo Transportowe ELTUR-TRANS Sp. z o.o. *Bogatynia*	-	a)	100.00%	PGE Górnictwo i Energetyka Konwencjonalna S.A.
40.	Przedsiębiorstwo Wulkanizacji Taśm i Produkcji Wyrobów Gumowych BESTGUM POLSKA Sp. z o.o. *Rogowiec*	100.00%	PGE Górnictwo i Energetyka Konwencjonalna S.A.	100.00%	PGE Górnictwo i Energetyka Konwencjonalna S.A.
41.	ELECTRA Bohemia s.r.o. *Czech Republic*	100.00%	PGE Polska Grupa Energetyczna S.A.	100.00%	PGE Polska Grupa Energetyczna S.A.
42.	Zakład Energetyczny Białystok Przedsiębiorstwo Transportowo-Usługowe ETRA Sp. z o.o. *Białystok*	100.00%	PGE Dystrybucja S.A	100.00%	PGE Dystrybucja S.A
43.	Zakład Energetyczny Białystok Przedsiębiorstwo Produkcyjno-Handlowe EKTO Sp. z o.o. *Białystok*	100.00%	PGE Dystrybucja S.A.	100.00%	PGE Dystrybucja S.A.
44.	Energetyczne Systemy Pomiarowe Sp. z o.o. *Białystok*	100.00%	PGE Dystrybucja S.A.	100.00%	PGE Dystrybucja S.A.
45.	Zakład Energetyczny Białystok Pracownia Projektowa ENSPRO Sp. z o.o. *Białystok*	100.00%	PGE Dystrybucja S.A.	100.00%	PGE Dystrybucja S.A.
46.	EPO Sp. z o.o. *Opole*	50.00%	PGE Elektrownia Opole S.A.	50.00%	PGE Elektrownia Opole S.A.
47.	Zakład Obsługi Energetyki Sp. z o.o. *Zgierz*	100.00%	PGE Dystrybucja S.A.	100.00%	PGE Dystrybucja S.A.
48.	PGE Serwis Sp. z o.o. *Warsaw*	100.00%	PGE Polska Grupa Energetyczna S.A.	100.00%	PGE Polska Grupa Energetyczna S.A.
49.	PGE Systemy S.A. *Warsaw*	100.00%	PGE Polska Grupa Energetyczna S.A.	100.00%	PGE Polska Grupa Energetyczna S.A.

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	Entity	Share of Capital Group entities as at March 31, 2011	The entity holding shares as at March 31, 2011	Share of Capital Group entities as at December 31, 2010	The entity holding shares as at December 31, 2010
50.	PGE Inwest Sp. z o.o. *Warsaw*	100.00%	PGE Polska Grupa Energetyczna S.A.	100.00%	PGE Polska Grupa Energetyczna S.A.
51.	PGE Inwest spółka z ograniczoną odpowiedzialnością II S.K.A. w likwidacji *Warsaw*	100.00%	PGE Polska Grupa Energetyczna S.A.	100.00%	PGE Polska Grupa Energetyczna S.A.
52.	PGE Energia Jądrowa S.A. *Warsaw*	100.00%	PGE Polska Grupa Energetyczna S.A.	100.00%	PGE Polska Grupa Energetyczna S.A.
53.	PGE EJ 1 sp. z o.o. *Warsaw*	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.

a) On March 31, 2011 Przedsiębiorstwo Transportowe ELTUR-TRANS Sp. z o.o. merged with Przedsiębiorstwo Transportowo Sprzętowe BETRANS Sp. z o.o.

Apart from the above-mentioned transformations, during the period ended March 31, 2011 there were no other significant changes in the structure of Capital Group companies under full consolidation. Moreover, on March 14, 2011 the Extraordinary Assembly Partners of ESP-Usługo Sp. z o.o. adopted a resolution on dissolution of the company and on March 18, 2011 Assembly of Partners of PGE Inwest Spółka z ograniczoną odpowiedzialnością II spółka komandytowo-akcyjna adopted a resolution on liquidation of a company.

After the balance sheet date and before the preparation date of these financial statements, the merger of ELBEST sp. z o.o. with its registered office in Rogowiec (acquiring company) with: BESTUR sp. z o.o. with its registered office in Bełchatów, Przedsiębiorstwo Handlowo – Usługowe Global Tur sp. z o.o. with its registered office in Bogatynia, Energetyk SPA sp. z o.o. with its registered office in Iwonicz – Zdrój, Centrum Szkolenia i Rekreacji „Energetyk” sp. z o.o. with its registered office in Krasnobród and Przedsiębiorstwo Produkcyjno–Usługowe Media–Serwis Dychów sp. z o.o. with its registered office in Dychów (acquired companies) was registered. The share capital of the company amounts to PLN 123,895 thousand.

After the merger the shareholders structure of the company is as follows:

- PGE Górnictwo i Energetyka Konwencjonalna S.A. holds 91.19% in the share capital of the company,
- PGE Dystrybucja S.A. holds 7.6% in the share capital of the company,
- PGE Obrót S.A. holds 1.12% in the share capital of the company.
- PGE Energia Odnawialna S.A. holds 0.09% in the share capital of the company.

3. The basis for the preparation of the financial statements

Statement of compliance

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

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

The foregoing financial statements should be read in conjunction with the audited consolidated financial statements of PGE Polska Grupa Energetyczna S.A. Capital Group prepared in accordance with International Financial Reporting Standards for the financial year ended December 31, 2010.

General rules of preparation

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

Due to the reporting requirements resulting from the IPO of PGE Polska Grupa Energetyczna S.A., the parent company, the Management Board of the Company decided to implement the IFRS approved by the European Union (EU). The first consolidated financial statements of the PGE Capital Group containing an explicit and unreserved statement of compliance with IFRS were the consolidated financial statements for the year ended December 31, 2007.

In companies: PGE Polska Grupa Energetyczna S.A., PGE Górnictwo i Energetyka Konwencjonalna S.A., PGE Obrót S.A. and PGE Energia Odnawialna S.A. the bookkeeping is maintained in accordance with IFRS approved by the EU. ELECTRA Deutschland GmbH and ELECTRA Bohemia s.r.o., which have registered offices in Germany and Czech Republic respectively, run their books in compliance with German and Czech reporting regulations respectively. The bookkeeping in the other PGE Capital Group entities is maintained in accordance with the accounting policies (principles) specified in the Accounting Act dated September 29, 1994 ("the Accounting Act") and related bylaws, and other applicable regulations ("Polish Accounting Standards"). The consolidated financial statements comprise adjustments which were not included in the books of Group entities. The purpose of these adjustments was to make the financial statements of these entities compliant with IFRS approved by the EU.

4. Presentation currency

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

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

	March 31, 2011	December 31, 2010	March 31, 2010
USD	2.8229	2.9641	2.8720
EURO	4.0119	3.9603	3.8622

5. Changes in applied accounting policies

During the reporting period the Capital Group did not introduce any significant changes in the applied accounting policies.

Changes in presentation of particular liabilities, provisions, revenues and expenses

The Group changed the presentation of some liabilities and short-term provisions as well as some revenues and expenses at the preparation of the consolidated financial statements for the full year 2010. In connection with the above, the Group transformed the data presented in the comparative consolidated statement of the financial position, consolidated statement of the comprehensive income and consolidated statement of cashflows, as shown in the following tables:

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Period ended March 31, 2010 *(data published)*	**Change of revenues and expenses presentation principles**	**Period ended March 31, 2010** *(data restated)*
Operating activity			
Revenues from sales of finished goods and merchandise with excise tax	5,207,994	(19,113)	5,188,881
Excise tax	(117,831)		(117,831)
Revenues from sale of finished goods and merchandise	5,090,163	(19,113)	5,071,050
Revenues from sale of services	177,137	251	177,388
Revenues from lease	7,253	-	7,253
Revenues from LTC	65,554	-	65,554
Total sales revenues	**5,340,107**	**(18,862)**	**5,321,245**
Costs of goods sold	(3,382,595)	18,862	(3,363,733)
Gross profit on sales	**1,957,512**	**-**	**1,957,512**
Other operating revenues	103,413	-	103,413
Distribution and selling expenses	(403,559)	-	(403,559)
General and administrative expenses	(222,716)	-	(222,716)
Other operating expenses	(99,335)	-	(99,335)
Financial revenues	161,431	-	161,431
Financial expenses	(158,337)	-	(158,337)
Share of profit of associate	36,606	-	36,606
Profit before tax	**1,375,015**	**-**	**1,375,015**

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CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	As at March 31, 2010 *(data published)*	Change of liabilities and provisions presentation principles	As at March 31, 2010 *(data restated)*
Short-term liabilities			
Trade liabilities	861,751	-	861,751
Financial liabilities at fair value through profit or loss	41,935	-	41,935
Interest-bearing loans and borrowings	2,454,980	-	2,454,980
Other short-term financial liabilities	352,036	47,863	399,899
Other short-term non-financial liabilities	1,124,384	39,940	1,164,324
Income tax liabilities	146,181	-	146,181
Deferred income	35,332	-	35,332
Accruals	579,817	(579,817)	-
Short-term provisions	998,607	492,014	1,490,621
Short-term liabilities related to discontinued operations	11,871	-	11,871
			-
Total short-term liabilities	**6,606,894**	**-**	**6,606,894**

CONSOLIDATED STATEMENT OF CASH FLOWS

	Period ended March 31, 2010 *(data published)*	Change of liabilities and provisions presentation principles	Period ended March 31, 2010 *(data restated)*
Cash flows – operating activities			
Gross profit related to discontinued operations	(313)	-	(313)
Gross profit related to continuing operations	1,375,015	-	1,375,015
Adjustments for:			
Share of profit from associates accounted for under the equity method	(36,605)	-	(36,605)
Depreciation and amortization	657,863	-	657,863
Interest and dividend, net	26,476	-	26,476
Profit / (loss) on investment activities	46,290	-	46,290
Change in receivables	227,607	-	227,607
Change in inventories	156,343	-	156,343
Change in liabilities (excluding loans and bank credits)	(213,900)	46,240	(167,660)
Change in prepayments and accruals	(312,086)	47,741	(264,345)
Change in provisions	43,743	(93,981)	(50,238)
Income tax paid	(428,703)	-	(428,703)
Other	(11,250)	-	(11,250)
Net cash from operating activities	**1,530,480**	**-**	**1,530,480**

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

6. New standards and interpretations published, not yet effective

The following standards, changes in already effective standards and interpretations are not approved by the European Union and are not effective as at January 1, 2011:

- IFRS 9 *Financial instruments* – effective for the periods starting January 1, 2013;
- amendments to IFRS 7 *Financial instruments: Disclosures* – effective for the periods starting July 1, 2011;
- amendments to IAS 12 *Income tax* – effective for the periods starting January 1, 2012;
- amendments to IFRS 1 *First-time adoption of IFRS*– effective for the periods starting July 1, 2011.

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

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

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

7. Change of estimates

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

- Provisions are liabilities of uncertain timing or amount. During the reporting period the Group changed estimations regarding the basis and amounts of some provisions. Changes of estimations are presented in Note 14 to the foregoing financial statements.

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

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

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Period ended March 31, 2011	Segment: Conventional Generation	Segment: Renewable Energy	Segment: Wholesale	Segment: Distribution	Segment: Retail sale	Other activities	Consolidation adjustments	Total continued operations
Revenues								
Revenues from sales to external customers	3,329,675	106,421	294,589	204,821	3,171,155	187,529		7,294,190
Revenues from sales between segments	203,834	33,257	2,603,032	1,154,688	135,372	215,140	(4,345,323)	
Total revenues from segments	**3,533,509**	**139,678**	**2,897,621**	**1,359,509**	**3,306,527**	**402,669**	**(4,345,323)**	**7,294,190**
Financial result								
EBIT *)	**1,131,795**	**27,503**	**50,771**	**252,529**	**57,748**	**7,358**	**(8,108)**	**1,519,596**
EBITDA **)	**1,501,941**	**59,809**	**56,982**	**475,210**	**59,884**	**33,019**	**(8,174)**	**2,178,671**
Net financial revenues (expenses)								(9,277)
Share of profit of associates								60,774
Profit (loss) before tax								**1,571,093**
Income tax								(310,266)
Net profit (loss) for the period								**1,260,827**
Assets and liabilities								
Assets of the segment	27,391,638	1,736,874	480,258	13,499,811	1,804,322	1,077,624		45,990,527
Shares in associates	9,919					1,461,019		1,470,938
Unallocated assets								4,623,524
Total assets								**52,084,989**
Liabilities of the segment	3,724,169	111,416	720,075	1,995,451	872,925	265,460	(523)	7,688,973
Unallocated liabilities								5,450,679
Total liabilities								**13,139,652**
Other information on business segments								
Capital expenditures	429,648	33,855	1,770	136,016	839	18,221		620,349
Amortisation, depreciation and revaluation write-offs	370,258	32,113	6,368	224,467	(2,430)	25,659		656,435
Other non-monetary expenses	105,998	1,129	7,420	20,968	320,047	(2,591)		452,971

*) EBIT = profit (loss) before tax and financial revenues / expenses
**) EBITDA = EBIT + amortization (without write-offs)

Interim condensed consolidated financial statements prepared in accordance with International Financial Reporting Standards for 3-month period ended March 31, 2011 (all amounts in PLN thousand)

Period ended March 31, 2010 *(data restated)*	Segment: Conventional Generation	Segment: Renewable Energy	Segment: Wholesale	Segment: Distribution	Segment: Retail sale	Other activities	Consolidation adjustments	Total continued operations
Revenues								
Revenues from sales to external customers	675,112	120,424	1,183,551	134,509	3,038,044	169,605		**5,321,245**
Revenues from sales between segments	2,672,910	29,728	2,094,029	1,154,333	269,776	225,195	(6,445,971)	
Total revenues from segments	**3,348,022**	**150,152**	**3,277,580**	**1,288,842**	**3,307,820**	**394,800**	**(6,445,971)**	**5,321,245**
Financial result								
EBIT *)	**929,017**	**26,618**	**104,917**	**172,595**	**82,129**	**16,970**	**3,069**	**1,335,315**
EBITDA **)	**1,302,210**	**58,854**	**111,153**	**388,559**	**84,177**	**45,296**	**1,367**	**1,991,616**
Net financial revenues (expenses)								3,094
Share of profit of associates								36,606
Profit (loss) before tax								**1,375,015**
Income tax								(261,123)
Net profit (loss) for the period								**1,113,892**
Assets and liabilities								
Assets of the segment	25,388,810	1,664,447	609,493	13,340,784	1,590,823	1,036,398		43,630,755
Shares in associates						1,391,302		1,391,302
Unallocated assets								9,527,798
Total assets								**54,549,855**
Liabilities of the segment	4,447,126	101,362	648,830	2,017,046	852,390	238,875	(4,276)	8,301,353
Unallocated liabilities								6,233,161
Total liabilities								**14,534,514**
Other information on business segments								
Capital expenditures	666,101	18,053	6,249	124,085	638	19,203		834,329
Amortisation, depreciation and revaluation write-offs	371,912	32,598	6,224	216,270	12,136	29,568		668,708
Other non-monetary expenses	84,124	4,997	(40,083)	(5,518)	(97,190)	8,741		(44,929)

*) EBIT = profit (loss) before tax and financial revenues / expenses
**) EBITDA = EBIT + amortization (without write-offs)

Interim condensed consolidated financial statements prepared in accordance with International Financial Reporting Standards for 3-month period ended March 31, 2011 (all amounts in PLN thousand)

9. Revenues and expenses

9.1. Sales revenues

	3 months ended March 31, 2011	3 months ended March 31, 2010 _Data restated_
Sales revenues		
Sales of finished goods and merchandise with excise tax	_7,019,227_	_5,188,881_
Excise tax	_(106,974)_	_(117,831)_
Revenues from sale of finished goods and merchandise	6,912,253	5,071,050
Revenues from sale of services	203,853	177,388
Revenues from lease	7,263	7,253
Revenues from LTC compensations	170,821	65,554
Total sales revenues	**7,294,190**	**5,321,245**

Significant increase in sales of finished goods and merchandise in the period ended March 31, 2011 as compared to the period ended March 31, 2010 results mainly from changes in electricity trading model in PGE Capital Group, which is described in Note 21.2 to the foregoing financial statements.

The issue of revenues from LTC compensation is described in Note 21 to the foregoing financial statements.

9.2. Costs by kind and functions

	3 months ended March 31, 2011	3 months ended March 31, 2010 _Data restated_
Costs by kind		
Depreciation/ amortization	659,075	656,301
Materials and energy	978,634	973,285
External services	582,399	600,406
Taxes and charges	644,634	602,465
Personnel expenses	979,305	939,969
Other cost by kind	61,270	47,449
Total costs by kind	**3,905,317**	**3,819,875**
Change in inventories	(35,723)	(24,587)
Cost of products and services for the entity's own needs	(598,371)	(238,761)
Distribution and selling expenses	(426,050)	(403,559)
General and administrative expenses	(183,638)	(222,716)
Cost of merchandise and materials sold	2,495,210	433,481
Cost of goods sold	**5,156,745**	**3,363,733**

Significant increase in cost of merchandise and materials sold in the period ended March 31, 2011 as compared to the period ended March 31, 2010 results mainly from changes in electricity trading model in PGE Capital Group, which is described in Note 21.2 to the foregoing financial statements.

Interim condensed consolidated financial statements prepared in accordance with International Financial Reporting Standards for 3-month period ended March 31, 2011 (all amounts in PLN thousand)

9.3. Other revenues and expenses

	3 months ended March 31, 2011	3 months ended March 31, 2010 *Data restated*
Other operating revenues	50,159	103,413
Distribution and selling expenses	(426,050)	(403,559)
General and administrative expenses	(183,638)	(222,716)
Other operating expenses	(58,320)	(99,335)
Financial revenues	91,970	161,431
Financial expenses	(101,247)	(158,337)
Share of profit of associates	60,774	36,606

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

9.4. Other operating revenues

	3 months ended March 31, 2011	3 months ended March 31, 2010
Profit on disposal of property, plant and equipment and intangible assets	331	1,815
Reversal of revaluation write offs on receivables	6,695	6,007
Reversal of revaluation write offs on other assets	236	725
Provisions reversed	9,368	48,813
Compensations, penalties and fines received	19,989	30,298
Donations received	3,122	2,203
Taxes refunded	412	1,934
Court fees refunded	619	519
Assets acquired free of charge	403	537
Redemption of liabilities	20	332
Re-invoiced revenues	8	11
Surpluses / disclosures of assets	109	-
Other	8,847	10,219
Total other operating revenues	**50,159**	**103,413**

Interim condensed consolidated financial statements prepared in accordance with International Financial Reporting Standards for 3-month period ended March 31, 2011 (all amounts in PLN thousand)

9.5. Other operating expenses

	3 months ended March 31, 2011	3 months ended March 31, 2010
Creation of revaluation write offs on receivables	9,013	23,831
Creation of revaluation write offs on other assets	1,555	1,081
Loss on disposal of property, plant and equipment and intangible assets	365	5,256
Provisions created	15,786	18,203
Donations granted	320	560
Compensations	1,092	966
Court fees paid	1,421	982
Liquidation of damages/ removal of failures	14,664	22,598
Liquidation of non-current assets	2,998	9,618
Redemption of receivables	582	620
Costs of social activities	1,513	1,501
Other	9,011	14,119
Total other operating expenses	**58,320**	**99,335**

9.6. Financial revenues

	3 months ended March 31, 2011	3 months ended March 31, 2010
Financial revenues from financial instruments	**88,961**	**155,005**
Dividends	-	21
Interest revenue	31,499	85,494
Revaluation/ reversal of revaluation write offs	4,615	8,665
Profit on disposal of investments	8,479	18,174
Foreign exchange gains	44,368	42,651
Other financial revenues	**3,009**	**6,426**
Provisions reversed	1,073	1,030
Interest on state receivables	35	4,272
Other	1,901	1,124
Total financial revenues	**91,970**	**161,431**

Interim condensed consolidated financial statements prepared in accordance with International Financial Reporting Standards for 3-month period ended March 31, 2011 (all amounts in PLN thousand)

9.7. Financial expenses

	3 months ended March 31, 2011	3 months ended March 31, 2010
Financial expenses from financial instruments	**54,392**	**121,047**
Interest expenses	34,845	73,974
Revaluation	5	4,234
Impairment losses	2,073	11,529
Loss on disposal of investments	-	426
Foreign exchange losses	17,469	30,884
Other financial expenses	**46,855**	**37,290**
Discount unwinding	44,411	31,879
Interest paid relating to state liabilities	199	698
Provisions created (interest)	1,159	562
Other	1,086	4,151
Total financial expenses	**101,247**	**158,337**

Interim condensed consolidated financial statements prepared in accordance with International Financial Reporting Standards for 3-month period ended March 31, 2011 (all amounts in PLN thousand)

10. Creation and reversal of revaluation write-offs

	3 months ended March 31, 2011	3 months ended March 31, 2010
Revaluation write-offs for property, plant, and equipment		
- creation of write-off	842	246
- reversal of write-off	167	1,889
Revaluation write-offs for intangible assets		
- creation of write-off	-	-
- reversal of write-off	-	-
Revaluation write-offs for inventories		
- creation of write-off	3,272	5,399
- reversal of write-off	3,064	2,959

11. Income tax

Corporate income tax in profit and loss account	3 months ended March 31, 2011	3 months ended March 31, 2010
Current income tax	146,841	226,774
Deferred income tax	163,425	34,349
Total	**310,266**	**261,123**

Moreover, the Group recognized provision for deferred tax in the amount of PLN 173 thousand in other comprehensive income for the period ended March 31, 2011 and the provision for deferred tax in the amount of PLN 3 thousand in other comprehensive income for the period ended March 31, 2010.

Interim condensed consolidated financial statements prepared in accordance with International Financial Reporting Standards for 3-month period ended March 31, 2011 (all amounts in PLN thousand)

12. Share capital

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

All the shares of the Company have been paid.

As at January 1, 2011 and as at March 31, 2011 the State Treasury held 69.29% of the shares of the Company and the other shareholders held 30.71% of the shares of the Company.

Own shares

As a result of the merger of PGE S.A. with PGE GiE S.A. and PGE Energia S.A. in 2010, PGE S.A. purchased 22,898 own shares for PLN 579 thousand. The shares were purchased for redemption. The redemption of the own shares will take place pursuant to a resolution by the general meeting, through the decrease in the share capital.

13. Dividends paid and dividends declared

	3-month period ended March 31, 2011	Year ended December 31, 2010
Cash dividends from ordinary shares		
Dividend paid from retained earnings	-	1,335,330
Dividend paid from other capital reserves	-	-
Total cash dividends from ordinary shares	**-**	**1,335,330**
Cash dividends per share (in PLN)	-	0.71*

* On August 31, 2010 PGE Polska Grupa Energetyczna S.A. merged with PGE Górnictwo i Energetyka S.A. and PGE Energia S.A. In the consolidated financial statements, the relevant values related to the merged companies are presented as dividends paid from the Company's capital. In connection with the above, the number of shares after the capital increase as a result of merger was applied for the calculation of the dividend per share. Dividend per share paid by PGE Polska Grupa Energetyczna S.A. , without the influence of the merger with the subsidiaries, amounted to PLN 0.76.

Dividend for 2010

The Management Board of the Company proposed to distribute the profit for the year 2010 for the dividend for shareholders in amount of PLN 0.65 per share. Given the number of own shares as at the date of profit distribution proposal, the dividend shall amount to PLN 1,215,345 thousand. As at the date of these financial statements, this motion has not yet been approved by the General Meeting of the Company.

Interim condensed consolidated financial statements prepared in accordance with International Financial Reporting Standards for 3-month period ended March 31, 2011 (all amounts in PLN thousand)

14. Provisions

	Post-employment benefits	Provisions for jubilee benefits	Provisions for third parties claims	Provisions for legal disputes	Provisions for purchase of CO_2 emission rights	Provisions for employee claims	Provisions for recultivation	Provisions for liquidation of property, plant and equipment	Provisions for certificates of origin held for redemption	Other provisions	TOTAL
As at January 1, 2011	**1,236,661**	**781,541**	**350,293**	**91,529**	**322,734**	**18,932**	**930,166**	**95,441**	**563,336**	**350,302**	**4,740,935**
Costs of present employment/ Benefits paid	(38,295)	(27,038)	-	-	-	-	-	-	-	-	**(65,333)**
Actuarial gains and losses excluding discount rate adjustment	-	-	-	-	-	-	-	-	-	-	**-**
Costs of past employment	2,399	-	-	-	-	-	-	-	-	-	**2,399**
Revaluation of provision/ discount rate adjustments	-	-	-	-	-	-	-	-	-	-	**-**
Interest costs	16,409	10,079	4,103	-	-	-	12,787	1,033	-	-	**44,411**
Created during the year	-	-	4,593	9,745	67,358	858	5,818	-	326,755	107,943	**523,070**
Reversed	-	-	-	(8,964)	-	(1,231)	-	-	(3,849)	(8,961)	**(23,005)**
Used	-	-	-	(110)	-	(479)	(1,830)	(6,094)	(537,586)	(74,204)	**(620,303)**
Other changes	(257)	(395)	130	3,275	-	1,573	95	-	205	(8,783)	**(4,157)**
As at March 31, 2011	**1,216,917**	**764,187**	**359,119**	**95,475**	**390,092**	**19,653**	**947,036**	**90,380**	**348,861**	**366,297**	**4,598,017**
Short-term	**93,090**	**90,060**	**358,989**	**62,843**	**321,966**	**4,638**	**2,540**	**11,650**	**348,861**	**219,820**	**1,514,457**
Long-term	**1,123,827**	**674,127**	**130**	**32,632**	**68,126**	**15,015**	**944,496**	**78,730**	**-**	**146,477**	**3,083,560**

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

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	Post-employment benefits	**Provisions for jubilee benefits**	**Provisions for third parties claims**	**Provisions for legal disputes**	**Provisions for purchase of CO_2 emission rights**	**Provisions for employee claims**	**Provisions for recultivation**	**Provisions for liquidation of property, plant and equipment**	**Provisions for certificates of origin held for redemption**	**Other provisions**	**TOTAL**
As at January 1, 2010 *(data restated)*	**1,131,702**	**801,866**	**351,023**	**85,378**	**383,025**	**29,349**	**903,661**	**102,055**	**415,155**	**602,866**	**4,806,080**
Costs of present employment	28,163	43,803	-	-	-	-	-	-	-	-	**71,966**
Actuarial gains and losses excluding discount rate adjustment	(45,822)	(53,829)	-	-	-	-	-	-	-	-	**(99,651)**
Benefits paid	(44,973)	(81,597)	-	-	-	-	-	-	-	-	**(126,570)**
Costs of past employment	9,897		-	-	-	-	-	-	-	-	**9,897**
Revaluation of provision/ discount rate adjustments	74,119	25,880	-	-	-	-	1,030		-	-	**101,029**
Interest costs	71,961	44,405	-	-	-	-	47,321	5,614	-	-	**169,301**
Created during the year			109,883	47,366	233,182	24,530	36,443	1,997	152,032	406,943	**1,012,376**
Reversed			(110,613)	(34,937)	(14,899)	(22,667)	(52,136)	(8,549)	(360)	(301,627)	**(545,788)**
Used				(653)	(310,638)	(9,444)	(6,628)	(5,676)	(3,491)	(355,296)	**(691,826)**
Transfer to discontinued operations	(250)	(713)	-	-	-	-	-	-	-	(1,101)	**(2,064)**
Other changes	11,864	1,726	-	(5,625)	32,064	(2,836)	475	-	-	(1,483)	**36,185**
As at December 31, 2010	**1,236,661**	**781,541**	**350,293**	**91,529**	**322,734**	**18,932**	**930,166**	**95,441**	**563,336**	**350,302**	**4,740,935**
Short-term	**97,819**	**92,297**	**350,293**	**61,238**	**269,781**	**3,614**	**4,057**	**17,744**	**563,336**	**208,461**	**1,668,640**
Long-term	**1,138,842**	**689,244**	**-**	**30,291**	**52,953**	**15,318**	**926,109**	**77,697**	**-**	**141,841**	**3,072,295**

14.1. Provisions for post-employment benefits

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

14.2. Provisions for jubilee benefits

According to the corporate system of remuneration the employees of the Group 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 value of these provisions in the financial statements is taken from the forecast of valuation prepared by the independent actuary.

14.3. Provisions for third-party claims

Provisions presented in this position relate mainly to dispute of the parent company with Alpiq Holding AG. The issue was described in Note 15.3 to the foregoing consolidated financial statements.

14.4. Provision for legal disputes

Provisions for the use of land

Entities of the PGE Group create provisions related to a non-agreed usage of property. This issue mainly relates to distribution companies, which own distribution grids. As of the reporting date the provision amounted to ca. PLN 56 million. The provision is created to cover claims under court proceedings.

Claim of Tajfun Real Sp. z o.o.

In 2005, EXATEL S.A. filed a statement on termination of the Lease Agreement of Tajfun building in Warsaw, effective August 1. Tajfun Real Sp. z o.o. filed to the Court of Arbitration at National Chamber of Commerce, a claim to establish that the Lease Agreement is binding for both parties until July 31, 2010 and related to the payment of the rent for August 2005. On January 24, 2006, Tajfun Real Sp. z o.o. terminated the lease agreement without the period of notice. By the verdict of May 11, 2007, the Supreme Court dismissed the further appeal of EXATEL S.A. related to the verdict of the Appeal Court in Warsaw of November 8, 2006 which confirmed that the Agreement on lease of the Tajfun building was binding until July 31, 2010. On September 11, 2007, Tajfun Real Sp. z o.o. filed to the Court of Arbitration at National Chamber of Commerce a claim for payment the rent for the period from September to January 2006. As at the balance sheet date the related provision amounted to PLN 12,047 thousand. The Management Board of EXATEL S.A. commenced actions aimed at conciliatory finishing of the dispute, in the form of an amicable settlement on the subject issue between EXATEL S.A. and Tajfun Real Sp. z o.o.

14.5. Provisions for costs of recultivation

Provision for recultivation of mine storage

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

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

Provision for recultivation of ash storages

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

14.6. Liquidation of property, plant and equipment

The provision for liquidation of property, plant and equipment relates to assets of Elektrownia [Power Plant] Turów, which are going to be decommissioned until year 2013. The obligation of liquidation and recultivation of the area results from „The integrated permission for running electric energy and heat energy producing installation" in which the restitution of the area was specified. The amount of created provision was established on the basis of expected liquidation expenses and was recognized on the debit side in initial value of property, plant and equipment. Depreciation of activated liquidation expenses which is calculated on the basis of the estimated economic useful life of an appropriate item of property, plant and equipment as well as change in provision value resulting from unwinding of the discount as at the balance sheet date have influence on financial result of the Group. As at the balance sheet date, the value of provision amounts to PLN 90 million.

14.7. Provision for certificates of origin held for redemption

The companies from the Group create 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 balance sheet date amounted to PLN 349 million.

14.8. Other provisions

Dispute concerning the scope of taxation with real estate tax

The main caption of other provisions is a provision covering declared and predicted claims relating to real estate tax. The matter of dispute was described in detail in Note 19.2 of the foregoing consolidated financial statements

Dispute concerning the redemption of certificates of origin

Energy companies included in the Group are parties 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 the balance sheet date the provision created to cover possible penalties amounted to approximately PLN 38 million. The final value of possible penalties will depend on the results of the court proceedings and may be subject to change.

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Annual bonus

Employees of PGE Capital 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 the balance sheet date created provisions amounted to PLN 78 million.

Provision for unused annual leave

The Group creates provision for employee benefits related to unused annual leave. As at the balance sheet date the provision amounted to PLN 68.6 million.

15. Legal claims and contingent liabilities and receivables

Contingent liabilities	**As at March 31, 2011**	**As at December 31, 2010**
Credit collateral	-	-
Repayment of bill collateral	-	-
Liabilities from bank guarantees	-	-
Collaterals for repayment of bank guarantees granted	-	-
Legal claims	8,150	8,598
Contractual fines and penalties	12,481	12,481
Damages related to non-agreed usage of property	3,327	-
Real estate property buyout	164	-
Other contingent liabilities	178,787	180,338
Total contingent liabilities	**202,909**	**201,417**

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

15.1. Contractual fines and penalties

Contingent liability concerns contractual fines for delays in realization of investments commenced by the Mayor of Gryfino City and Commune for PGE Zespół Elektrowni Dolna Odra S.A. In December 2010 proceedings were suspended.

15.2. Other contingent liabilities

Other contingent liabilities mainly (PLN 128 million) comprise of possible refund of means that were received by PGE Group entities from environmental funds for chosen investments. If an investment does not bring expected environmental effect, a relevant financing will have to be reimbursed. Furthermore, in this position are presented, among others, values of environmental disputes and contractors claims related to allowing excise tax in the price of electricity.

15.3. Other legal and court issues

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

Since 2009 PGE Polska Grupa Energetyczna S.A. has been a party of the arbitrage proceedings with Atel. The proceedings are conducted before the Arbitration Tribunal in Vienna. The subject-matter of the dispute is the claim by Atel resulting from lack of realisation and cancellation of the agreement for electricity supplies, that was concluded between the parties on October 28, 1997. The claim by Atel amounts to approximately EUR 155 million according to the supplemented (changed) suit by Atel dated October 4, 2010. The arbitrage proceedings is taking place in writing and consists of exchange of pleadings between the parties, presenting the Tribunal with written statements by witnesses, experts and involved parties.

The hearing, which will summarize the outcomes of proceedings in writing, and during which witnesses and experts will be heard by the Arbitration Tribunal, was scheduled for early April 2011. Due to the illness of one of the arbiters, the April date was cancelled. A new date is scheduled for mid-September 2011.

On the basis of available data, to its best knowledge, PGE S.A. made a reasonable estimation of claims which can be reasonably considered justified by the Arbitration Tribunal. The Company established a provision for the claim thus estimated, in the amount exceeding EUR 89 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 indemnity.

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 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 appearing of not collected gas fuel. In the opinion of the Group, the terms and conditions of gas fuel deliveries from PGNiG do not differ from other gas fuel deliveries conditions on the Polish market.

Non-agreed usage of property

Due to the nature of its activities the companies of the Capital 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 14.8 to the foregoing consolidated 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.

Legal issues related to the Consolidation Programme

Within the Consolidation Programme, on August 3 and August 16, 2010 extraordinary general meetings of PGE Group entities passed resolutions to consolidate. Few shareholders of these companies lodged appeals against the above mentioned resolutions for determining their invalidity and possibly demanding that the resolutions be repealed. Furthermore, these claimants would demand safeguarding of their claims through withholding enforcement of consolidation resolutions and suspension of registration proceedings.

The above claims were made with reference to the consolidation resolution adopted by PGE Elektrownia Opole S.A. and consolidation resolutions adopted by some companies merged within the Mining and Conventional Generation business line (PGE Górnictwo i Energetyka Konwencjonalna S.A. conducts these cases), as well as a consolidation resolution adopted by shareholders of PGE Górnictwo i Energetyka S.A. (PGE S.A. conduct this case).

In the cases under consideration, PGE S.A. and other defendants prepared relevant statements of defense and they are taking active part in the proceedings, where they question all claims raised by the shareholders. PGE S.A. and the remaining defendant companies believe that the shareholders' claims are unfounded and the actual aim of these shareholders is to question the parity of shares, which is unacceptable on the basis of procedure of appeals against resolutions.

In few cases the Regional Courts, ruled to repeal the plaintiff’s claims. The claims were lodged by one of the shareholders of Secus Investement Sp. z o.o. fund.

Furthermore, there are some proceedings pending resulting from challenging the decision concerning registration of merger within the conventional generation business line.

On February 11, 2011 the Regional Court in Łódź, pursuant to an appeal against the decision of District Court for Łódź-Śródmieście in Łódź, 20th Commercial Department of the National Court Register ("District Court") to register consolidation of 12 merged companies with PGE Elektrownia Bełchatów S.A. (with omission of PGE Elektrownia Opole S.A. - with respect to which registration proceedings were suspended) ruled to repeal the disputed decision and to forward the matter for reconsideration to the District Court. The judgment was passed pursuant to consideration of appeals lodged by three non-controlling shareholders. As a result of the reconsideration the District Court on May 11, 2011 issued verdict on entry of the merger of 12 merged companies with PGE Elektrownia Bełchatów S.A. (with omission of PGE Elektrownia Opole S.A.). The verdict is legally valid.

At the present stage of arbitration proceedings, it is not possible to foresee the remaining courts' decisions.

15.4. Contingent receivables

As at balance sheet date, the Group has ca. PLN 51 million of contingent receivables related to a reimbursement of VAT and financing received from the National Fund for Environmental Protection and Water Management to realize a project of purification of mining water in PGE Górnictwo i Energetyka Konwencjonalna S.A. Branch KWB Turów.

Additionally, the matter of a possible excise tax refund for the years 2006-2008 was described in detail in Note 19.1 to the foregoing consolidated financial statements.

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16. Financial liabilities at amortized cost

As at March 31, 2011	Long-term	Short-term	Total
Interest bearing loans and credits	1,659,394	1,221,127	**2,880,521**
Bonds issued	498,008	20,679	**518,687**
Trade liabilities	-	814,593	**814,593**
Other financial liabilities	15,397	311,935	**327,332**
Total	**2,172,799**	**2,368,334**	**4,541,133**

Until the preparation date of these financial statements the Company repaid all debt presented in the above table as long-term liabilities resulting from the issued bonds.

Within the presented above interest-bearing loans and credit the Group presents, among others:
- investment credit drawn by PGE Elektrownia Opole in Bank PEKAO S.A. The purpose of the credit is to finance the construction of units 1-4 with a carrying amount of PLN 725,836 thousand as at March 31, 2011;
- investment credit drawn by PGE Górnictwo i Energetyka Konwencjonalna S.A Branch Elektrownia Bełchatów in Nordic Investment Bank in order to finance an 858 MW unit's construction with a carrying amount of PLN 596,858 thousand as at March 31, 2011;

In the first quarter of 2011 PGE Polska Grupa Energetyczna S.A. held a possibility to issue bonds within two bond programmes.

Bond Issue Program in the PGE Capital Group

On November 9, 2010 PGE signed two agreements concerning the bond issue programme ("Programme"):

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

On February 3, 2011 Powszechna Kasa Oszczędności Bank Polski S.A. joined the Programme as the new Underwriter of the Programme.

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

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

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

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

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

The bondholders are only entitled to the benefits of monetary nature.

The Company begin bond issued under the Programme stating from January 26, 2011.

17. Investment liabilities

As at March 31, 2011, the Group was obliged to incur capital expenditures on property, plant and equipment in the amount of PLN 4,781,203 thousand. These amounts relate to modernization of Group's assets and a purchase of machinery and equipment. The major investment currently realized in the Group is the construction of an 858 MW unit together with a transmission line realized by PGE Górnictwo i Energetyka S.A. Branch Elektrownia Bełchatów. The estimated capital expenditures related to this investment to be incurred amount to PLN 342 million. Other significant investment liabilities concern:

- The modernization of units no. 7-12 in PGE Górnictwo i Energetyka Konwencjonalna S.A Branch Elektrownia Bełchatów for the total amount of ca. PLN 2,937 million;
- The modernization of units no. 5 and 6 in PGE Górnictwo i Energetyka Konwencjonalna S.A Branch Elektrownia Bełchatów for a total amount of ca. PLN 232 million;
- The construction of installation for desulfurization of fumes and construction of biomass cauldron in PGE Górnictwo i Energetyka Konwencjonalna S.A Branch Zespół Elektrowni Dolna Odra for a total amount of ca. PLN 222 million;
- Investment liabilities related to PGE Dystrybucja S.A. in total amount of ca. PLN 409 million.

18. Information on related entities

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

18.1. Associates

	Sale to related parties	Purchase from related parties	Trade receivables from related parties	Trade liabilities towards related parties
Jan 1, 2011 -Mar 31, 2011	11,524	6,842	4,369	2,371
Jan 1, 2010 -Mar 31, 2010	9,733	6,155	3,579	1,784

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18.2. State Treasury companies

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

	Sale to related parties	Purchase from related parties	Trade receivables from related parties	Trade liabilities towards related parties
Jan 1, 2011 -Mar 31, 2011	510,653	1,283,971	170,936	486,620
Jan 1, 2010 -Mar 31, 2010	1,268,654	1,216,601	369,165	416,540

The most important transactions with State Treasury entities refer to PSE-Operator S.A., professional power stations, regional energy companies and purchase of coal from Polish mines. The decrease in the sales to the State Treasury related parties is connected with the new electricity trading model, which is described in Note 21.2 to the foregoing financial statements.

Moreover, the PGE Capital Group makes significant deals on energy market through Towarowa Giełda Energii S.A. (TGE, Power Exchange). Due to the fact that this entity is only the organiser of the trading on the power exchange, the transactions made through TGE are not treated as transactions with related entity.

18.3. Key management personnel remuneration

The key management comprises the Management Boards and Supervisory Boards of the parent, holding entities of particular business line, PGE Elektrownia Opole S.A., EW Kamieńsk S.A. and Exatel S.A.

	3 months ended March 31, 2011	3 months ended March 31, 2010
Short-term employee benefits (salaries and salary related costs)	4,066	11,805
Jubilee and retirement benefits	-	152
Post-employment benefits	89	140
Termination benefits	41	57
Total remuneration paid to key management	**4,196**	**12,154**

	3 months ended March 31, 2011	3 months ended March 31, 2010
The Management Board of the Parent	358	780
The Supervisory Board of the Parent	93	177
The Management Boards – subsidiaries	3,393	8,891
The Supervisory Boards – subsidiaries	352	2,306
Total	**4,196**	**12,154**

On August 31, 2010 36 core companies merged into 4 holdings. The decline of number of members of the Management Boards and Supervisory Boards in these companies resulted in decrease of key management personnel remuneration presented in the above tables.
Moreover the remuneration of the Management Boards and Supervisory Boards of other companies of PGE Group amounted to PLN 6,682 thousand in the reporting period and to PLN 4,948 thousand in the comparable period.

19. Tax settlements

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

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

Basic tax rates in 2010 were as follows: corporate income tax – 19%, basic value added tax rate – 22%, lowered: 7%, 3%, 0%, furthermore some goods and products were subject to tax exemption. In 2011 the tax rates are as follows: corporate income tax – 19%, basic value added tax rate – 23%, lowered: 8%, 5%, 0%, furthermore some goods and products are subject to tax exemption.

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

19.1. Excise tax

As a result of non-compliance of Polish legal regulations on excise tax on electricity with the European Union law, on February 11, 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.

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

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

Furthermore, on October 15, 2009, the Supreme Administrative Court addressed the Constitutional Tribunal with a legal inquiry whether the provisions of the Tax Ordinance Act which are basis for the Group production companies to apply for an excise tax excess payment refund are complicate with the Constitution of the Republic of Poland. On November 29, 2010 the Constitutional Tribunal decided to discontinue the proceedings on assessing non-compliance with the Constitution of the legal regulation concerning overpayment. According to the Constitutional Tribunal the Tax Ordinance Act assumes a certain model of proceeding with overpaid tax and reasons substantiating reimbursement of such tax, and the fact of incurring the economic burden of tax is not recognized by the Act as a reason substantiating return of overpaid tax. On the other hand, the Supreme Administrative Court in a decision of February 3, 2011 presented a legal issue for resolving by the entire Economic Chamber of the Supreme Administrative Court on whether an amount of excise tax paid for sale of electricity qualifies as overpaid tax if the payer did not suffer a financial disadvantage for reason of making that payment.

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

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

Furthermore, in September 2009 the Company filed a motion related to an excess payment of the excise tax on imports and Intra-Community acquisition of electric energy in the period from January 2006 to February 2009. The Company states that the excess payment results from discrepancies between the Polish and Community law. In February 2010, the Company received the decision concerning the period of January-December 2006 refusing statement of existence of excess payment of excise tax on imports of electric energy. In May 2010, the Company received a part of decisions refusing to grant a request to determine overpayment, and decisions determining the excise tax obligation for intra-Community purchases of electricity, against which the Company had lodged appeals. In December 2010, the Company received decisions from the Director of Customs Chamber, which fully supported the decisions of the first instance authority concerning excise tax on energy import in 2006. The Company filed complaints against these decisions to the Provincial Administrative Court in Warsaw. The issue has not been finally resolved as at the date of preparation of these financial statements. The total amount of claim is PLN 54 million plus interest charge.

19.2. Real estate tax

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

Attempts to widen the subject of taxation made by the organisations gathering local government entities are unfavorable in this scope. The amendment of the Building Law, to which the Act on taxes and local fees refers to with regard to definition of the subject of taxation, was one of these attempts. As a result of such amendment the definition of the building was changed with an act of April 23, 2009 on the change to the Building Law act and to some other acts. According to the new definition, the notion of a building also comprises installations and technical machinery used for exploitation of a particular building. At the moment the mentioned change in Building Law regulations has not come into force yet due to the submission the request by the President of Poland to the Constitutional Court to examine the compatibility of some regulations with the constitution – but not those on the change of definition of the building. The verdict of Constitutional Court stated that abolishing the requirement to obtain a building permit is contrary with constitution. Because the fact that the provisions regarding building permit are inextricably linked to the whole amendment to the act, the amendment will not come into force. It means that the new definition of building will also not come into force.

Taking into consideration changes mentioned above and proceedings carried out in the Group entities, the Group disloses appropriate provisions as at March 31, 2011. No further details are disclosed due to the professional secret, which is compliant with IAS 37.92.

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20. Discontinued operations

Since 2009 the PGE Capital Group has been implementing the „Non-core" Programme, which purpose is to transparently separate core business activities from other activities and disposal and reorganization of so called non-core assets. As at the day of preparation of the foregoing financial statements, the Group has recognized two subsidiaries which meet the definition of discontinued operations under IFRS 5: Pracownia Projektowa ENSPRO sp. z o.o. and Budownictwo-Hydroenergetyka Dychów 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 March 31, 2011.

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

	Revenues	Expenses	Gross profit	Income tax	Net profit
BH Dychów Sp. z o.o.	16,000	15,289	711	151	560
PP ENSPRO Sp. z o.o.	373	290	83	16	67
TOTAL	**16,373**	**15,579**	**794**	**167**	**627**

The participation of shareholders of the parent company in the net result attributable to discontinued operations amounted to PLN 627 thousand in 2011. In the comparable period of 2010 the net profit of the above mentioned companies amounted to PLN 202 thousand. As at December 31, 2010 total assets of companies mentioned above amounted to PLN 35,727 thousand and the sum of their liabilities amounted to PLN 28,215 thousand.

In the statement of the comprehensive income for the period ended March 31, 2010 the financial data of Towarzystwo Gospodarcze BEWA Sp. z o.o. and Przedsiębiorstwo Wielobranżowe Agtel Sp. z o.o. were presented in the discontinued operations – both companies were sold during 2010.

21. Significant events during the reporting period and subsequent events

21.1. 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 PGE Group companies 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:

• PGE Elektrownia Opole S.A. – PLN 1,965,700 thousand;

• PGE Górnictwo i Energetyka Konwencjonalna S.A. Branch Elektrownia Turów – PLN 2,571,151 thousand;

• PGE Górnictwo i Energetyka Konwencjonalna S.A. Branch Zespół Elektrowni Dolna Odra – PLN 633,496 thousand;

• PGE Górnictwo i Energetyka Konwencjonalna S.A. Branch Elektrociepłownia Rzeszów – PLN 421,810 thousand;

• PGE Górnictwo i Energetyka Konwencjonalna S.A. Branch Elektrociepłownia Lublin Wrotków – PLN 616,743 thousand;

• PGE Górnictwo i Energetyka Konwencjonalna S.A. Branch Elektrociepłownia Gorzów – PLN 108,028 thousand.

Under the Long-Term Contracts Act, PGE Group companies will 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 was performed by the Group with the best of its knowledge in this area and with support of external experts.

Proceedings related to annual adjustment of stranded costs for the year 2008

On July 31, 2009, the President of ERO issued against the PGE Group production entities, entitled to receive means to cover stranded costs on the basis of LTC Act, decisions on annual adjustment of stranded costs for the year 2008 and annual adjustments of costs related to natural gas-fired entities for the year 2008 (the first, but incomplete year of this Act being effective). These decisions were unfavorable for particular PGE Group entities and according to the Group these have been issued with a breach of the LTC Act. In accordance with the decisions, producers from PGE Capital Group have been obliged to return to the Zarządca Rozliczeń S.A. the total amount of ca. PLN 140.8 million.

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

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

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

Proceedings related to annual adjustment of stranded costs and gas costs for the year 2009

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

The Board of Directors of PGE as well as the Management Boards of PGE Capital Group producers under the compensation system do not agree with the decisions of the President of ERO.

Between August 16 and 23, 2010, the entities filed appeals to the District Court in Warsaw, Competition and Consumer Protection Court. The entities raise mostly:

- the correction of annual adjustment of stranded costs of particular entities against the rules related to producers of capital group enclosed in the Art. 32 of the LTC Act;
- calculation of revenues from sales of energy on the basis of hypothetical price, disregarding revenues from production capacity;
- issues of interest charged by the President of the Energy Regulatory Authority;
- as regards the gas-related adjustment of Elektrociepłownia Lublin Wrotków and Elektrociepłownia Rzeszów - calculation of annual adjustment on the basis of the quantity of electricity produced from gas fuel acquired in course of exercising the "take or pay" obligation instead of the quantity of electricity produced from gas fuel acquired in aggregate during the given year; and calculation of the President of the Energy Regulatory Authority related to production cost of 1 MWh of electricity, disregarding overheads related to electricity production.

Suspended proceedings

In February and March 2011, the Court for Competition and Consumer Protection suspended appeal proceedings related to annual adjustment of stranded costs of Elektrownia Opole for 2008, appeal proceedings related to annual adjustment of stranded costs of Elektrownia Turów for year 2008 and 2009, appeal proceedings related to annual adjustment of stranded costs of Zespół Elektrowni Dolna Odra for 2009, appeal proceedings related to annual adjustment of stranded costs of EC Gorzów and appeal proceedings related to annual adjustment of stranded costs and gas adjustment of EC Lublin Wrotków. The reason for suspending these proceedings was the vacancy in the position of President of the Energy Regulatory Office. Taking above into account, it should be assumed that the next proceedings concerning the generators from PGE Capital Group may be suspended until the appointment of the ERO President.

Agreement with Zarządca Rozliczeń S.A. concerning deferred payment of amounts arising from the decision by the President of the Energy Regulatory Authority to determine adjustment of stranded costs for 2009 for Elektrownia Opole, Elektrownia Turów, Elektrociepłownia Rzeszów and Elektrociepłownia Lublin Wrotków

In August 2010, PGE Elektrownia Opole S.A., Elektrownia Turów, Elektrociepłownia Rzeszów and Elektrociepłownia Lublin-Wrotków entered into agreements with Zarządca Rozliczeń to defer repayment of the entire amount of stranded costs. Under the agreement, repayment of adjustment values was postponed for two months. In addition, the agreement obliged the companies to pay interest to Zarządca Rozliczeń S.A. on the deferred adjustments, where Zarządca Rozliczeń S.A. is entitled to charge interest for any delay by either company in repayment of the adjustment amounts at the statutory rate of penalty interest. The companies authorized Zarządca Rozliczeń S.A. to offset the entire amount outstanding as at the due date stipulated in the agreements, including any interest charged according to the agreements, with any amounts receivable by these companies as advances for covering stranded costs falling due at the earliest date. The agreement foresees an option of entering into separate annexes. Until the date of these financial statements, the companies exercised this option twice. PGE Elektrownia Opole S.A. had its payments postponed until December 16, 2011 (amounting to PLN 241.7 million), and the following generators: Elektrownia Turów, Elektrociepłownia Rzeszów and Elektrociepłownia Lublin-Wrotków had their payments postponed until February 17, 2011 (in an aggregate amount of PLN 323.0 million).

Final adjustment of stranded costs concerning Elektrociepłownia Gorzów

On September 17, 2010 PGE Górnictwo i Energetyka Konwencjonalna S.A. Branch Elektrociepłownia Gorzów filed a notice to the President of the Energy Regulatory Office concerning inactivity in respect of initiating a procedure to determine final adjustment amount. President of the Energy Regulatory Office responded to the above notice on October 12, 2010, stating that issuance of a final adjustment decision was unfeasible. On November 19, 2010 Elektrociepłownia Gorzów lodged a complaint with the Provincial Administrative Court concerning inactivity of the President of the Energy Regulatory Office, whereto the President of the Energy Regulatory Office responded in its notice of December 20, 2010. On January 24, 2011 the entity filed a reply to the ERO President's response to the complaint with the Provincial Administrative Court. On March 18, 2011 the Provincial Administrative Court rejected the complaint stating that it is not the proper authority to solve that matter. On April 27, 2011 Elektrociepłownia Gorzów filed appeal against that verdict to the Supreme Administrative Court.

Summary

The Management Board of the Group is convinced that the appeal shall be settled in favor of the particular entities subject to compensations, therefore the PGE Group recognizes the revenues from LTC compensations in accordance with the LTC Act interpretation adopted by the Group. Due to the above, the present consolidated financial statements do not comprise the adjustments resulting from unfavorable interpretations included in the ERO decisions both in relation to revenues for the year 2008, revenues for the year 2009, revenues for the year 2010 as well as to assess revenues for the period ended March 31, 2011. However, we draw attention to the uncertainty of final interpretation of the President of ERO in this scope.

21.2. Changes in Electricity Trading Model in PGE Capital Group

The amended Energy Law, which introduced an obligation for electricity producers to sell electricity produced in a given year on the power exchanges, came into force on August 9, 2010.

As a result of implementation of the above regulation, since August 2010, some part of energy produced by generators from PGE Group, was sold to power exchange. Starting from 2011, according to the approved trading model, generators from PGE Group sell their energy pursuant to art. 49a of the Energy Law, i.e.:

- in the range falling under art. 49a section 1 and 2 of the Energy Law (so called "power exchange obligation") - whole volumes of energy produced on wholesale market, in the mode indicated in the Energy Law,
- in the range exempt from "power exchange obligation" because of energy production from highly-efficient cogeneration and from renewable sources - directly to PGE S.A.,
- in the range exempt from "power exchange obligation" because of energy sales to consumers via direct line - directly to these consumers.

Introduction of power exchange obligation was aimed at larger transparency of the transactions, supporting of creation of reliable price indexes and securing public and equal access to the electricity.

The change of the trading model caused increase in revenues and expenses presented by the Capital Group in the consolidated statement of comprehensive income.

21.3. Legal issues connected with the Consolidation Program

The status of the legal issues connected with the Consolidation Program in PGE Capital Group was described in Note 15.3 to the foregoing financial statements.

B. OTHER INFORMATION TO CONSOLIDATED QUARTERLY REPORT

1. Organisation of the Capital Group.

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

1.1. Description of the activity of PGE Capital Group

The Group currently organizes its activities in five business lines:

(i) Mining and Conventional Generation (previously Mining and Generation), including extraction of lignite and generation of electricity and heat from conventional sources and distribution of heat, (ii) Renewable Energy, including electricity generation from renewable sources and in pumped storage power plants, (iii) Wholesale Trading of electricity, related products and fuels; (iv) Distribution of electricity and (v) Retail Sales of electricity. Apart from 5 main business lines, PGE Group holds activities in other areas, including telecommunication. The Group also comprises of other companies, whose main activity is providing ancillary control services to companies from the energy and mining sectors. These services comprise, inter alia: (i) building, renovation and modernization works and investments in electricity equipment, (ii) comprehensive diagnostic tests and measurements of electricity machines and equipment; (iii) managing by-products of coal combustion, developing, implementing and using technologies and rehabilitation of degraded areas, and (iv) medical and social services.

1.2. Changes in organisation of the Capital Group

The changes which occurred in the Group's structure during 3-month period ended March 31, 2011 are presented in Note 2 to consolidated financial statements and described below.

Shares in subsidiaries and associates

In the first quarter of 2011 PGE S.A. changed its equity interest in the following entities:

- on February 4, 2011 the meeting of shareholders of Electra Deutschland GmbH, adopted a resolution on increasing the share capital of the company by EUR 2,000,000 to EUR 3,350,000. PGE S.A. took up the share in the increased share capital. The increase of the share capital was registered on March 1, 2011.
- on February 24, 2011 PGE Polska Grupa Energetyczna S.A. purchased 17 inscribed shares of PGE Obrót S.A. from its minority shareholders (constituting 0.0003% of the share capital of the company).

In the first quarter of 2011 PGE Group companies increased their capital exposure in the following entities:

- on January 19, 2011 a share capital increase was registered for Energetyczne Towarzystwo Finansowo-Leasingowe Energo-Utech S.A. (a company in which PGE Energia Odnawialna S.A. holds 50% in the share capital) by PLN 10,000,000 (PLN 5,000,000 by each shareholder) by issue of 1,000 inscribed series C shares with a nominal value of PLN 10,000 (current value of the share capital amounts to PLN 22,400,000).
- on January 26, 2011 NOM Sp. z o.o. bought the minority stake in Energo-Tel S.A. (buyout of the minority shareholder that held 0.1% in the share capital). As a result of the transaction the share of NOM Sp. z o.o. in the share capital of Energo-Tel S.A. increased to 48.9%.
- on February 11, 2011 a share capital increase was registered for Eolica Wojciechowo Sp. z o.o. The company's share capital was increased from PLN 3,550,000 to PLN 9,550,000 i.e. by PLN 6,000,000 through creation of 12,000 new shares with a nominal value of PLN 500 each. New shares from the increased capital were acquired in half by partners: PGE Energia Odnawialna S.A. and Greentech Energy Systems A/S.
- on February 18, 2011 a share capital increase was registered for Biogazownia Wożuczyn Sp. z o.o. from PLN 250,000 to PLN 3,700,000, i.e. by PLN 3,450,000. Newly created shares were acquired by PGE Energia Odnawialna S.A.

- on February 18, 2011 a share capital increase was registered for Biogazownia Łapy Sp. z o.o. from PLN 250,000 to PLN 3,700,000, i.e. by PLN 3,450,000. Newly created shares were acquired by PGE Energia Odnawialna S.A.
- on March 31, 2011 the merger of Przedsiębiorstwo Transportowo Sprzętowe BETRANS Sp. z o.o. with its registered office in Rogowiec (acquiring company) with Przedsiębiorstwo Transportowe ELTUR-TRANS Sp. z o.o. with its registered office in Bogatynia (acquired company) was registered. The merger took place by way of transferring all assets of the acquired company to the acquiring company in exchange for the shares in the increased share capital of the acquiring company. The shares were assigned to the partner of the acquired company. As a result of the merger the share capital of „Betrans" Sp. z o.o. amounting to PLN 8,773,000 was increased by PLN 6,096,500 i.e. to PLN 14,869,500 through creation of 12,193 new shares with a nominal value of PLN 500 each. As at March 31, 2011 PGE Górnictwo i Energetyka Konwencjonalna S.A. is the only partner of the „Betrans" Sp. z o.o.

In the first quarter of 2011 PGE Group companies reduced their capital exposure in the following entities:

- on March 22, 2011 PGE Elektrownia Opole S.A. concluded an agreement, according to which it agreed for redemption and sold to Eltrans Sp. z o.o. with its registered office in Brzezie all shares possessed in that company, i.e. 384 shares, constituting 40% of the share capital and the company purchased these shares for redemption. After the transaction PGE Elektrownia Opole S.A. is no longer a partner in the company.
- on March 22, 2011 PGE Elektrownia Opole S.A. concluded an agreement, according to which it agreed for redemption and sold to Energotest-Diagnostyka Sp. z o.o. with its registered office in Brzezie all shares possessed in that company, i.e. 26 shares, constituting 26% of the share capital and the company purchased these shares for redemption. After the transaction PGE Elektrownia Opole S.A. is no longer a partner in the company.

On December 15, 2010 the General Meeting of Shareholders of Electra Slovakia s.r.o. adopted a resolution on liquidation of the company. On January 25, 2011 the liquidation was entered into commercial register and from that date company uses a firm Electra Slovakia s.r.o. in liquidation.

On February 23, 2011 the Extraordinary Assembly of Partners of Pensjonat Dychów Sp. z o.o. (100% owned by PGE Energia Odnawialna S.A.) decided to liquidate the company. The application for liquidation was submitted at the Regional Court in Zielona Góra on March 10, 2011.

On March 14, 2011 the Extraordinary Assembly of Partners of ESP-Usługi Sp. z o.o. (100% owned by PGE Energia Odnawialna S.A.) decided to dissolve and liquidate the company.

On March 30, 2011 the register court registered the liquidation of PGE Inwest Spółka z ograniczoną odpowiedzialnością II spółka komandytowo-akcyjna (in connection with the resolution of the Assembly of Partners dated March 18, 2011).

On March 31, 2011 the conversion of Bio-Energia ESP Sp. z o.o. into the joint stock company was registered – current name is Bio-Energia ESP S.A.

On March 31, 2011 the change of names of the branches of PGE Energia Odnawialna S.A. was registered:

- PGE Energia Odnawialna S.A. Branch in Solina changed to PGE Energia Odnawialna S.A. Branch ZEW Solina – Myczkowce in Solina,
- PGE Energia Odnawialna S.A. Branch in Międzybrodzie Bialskie changed to PGE Energia Odnawialna S.A. Branch ZEW Porąbka – Żar in Międzybrodzie Bialskie,
- PGE Energia Odnawialna S.A. Branch in Czymanowo changed to PGE Energia Odnawialna S.A. Branch EW Żarnowiec in Czymanowo,
- PGE Energia Odnawialna S.A. Branch in Dychów changed to PGE Energia Odnawialna S.A. Branch ZEW Dychów in Dychów.

During 3-month period ended March 31, 2011 PGE Capital Group did not discontinue any significant operations. Operations, which in the reporting period met the criteria of operations intended for discontinuation, were presented in Note 20 to the consolidated financial statements.

2. Factors and events influencing financial results.

2.1. Macroeconomic situation

The PGE Group runs its activities mainly in Poland. Therefore it has been and will be dependent on macroeconomic trends existing in Poland. As a rule, there is a positive correlation between the growth of electricity demand and economic growth. Thus, the macroeconomic situation of Poland has a direct impact on financial results achieved by the PGE Group. Particularly, the observed restoration of the activities in the economy triggered an increase in demand for electricity in the National Power System in the reporting period by approximately 1.5% in comparison to first quarter of 2010.

Table: Key economic ratios connected with the Polish economy

Key data	**1Q 2011**	**1Q 2010**
Real GDP growth (% of growth)[1]	4.2*	3.0
Annual inflation rate (% of consumer prices) [2]	4.3	2.6
Domestic electricity consumption (TWh) [3]	41.7	41.1

* estimates by Dom Maklerski Banku Handlowego S.A.

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

2.2. Electricity prices

Electricity prices quoted on domestic market as well as the situation on international market – due to the interconnectors between Poland and its neighbours - have significant impact on the financial results of PGE S.A. and PGE Capital Group

Wholesale electricity prices

Domestic market

The operation of the domestic wholesale electricity market in the first quarter of 2011 was subject to further transformation reflecting, among others, the requirements of art. 49a section 1 and 2 of the Energy Law (so called "power exchange obligation"). Particularly, the increased role of Towarowa Giełda Energii (TGE) in electricity trading was observed. Outside of TGE, electricity trading in the first quarter of 2011 was done under bilateral contracts, including: via TFS and GFI brokerage platforms and "POEE Energy Market of WSE" platform.

National energy consumption in the first quarter of 2011 amounted to 41.7 TWh, what meant growth by 1.5% in comparison to the first quarter of the previous year.

SPOT market
Average SPOT market price on TGE in the first quarter of 2011 was lower than in the last quarter of 2010, but higher by 5% than the first quarter of 2010. The average energy price for the base contracts in the first quarter of 2011 amounted to 199.44 PLN/MWh, while for the peak contracts the average energy price amounted to 213.30 PLN/MWh.

Chart. Daily and quarterly base prices in SPOT transactions in 2010–2011.

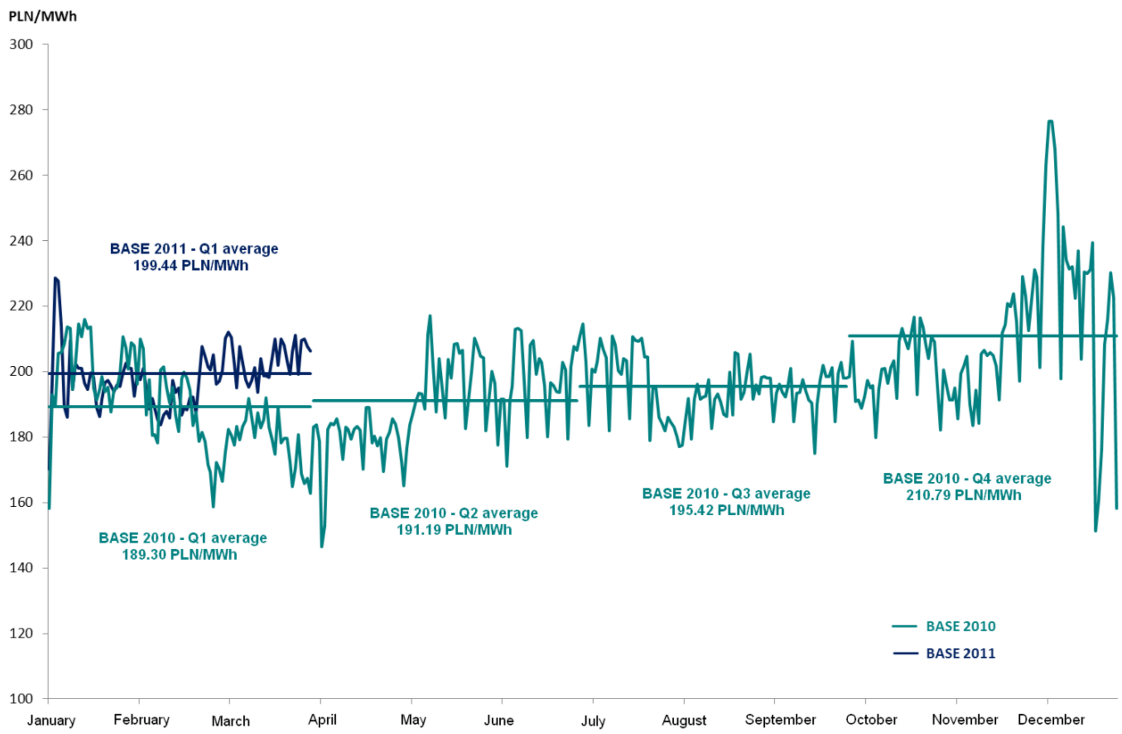
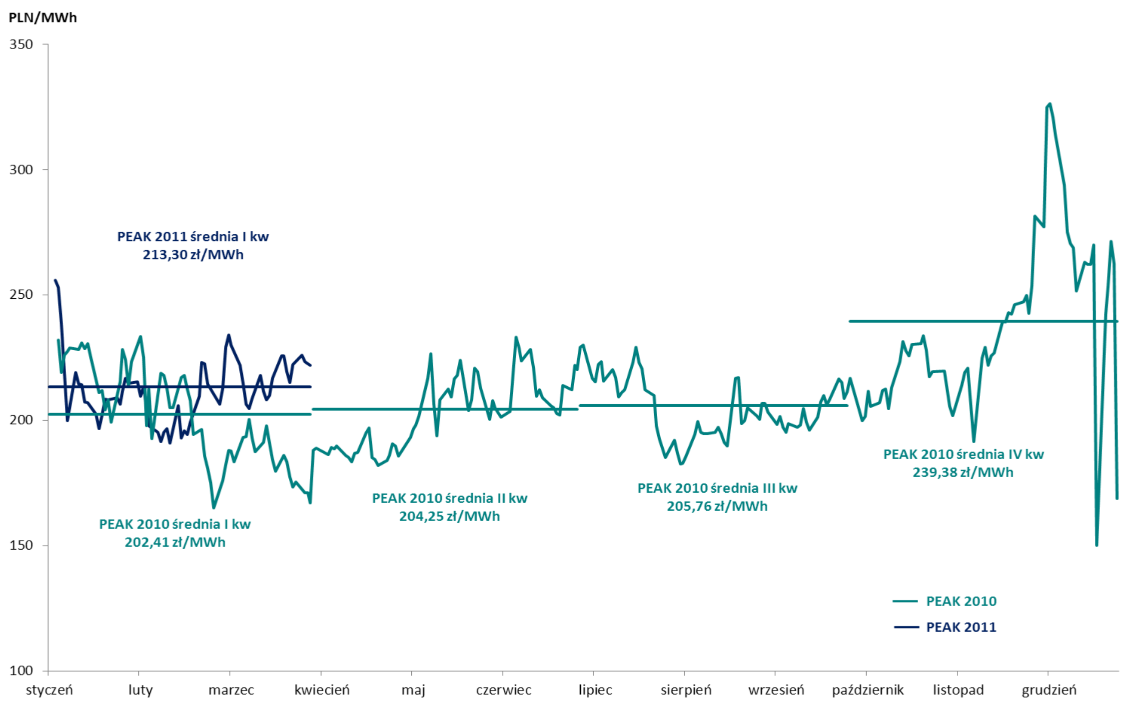


Chart. Daily and quarterly peak prices in SPOT transactions in 2010–2011.



Total trading volumes of electricity on SPOT market, both on TGE and POEE, amounted in the first quarter of 2011 to over 5.2 TWh as compared to 4.0 TWh in the previous quarter. Majority of the transactions volumes – app. 86% - was performed on TGE. It may be connected with the fact, that electricity sales through POEE was not approved by the ERO President as fulfillment of the power exchange obligation imposed on the generators.

Futures and forward market:

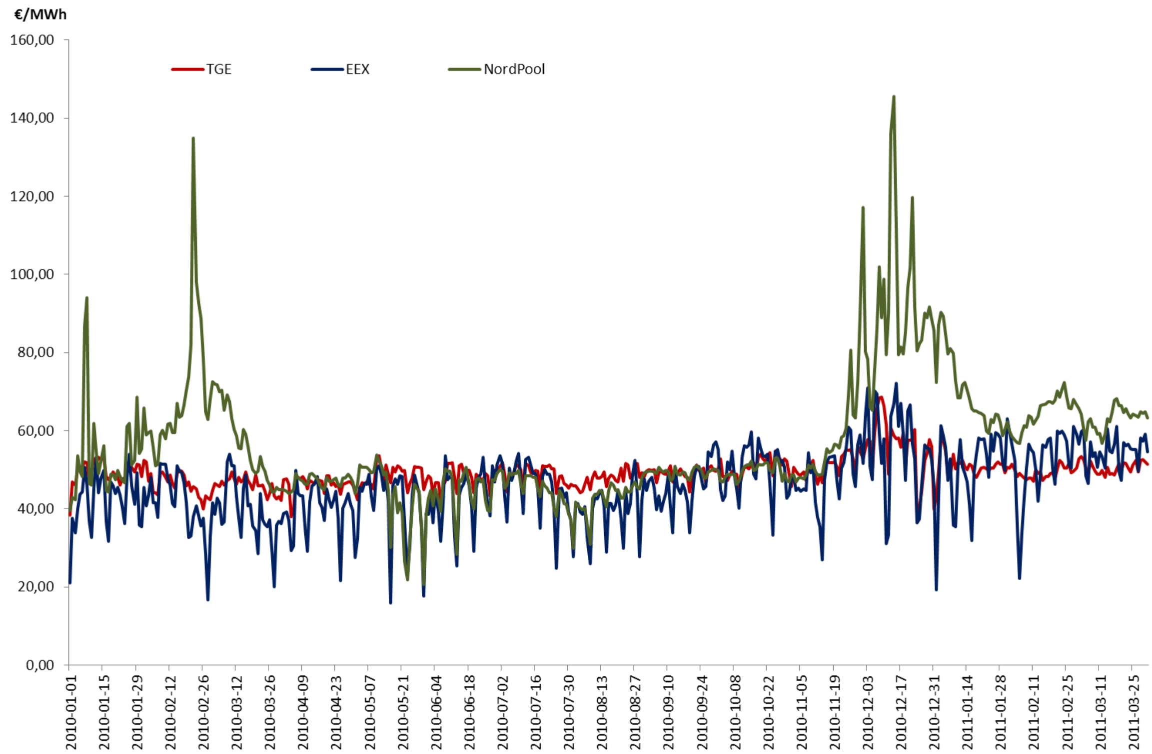
Just as on the SPOT market, TGE was the main trading place on the organised futures and forward market in the first quarter of 2011. The TGE's Futures and Forwards Market, totalled trading volume of 11.9 TWh, including trading on 2012 base products (BASE_Y-12) in amount of almost 8.3 TWh at an average price of 201.4 PLN/MWh. Remaining trading volumes relate mainly to the monthly and quarterly contracts.

The energy sales by producers outside of "power exchange obligation" in the first quarter of 2011 related to approximately 13.3 TWh of energy, at an average price of 196.05 PLN/MWh.

International market

The pressure from the neighbouring markets significantly affects the level of prices on the domestic market. In the first quarter of 2011 SPOT prices on German market (EEX), as well as on Scandinavian market (NordPool), were higher than on Polish market. Due to these conditionings, the international exchange balance changed - from 0.6 TWh export excess over import in the first quarter of 2010 to 1.6 TWh in the first quarter of 2011.

Chart: Comparison of electricity prices on TGE and international markets.



<u>Electricity prices on retail market</u>

In the first quarter of 2011 retail market was still being liberalized and developed. According to data gathered by the President of the Energy Regulatory Office under market monitoring, till the end of February 2011 more than 9 thousand of industrial customers (groups A, B and C) changed energy provider, including 1.4 thousand during first two months of 2011.

In the first quarter of 2011, in the segment of industrial customers, most of large energy sellers decided to raise electricity prices of standard products, by few percent on average. Simultaneously, energy sellers still increase range of offered products, for example by introducing temporary promotions. In addition, sale to the biggest customers is conducted on the basis of individually fitted offers.

Sale to individual customers (G tariff), for the most part, is conducted on the basis of tariffs approved by the President of the Energy Regulatory Office. From January 1, 2011 an average prices of electricity sold to these customers increased app. by 9%, depending on energy seller, tariff group and consumption structure.

2.3. Termination of long-term contracts (LTC)

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

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

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

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

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

2.4. Balance of energy of PGE Capital Group

As a result of change of the trading model, including implementation of the „power exchange obligation" (see Note 21.2 to the consolidated financial statements), the energy generators sell their energy on the exchange and PGE S.A. buys the energy on this market. This change resulted in significant increase of volumes and values of the energy sold and purchased by PGE Capital Group as compared to the previous periods, when generators from PGE Group sold most of the energy produced to other entities from PGE Group.

Sales of electricity

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

	Q1 2011	Q1 2010	% change
Sale in TWh, including:	**22.19**	**14.73**	***51%***
Sales to end-users *	7.96	7.88**	*1%*
Sales on the wholesale market, including	13.87	5.61	*147%*
Sales on the domestic wholesale market – power exchange	*12.55*	*1.26*	*896%*
Other sales on the domestic wholesale market	*1.06*	*3.90*	*-73%*
Sales to foreign customers	*0.26*	*0.45*	*-42%*
Sales on the Balancing Market	0.36	1.24	*-71%*

** after elimination of intra-group sales in PGE Group*
*** data restated for comparability*

In the first quarter of 2011 and in the first quarter of 2010 the Group sold 22.19 TWh and 14.73 TWh of electricity respectively. Changes in the sales structure in the first quarter of 2011 as compared to the first quarter of 2010 mainly resulted from the increase of sales on the wholesale market connected with the sale of energy by producers on the exchange market (so called "power exchange obligation"). The volume of the sales on the power exchange rose significantly while other sales on the wholesale market and sales to foreign customers decreased. The increase of sales to the end users occurred and the decrease of sales on the balancing market was recorded.

Purchases of electricity

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

	Q1 2011	Q1 2010	% change
Total purchases in TWh, including:	**9.62**	**2.30**	***318%***
Purchases on the domestic wholesale market, power exchange	8.26	-	-
Purchases on the domestic wholesale market, other	0.16	0.17	*-6%*
Purchases from abroad	0.08	0.18	*-56%*
Purchase from the Balancing Market..	1.12	1.95	*-43%*

In the first quarter of 2011 and in the first quarter of 2010 the companies from the Group purchased respectively 9.62 TWh and 2.30 TWh of electric power from outside the PGE Group. Changes in the sales structure for the 3-month period ended March 31, 2011 as compared to the 3-month period ended March 31, 2010 resulted mainly from the increased energy purchase on the power exchange. The decrease of purchase from abroad occurred in connection with the unfavourable situation on foreign markets, additionally the trade agreement with Vattenfall Aktiebolag on exchange of energy on link between Poland and Sweden expired in August 2010. The decrease of the purchase from the balancing market and other purchases on the wholesale market also occurred.

Production of electricity

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

	Q1 2011	Q1 2010	% change
Total energy generation (in TWh), including:	**14.07**	**14.00**	***1%***
Lignite-fired power plants	9.15	9.56	*-4%*
Coal-fired power plants..	3.42	3.04	*13%*
Coal-fired CHP plants..	0.50	0.47	*6%*
Gas-fired CHP plants..	0.76	0.63	*21%*
Pumped storage power plants..	0.10	0.14	*-29%*
Hydroelectric plants..	0.12	0.14	*-14%*
Wind power plants..	0.02	0.01	*100%*

In the first quarter of 2011 and in the first quarter of 2010 the Group produced 14.07 TWh and 14.00 TWh of electric power, respectively. The production increased in coal-fired power plants, coal-fired CHP plants and gas-fired CHP plants, as well as in wind power plants. The lignite-fired power plants, pumped storage power plants and hydroelectric plants decreased their production.

2.5. Production and sales of heat

In the first quarter of 2011 the net heat production and sales in PGE Group totaled 10.0 million GJ and 9.4 million GJ and were lower by approximately 7% and 13% respectively, as compared to the first quarter of 2010, mainly due to weather conditions.

2.6. Tariffs

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

Sales of electricity

Sales of electricity to recipients from the G tariff group, connected to the distribution network of PGE Dystrybucja S.A. in the first quarter of 2011 took place on the basis of electricity tariffs approved by the President of the Energy Regulatory Office. The proceedings on the approval of the tariffs for 2011 were started on October 18, 2010 and were finalized on December 16, 2010. The approved tariff came into force on January 1, 2011. In the first quarter of 2011 sales of energy to the corporate customers (key and business) and to individuals other than from G tariff group connected to the distribution network of PGE Dystrybucja S.A. took place on the basis of Tariff for customers from A, B, C and R tariff groups, approved by the resolution of the Management Board of PGE Obrót S.A. and effective from January 1, 2011, as well as on the basis of individually negotiated offers.

Distribution of electricity

Methodology of and assumptions for tariffs determination were published in the document "Tariffs for the DSO for the year 2011", which were prepared by the President of the Energy Regulatory Office and provided to distribution system operators.

First consolidated tariff of PGE Dystrybucja S.A. for 2011 was approved by the President of the Energy Regulatory Office on December 17, 2011 in the part concerning the transition fee and on December 21, 2011 in other part. Tariffs for 2011, according to resolution of the Management Board of PGE Dystrybucja S.A, dated December 24, 2011, came into force on January 5, 2011 (according to the decision of the President of the Energy Regulatory Office transmission fee has been in force since January 1, 2011).

Distribution tariffs for 2011 approved by the President of the Energy Regulatory Office, contributed to changes in average payments for customers in particular tariff groups in comparison to year 2010:

- A tariff group – decrease by 1.25 %,
- B tariff group – decrease by 2.35 %,
- C+R tariff group – increase by 2.61 %,
- G tariff group – increase by 3.34 %.

An average price of energy distribution services in comparison to last tariffs binding in 2010 increased by approximately 1.05%

During the reporting period the approved tariffs for distribution services were not subject to any changes.

Tariff for heat

Pursuant to Art. 47 section 1 and 2 of the Energy Law energy, companies, which hold licences, set tariffs for heat and propose their duration. Submitted tariff is subject to the approval by the President of the Energy Regulatory Office, provided that it is consistent with rules and regulations referred to in Art. 44-46 of the Energy Law. Conduction of proceedings concerning heat tariffs approval lies within the competence of regional Branches of Energy Regulatory Office.

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

2.7. Prices of fuel

Table: Volume and cost of purchase of fuels from third party suppliers in the 3-month period ended March 31, 2011 and March 31, 2010.

	Volume ('000 tonnes) for 3-month period ended March 31,		**Cost (PLN million) for 3-month period ended March 31,**	
	2011	**2010**	**2011**	**2010**
Hard coal	1,871	1,422	488	379
Gas ('000 m^3)	205,245	177,574	162	128
Biomass	136	93	48	32
Fuel oil	12	10	20	14
TOTAL			**718**	**553**

During the first quarter of 2011 the costs of purchasing primary fuels from providers outside the Group amounted to PLN 718.0 million and were higher by approximately 30% as compared to the first quarter of 2010. It is connected with the higher utilization of coal-fired power plants and gas-fired CHP plants for production of electricity.

In the first quarter of 2011 approximately 65% of the electricity produced was obtained from internally sourced lignite, whose price is less susceptible to fluctuations than fuel sourced externally. However, certain factors including the aggregate amount of lignite extracted, costs of overburden removal, labour costs and environmental provisioning affect mining costs incurred by the Group and thus PGE Group's generation costs.

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

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

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

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

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

The following table presents data concerning CO_2 emission from major Group installations in the first quarter of 2011 (as compared to the number of rights granted under free allocations).

Table: Emission of CO_2 from major Group installations in the first quarter of 2011 in comparison to the average yearly allocation of CO_2 emission rights.

Operator	CO_2 emissions in Q12011	Average yearly allocation for 2011 based on the NAP II
PGE GiEK Branch Elektrownia Bełchatów	7,685,538	26,937,155
PGE GiEK Branch Elektrownia Turów	2,836,053	11,158,636
PGE GiEK Branch Zespół Elektrowni Dolna Odra	1,805,206	5,680,137
PGE GiEK Branch Zespół Elektrociepłowni Bydgoszcz	390,711	1,155,252
PGE GiEK Branch Elektrociepłownia Gorzów	150,535	479,305
PGE GiEK Branch Elektrociepłownia Lublin-Wrotków	215,897	570,840
PGE GiEK Branch Elektrociepłownia Rzeszów	125,455	303,155
PGE GiEK Branch Elektrociepłownia Kielce	88,951	194,547
PGE GiEK Branch Elektrociepłownia Zgierz	36,560	104,988
PGE Elektrownia Opole S.A.	1,826,798	6,475,340
TOTAL	**15,161,704**	**53,059,355**

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

3.1. Financial results of the Group

Consolidated statement of comprehensive income

In the first quarter of 2011 total sales revenues of the Group amounted to PLN 7,294.2 million, as compared to PLN 5,321.2 million in the first quarter of 2010. The biggest increase of revenues was in the revenues from sales of finished goods and merchandise which grew by PLN 1,841.2 million mainly as a result of: (i) increased sales of electricity on the wholesale market in connection with the change of the trading model, including implementation of the power exchange obligation (see Note 21.2 to the consolidated financial statements), (ii) increase in revenues from sales of electricity to end-users, (iii) increased revenues from LTC compensations, (iv) increase in revenues from sales of certificates of origin and (v) increase in revenues from distribution services. The decrease in revenues from the electricity sales on the balancing market had the negative impact on the deviation of the revenues from sales of finished goods and merchandise.

Cost of goods sold in the first quarter of 2011 amounted to PLN 5,156.7 million, i.e. it grew by ca. 53% as compared to the first quarter of 2010. The increase of the cost of goods sold was caused by increase in value of cost of merchandise and materials sold by PLN 2,061.7 million in connection with the realisation of the power exchange obligation. The growth of cost of merchandise and materials sold was partly offset by lower cost of production of the sold products by PLN 268.7 million.

Gross profit on sales in the first quarter of 2010 amounted to PLN 2,137.4 million as compared to PLN 1,957.5 million in the first quarter of 2010, what means growth by ca. 9%.

In the first quarter of 2011 total distribution and selling expenses of PGE Group amounted to PLN 426.1 million, what means approximately 6% increase as compared to the first quarter of 2010. The growth of selling and distribution expenses was mainly associated with higher costs of redemption of property rights incurred by PGE Obrót S.A.

In the first quarter of 2011 general and administrative expenses amounted to PLN 183.6 million, what means approximately 18% decrease as compared to the first quarter of 2010.

Net income from other operating activities in the first quarter of 2011 was negative and amounted to PLN 8.2 million as compared to the positive figure of PLN 4.1 million in the first quarter of 2010.

Other operating revenues of the Group in the first quarter of 2011 amounted to PLN 50.2 million, which means approximately 51% decrease as compared to PLN 103.4 million in the first quarter of 2010. The decrease in other operating revenues is mainly related to lower level of reversal of balance sheet provisions by PLN 39.4 million and lower – by PLN 10.3 million – level of received compensations, penalties and fines.

The decrease in other operating expenses by PLN 41.0 million in the first quarter of 2011 as compared to the first quarter of 2010 resulted mainly from: (i) reversal of write-offs of receivables lower by PLN 14.8 million, (ii) the costs of damage removal and repairs lower by PLN 7.9 million, (iii) liquidation of non-current assets lower by PLN 6.6 million.

In the first quarter of 2011 the net result on financial activities was negative and totalled PLN 9.3 million as compared to the positive result on financial activities in amount of PLN 3.1 million in the first quarter of 2010.

The Group's financial revenues in the first quarter of 2011 amounted to PLN 92.0 million, which means decrease by approximately 43% as compared to PLN 161.4 million achieved in the first quarter of 2010. The decrease in financial revenues is mainly related to lower interest revenues by PLN 54.0 million and lower profit from disposal of investments by PLN 9.7 million.

The decrease of financial expenses by PLN 57.1 million in the first quarter of 2011 as compared to the first quarter of 2010 resulted mainly from decrease of interest expenses by PLN 39.1 million, lower negative foreign exchange differences by PLN 13.4 million and lower level of created revaluation write-offs by PLN 9.5 million. The decrease was partly compensated by higher interest expenses due to the effect of discount unwinding by PLN 12.5 million.

Gross profit of the Group totalled PLN 1,571.1 million in the first quarter of 2011 as compared to PLN 1,375.0 million in the first quarter of 2010. The increase of gross profit mainly relates to higher revenues from LTC compensations by PLN 105.3 million.

Gross profit margin of the Group (gross profit to total sales revenues) in the first quarter of 2011 decreased to 21.5% from 25.8% in the first quarter of 2010. The decline is connected with the change of the electricity trading model of the Group and realization of the power exchange obligation by the generators. This change caused the increase of the revenues presented in the consolidated statement of the comprehensive income and resulted in lower gross profit margin despite achieving higher gross profit.

As a result of the factors discussed above, the net profit amounted to PLN 1,261.5 million in the first quarter of 2011 as compared to PLN 1,113.6 million in the first quarter of 2010.

Net profit attributable to the equity holders of the parent company increased in the first quarter of 2011 by PLN 340.7 million as compared to the first quarter of 2010 and amounted to PLN 1,239.8 million. The significant increase of the net profit for the shareholders of the parent company is a result of transformations in the PGE Capital Group, i.e. merger of PGE Polska Grupa Energetyczna S.A. with PGE Górnictwo i Energetyka S.A. and PGE Energia S.A. as a result of implementation of the Consolidation Program, and purchase from the State Treasury of the minority shares packages in key companies of PGE Group.

Total comprehensive income of the Group in the first quarter of 2011 amounted to PLN 1,262.8 million as compared to PLN 1,113.0 million in the first quarter of 2010.

Consolidated statement of financial position

As at March 31, 2011 and as at December 31, 2010, non-current assets of the Group amounted respectively to PLN 44,162.5 million and PLN 44,137.4 million and accounted for 85% and 86% of total assets, respectively.

The increase in the value of non-current assets by PLN 25.1 million in the period ended March 31, 2011 as compared to the year ended December 31, 2010 was mainly due to increase in shares in associates accounted for under the equity method by PLN 62.5 million and in other long-term assets by PLN 47.0 million. The increase in the value of shares in associates by PLN resulted mainly from the higher share of the parent company in the profit generated by Polkomtel S.A. The growth of the above mentioned positions was partly offset by the decline in property, plant and equipment by PLN 53.5 million and a decrease in the value of deferred tax asset by PLN 27.4 million.

Current assets of the Group as at March 31, 2011 and as at December 31, 2010 amounted respectively to PLN 7,922.5 million and PLN 7,328.9 million.

The increase in the value of the Group's current assets by PLN 593.5 million in the period ended March 31, 2011 as compared to the year ended December 31, 2010 was mainly attributable to increase in other short-term assets by PLN 425.9 million, increase in the value of other loans and financial assets by PLN 184.4 million and increase in trade receivables by PLN 70.1 million. The increase was partially offset by decrease in inventory by PLN 56.3 million and the decrease in cash and cash equivalents by PLN 36.8 million.

The increase in other short-term assets in the period ended March 31, 2011 as compared to the year ended December 31, 2010 was chiefly due to increase in CO_2 emission rights for the own needs, increase in VAT and excise tax receivables.

The increase in the value of other loans and financial assets in the period ended March 31, 2011 as compared to the year ended December 31, 2010 mainly resulted from increase in amounts receivable from LTC compensations by PLN 149.0 million.

The decrease in inventory in the period ended March 31, 2011 as compared to the year ended December 31, 2010 was mainly connected with the lower level of provisions for certificates of origin of energy and lower level of stock of materials and finished goods. This decrease was partly offset by increase in intermediate goods and work in progress.

The decrease in cash and cash equivalents in the period ended March 31, 2011 as compared to the year ended December 31, 2010 was described in the part relating to cash flow statement.

As at March 31, 2011 and as at December 31, 2010 total equity of the Group amounted respectively to PLN 38,945.3 million and PLN 37,682.8 million, i.e. it represented respectively 75% and 73% of total equity and liabilities. Non-controlling interest as at March 31, 2011 and as at December 31, 2010 amounted to PLN 620.2 million and PLN 598.8 million, respectively.

The increase in total equity by PLN 1,262.6 million results mainly from the profit for the period ended March 31, 2011 in amount of PLN 1,261.5 million.

The long-term liabilities as at March 31, 2011 and amounted to PLN 7,706.0 million and were higher by PLN 506.2 million than as at December 31, 2010. The change in long-term liabilities mainly reflected the higher debt due to bank loans, borrowings, bonds and lease by PLN 353.0 million and higher provision for deferred tax by PLN 136.3 million.

The increase in long-term debt as at March 31, 2011 as compared to the level as at December 31, 2010 primarily resulted from issue of bonds by PGE Polska Grupa Energetyczna S.A. under the Bond Issue Program described in Note 16 to the consolidated financial statements. As at March 31, 2011 the total nominal value of bonds issued under the Program amounted to PLN 500.0 million. The level of long-term liabilities was also affected by decrease of long-term credits and loans from PLN 1,804.4 million as at December 31, 2010 to PLN 1,659.4 million as at March 31, 2011, i.e. by PLN 145.0 million. This decline was mainly connected with the repayment of the instalment of investment loan by PGE Elektrownia Opole S.A. in amount of PLN 106.3 million.

Short-term liabilities decreased from PLN 6,591.4 million as at December 31, 2010 to PLN 5,433.6 million as at March 31, 2011 mainly due to decrease in other financial liabilities by PLN 947.5 million (mainly as a result of decline in liabilities for purchase of the property, plant and equipment and in LTC compensations), decrease in trade liabilities by PLN 171.7 million, decrease in short-term provisions by PLN 154.2 million (mainly as a result of increase of the provisions for value of property rights for redemption, partly offset by increased provisions for purchase of CO_2 emission rights) and decrease in in income tax liabilities by PLN 148.9 million. Additionally, short-term debt from the interest bearing loans, borrowings, bonds and lease higher by PLN 326.9 million also affected the balance of the short-term liabilities as at March 31, 2011.

Consolidated cash flow statement

The total net cash flow from operating activities for 3-month period ended March 31, 2011 amounted to PLN 722.0 million as compared to PLN 1,530.5 million in 3-month period ended March 31, 2010. Decrease in cash flows from operating activities in the first quarter of 2011 as compared to the first quarter of 2010 is mainly caused by the change in receivables (cash flow lower by PLN 474.2 million), change in liabilities other than bank loans (cash flow lower by PLN 258.9 million), change in prepayments and accruals (cash flow lower by PLN 154.0 million) and change in inventory (cash flow lower by PLN 100.0 million). The decrease of cash flow resulting from above factors was partly compensated by increase of gross profit from continuing operations by PLN 196.1 million.

Negative net cash flow from investing activities for the 3-month period ended March 31, 2011 amounted to PLN 1,401.4 million and was higher by PLN 386.3 million as compared to 3-month period ended March 31, 2010. The balance of net cash flows from investing activities for the 3-month period ended March 31, 2011 mainly consisted of expenses related to acquisition of property, plant and equipment and intangible assets in amount of PLN 1,406.6 and other financial assets in amount of PLN 16.3 million.

Positive net cash flow from financial activities for the 3-month period ended March 31, 2011 amounted to PLN 639.1 million as compared to negative net cash flow from financial activities in amount of PLN 332.8 million for the 3-month period ended March 31, 2010. The balance of net cash flows from financial activities for the 3-month period ended March 31, 2011 mainly consisted of: (i) balance of inflows/ payments from loans, borrowings, bonds issues and financial lease amounting to PLN 681.5 million and (ii) interest paid in amount of PLN 25.7 million.

3.2. Business segments

Table: Key operational figures.

Key figures	**Unit**	**Q1 2011**	**Q1 2010**
Lignite extraction	millions of tonnes	11.68	11.66
Net electricity production*, including:	TWh	14.07	14.00
Power plants - lignite	TWh	9.15	9.56
Power plants – hard coal	TWh	3.42	3.04
CHPs – hard coal	TWh	0.50	0.47
CHPs – gas	TWh	0.76	0.63
Pumped storage power plants	TWh	0.10	0.14
Hydro power plants	TWh	0.12	0.14
Wind power plants	TWh	0.02	0.01
Heat sales	GJ millions	9.4	10.8
Sales to Final Customers**	TWh	8.36	8.17
Sales to Final Customers outside PGE Group***, including:	TWh	7.96	7.88
Tariff G***	TWh	2.49	2.47
Distribution of electricity**, including:	TWh	7.98	8.02
Tariff G***	TWh	2.49	2.47

* including productions from biomass in period January-March 2011 – 0.19 TWh, in period January-March 2010 – 0.10 TWh
** sales with additional estimation and with taking into account the sales within PGE Group
*** total sales with additional estimation

Table: Breakdown of the Group's gross income (including flows between segments), by business segments, for the first quarter of 2011 and 2010.

in PLN million	**Total gross income**				
	Q1 2011	_(%) share_	**Q1 2010**	_(%)share_	**% change**
Conventional Generation	3,533.5	_30%_	3,348.0	_29%_	_6%_
Renewable Energy	139.7	_1%_	150.2	_1%_	_-7%_
Wholesale Trading	2,897.6	_25%_	3,277.6	_28%_	_-12%_
Distribution	1,359.5	_12%_	1,288.8	_11%_	_5%_
Retail Sale	3,306.5	_29%_	3,307.8	_28%_	_0%_
Other activity	402.7	_3%_	394.8	_3%_	_2%_
Total	**11,639.5**	_100%_	**11,767.2**	_100%_	_-1%_
Intersegmental eliminations	**-4,345.3**		**-6,446.0**		_-33%_
Net income	**7,294.2**		**5,321.2**		_37%_

Table: Key financial indicators for each business segment for the first quarter of 2011 (after eliminations).

in PLN million, unless specified otherwise	**Conventional Generation**	**Renewable Energy**	**Wholesale Trading**	**Distribution**	**Retail Sales**	**Other**
			_**Q1 2011**_			
EBITDA	1,501.9	59.8	57.0	475.2	59.9	33.0
EBIT	1,131.8	27.5	50.8	252.5	57.7	7.4
Capex.................	429.6	33.9	1.8	136.0	0.8	18.2
Segment Assets .	27,391.6	1,736.9	480.3	13,499.8	1,804.3	1,077.6

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

in PLN million, unless specified otherwise	Conventional Generation	Renewable Energy	Wholesale Trading	Distribution	Retail Sales	Other
			Q1 2010			
EBITDA	1,302.2	58.9	111.2	388.6	84.2	45.3
EBIT	929.0	26.6	104.9	172.6	82.1	17.0
Capex	666.1	18.1	6.2	124.1	0.6	19.2
Segment Assets	25,388.8	1,664.4	609.5	13,340.8	1,590.8	1,036.4

Conventional Mining and Generation

In the first quarter of 2011 total sales revenues for Conventional Generation amounted to PLN 3,533.5 million, which means ca. 6% growth as compared to the first quarter of 2010. EBIT of the segment in the first quarter of 2011 was PLN 1,131.8 million, and EBITDA was PLN 1,501.9 million. In the analogical period of previous year EBIT was PLN 929.0 million, while EBITDA was PLN 1,302.2 million. Growth of EBIT in the first quarter of 2011 as compared to the first quarter of 2010 was mainly due to higher income - by PLN 105.3 million - achieved from LTC compensations and higher sales revenues on wholesale market. Higher revenues were mainly due to growth of electricity prices in the first quarter of 2011.

In the first quarter of 2011 capital expenditures in Conventional Generation segment amounted to PLN 429.6 million as compared to PLN 666.1 million in the first quarter of 2010.

Table: Capital expenditures incurred in Conventional Generation segment in the first quarter of 2011 and 2010, by particular investment tasks.

in PLN million	Capital expenditures		
	Q1 2011	Q1 2010	% change
Investments in generating capacities, including:	395.1	632.1	*-37%*
Development	305.1	546.5	*-44%*
Modernization and replacement	90.0	85.6	*5%*
Purchases of finished capital goods	4.8	8.1	*-41%*
IT	1.9	2.5	*-24%*
Vehicles	4.2	0.5	*740%*
Other	23.6	22.9	*3%*
TOTAL	**429.6**	**666.1**	*-36%*

During the first quarter of 2011 highest capital expenditures were incurred for the following projects: (i) construction of a 858 MW power unit in Bełchatów Power Plant (PLN 117.7 million), (ii) comprehensive reconstruction and modernization of units 3-12 in Bełchatów Power Plant (PLN 99.7 million), and (iii) construction of a carbon capture and storage facility (CCS) (PLN 26.4 million).

Renewable Energy

In the first quarter of 2011 total sales revenues in the Renewable Energy segment amounted to PLN 139.7 million as compared to PLN 150.2 million in the first quarter of 2010. The segment's EBIT in the first quarter of 2011 was PLN 27.5 million, and EBITDA was PLN 59.8 million. In the corresponding period of the last year, EBIT was PLN 26.6 million, and EBITDA was PLN 58.9 million. EBIT of Renewable Energy segment is comparable in analysed periods of the year 2010 and 2011. Decline of segment's revenues from sales of energy in the first quarter of 2011 as compared to the first quarter of 2010 was compensated by lower level of other operating costs (lower write-offs for overdue receivables created).

In the first quarter of 2011 capital expenditures in the Renewable Energy segment amounted to PLN 33.9 million as compared to PLN 18.1 million in the first quarter of 2010.

Table: Capital expenditures incurred in Renewable Energy segment in the first quarter of 2011 and 2010, by particular investment tasks.

in PLN millions	**Capital expenditures**		
	Q1 2011	**Q1 2010**	**% change**
Investments in generating capacities, including:	33.1	17.4	*90%*
Development	2.0	1.7	*18%*
Modernization and replacement	31.1	15.7	*98%*
Purchases of finished capital goods	0.0	0.0	-
IT	0.1	0.4	*-75%*
Vehicles	0.0	0.1	*-100%*
Other	0.7	0.1	*600%*
TOTAL	**33.9**	**18.1**	*87%*

Wholesale Trading

In the first quarter of 2011 total sales revenues in the Wholesale Trading amounted to PLN 2,897.6 million, which means an approximately 12% decrease comparing to the first quarter of 2010. The segment's EBIT in the first quarter of 2011 was PLN 50.8 million, and EBITDA was PLN 57.0 million. In the corresponding period of the last year, EBIT was PLN 104.9 million, while EBITDA was PLN 111.2 million. The lower EBIT in the first quarter of 2011 as compared to the first quarter of 2010 resulted mainly from lower level of other operating costs in the first quarter of 2011 (in the first quarter of 2010 provision for costs related to the claim of ATEL – currently Alpiq Holding AG - was decreased).

In the first quarter of 2011 capital expenditures in Wholesale Trading segment amounted to PLN 1.8 million, and constituted approximately 0.3% of total capital expenditures of PGE Group.

Distribution

In the first quarter of 2011 total sales revenues in the Distribution segment amounted to PLN 1,359.5 million, as compared to PLN 1,288.8 million in the first quarter of 2010. The segment's EBIT in the first quarter of 2011 was PLN 252.5 million, while EBITDA was PLN 475.2 million. In the corresponding period of the last year, EBIT was PLN 172.6 million, and EBITDA was PLN 388.6 million. Ca. 46% growth of EBIT was mainly due to higher revenues from sales of the distribution service as a result of the change in average distribution tariffs and increase in revenues from grid connection fees.

In the first quarter of 2011 capital expenditures in Distribution segment amounted to PLN 136.0 million and constituted approximately 22% of total capital expenditures of PGE Group. In the first quarter of 2010 capital expenditures in this segment amounted to PLN 124.1 million, what constituted almost 15% of total capital expenditures of PGE Group. Capital expenditures were mostly related to connection of new customers to the network and constituted 51% and 47% of total expenditures incurred in the segment in the first quarter of 2011 and 2010 respectively, and to investments resulting from building of new HV, MV and LV electro energy grids which constituted approximately 31% and 23% of total expenditures incurred in the segment in the first quarter of 2011 and 2010 respectively.

Table: Capital expenditures incurred in Distribution segment in the first quarter of 2011 and 2010, by particular investment tasks.

in PLN million	Capital expenditures		
	Q1 2011	**Q1 2010**	**% change**
HV, MV and LV power networks	41.7	28.5	_46%_
Communication, remote switching and metering equipment	14.2	11.0	_29%_
IT	2.9	5.0	_-42%_
Land buyout	1.2	0.8	_50%_
Connection of off-takers	69.5	58.6	_19%_
Purchases of finished capital goods	3.1	12.7	_-76%_
Other	3.4	7.5	_-55%_
TOTAL	**136.0**	**124.1**	_10%_

Retail Sales

In the first quarter of 2011 total sales revenues for Retail Sales segment amounted to PLN 3,306.5 million, what means revenues were approximately on a comparable level to the first quarter of 2010. EBIT of the segment in the first quarter of 2011 was PLN 57.7 million, and EBITDA was PLN 59.9 million. In the analogical period of the previous year EBIT was PLN 82.1 million, and EBITDA was PLN 84.2 million. Decline of EBIT in Retail Sales segment by approximately 30% in the first quarter of 2011 as compared to the first quarter of 2010 resulted mainly from higher expenses related to obligation of redemption of property rights (certificates of origin of electricity).

Capital expenditures in Retail Sales segment amounted to PLN 0.8 million in the first quarter of 2011, constituted 0.1% of total capital expenditures of PGE Group, and were mainly related to expenditures for purchase of finished capital goods and expenditures for IT (customer support systems).

Other operations

In the first quarter of 2011 total sales revenues for Other operations amounted to PLN 402.7 million, as compared to PLN 394.8 million in the first quarter of 2010. EBIT of the segment in the first quarter of 2011 was PLN 7.4 million, and EBITDA was PLN 33.0 million. In the analogical period of the previous year EBIT was PLN 17.0 million, and EBITDA was PLN 45.3 million. Decline of EBIT in the first quarter of 2011 as compared to the first quarter of 2010 mainly resulted from higher costs incurred by the companies from this segment as compared to the first quarter of 2010.

Capital expenditures for tangible fixed assets in Other operations segment in the first quarter of 2011 amounted to PLN 18.2 million. Within the above mentioned amount, PLN 1.8 million were spent by Exatel S.A. for IT development in the first quarter of 2011. The rest of the capital expenditures were mostly related to expenses for development and modernization of fixed assets required to render services under ancillary activities.

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

3.3. Publication of financial forecasts

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

4. Other significant information and events after the balance sheet date

Information regarding the change in Management Board of PGE Polska Grupa Energetyczna S.A. in the first quarter of 2011

From January 1, 2011 to March 31, 2011 the Management Board of the Company consisted of:

Name and surname of the Member of the Management Board	Position
Tomasz Zadroga	President of the Management Board
Marek Szostek	Vice-President of the Management Board responsible for Development since November 24, 2010 Vice-President of the Management Board responsible for Organisation since November 11, 2009
Piotr Szymanek	Vice-President of the Management Board responsible for Corporate Affairs, since April 28, 2009
Marek Trawiński	Vice-President of the Management Board responsible for Operations since April 28, 2009 until March 16, 2011
Wojciech Topolnicki	Vice-President of the Management Board responsible for Finance: October 1, 2010 – January 5, 2011 Vice-President of the Management Board responsible for Development and Finance: April 28, 2009 – September 30, 2010
Paweł Skowroński	Vice-President of the Management Board responsible for Operational Affairs since March 17, 2011
Wojciech Ostrowski	Vice-President of the Management Board responsible for Finance since March 17, 2011

Moreover, on March 16, 2011 Supervisory Board of PGE Polska Grupa Energetyczna S.A. passed resolution regarding appointment to the Management Board of the eighth term, as from 2 July, 2011, the following Members:

Name and surname of the Member of the Management Board	Position
Tomasz Zadroga	President of the Management Board
Wojciech Ostrowski	Vice-President of the Management Board responsible for Finance
Marek Szostek	Vice-President of the Management Board responsible for Trading
Paweł Skowroński	Vice-President of the Management Board responsible for Operations
Piotr Szymanek	Vice-President of the Management Board responsible for Corporate Affairs

Activities related to nuclear energy

In first quarter of 2011 PGE Group continued gaining competencies for the development of nuclear energy in Poland, and tightened cooperation with state authorities, research and development institutions, international organizations and foreign companies. Analytical as well as information and education works were conducted. Development process was progressing, including employment of staff in entities dedicated in PGE Group for the nuclear energy project: PGE Energia Jądrowa S.A. – a company managing the Nuclear Energy business line and PGE EJ1 Sp. z o.o. – investor, and future operator of the first nuclear power plant. The scope of activities of PGE Group within nuclear energy area encompassed:

- cooperation of PGE Group in creation of the organizational, legal and administrative conditions for construction of nuclear power plant in Poland, including cooperation with Government Plenipotentiary of Polish Nuclear Energy, participation in public consultations concerning Polish Nuclear Energy Program project, as well as in creation of draft guidelines to the Act on preparation and execution of nuclear energy investments and accompanying investment and also draft amendments to the Nuclear Law,

- initiating and coordinating of study and analytical works on preparation for the construction of nuclear power plants in Poland, including study on long-term forecast on electricity generation growth in the light of Polish and EU energy policy and the prospects for PGE's investments.

In the first quarter of 2011 in PGE EJ 1 Sp. z o.o. following public tender proceedings were started:

- "Providing Technical Advisor (Owner's Engineer) services to support PGE EJ 1 sp. z o.o.'s first Polish nuclear power plant development program with an installed capacity of approximately 3000 MWe."

- "Site characterization and licensing/permitting services for the PGE EJ 1 Sp. z o.o.'s first Polish nuclear power plant development program with an installed capacity of approximately 3000 MWe"

- ”Providing Legal Advisor services concerning Agreement with Technical Advisor and Agreement with Research Executor to support PGE EJ 1 sp. z o.o.'s first Polish nuclear power plant development program with an installed capacity of approximately 3000 MWe."

Tender for ”Provision of legal advisory services…" was settled in April 2011. Legal services will be provided by Law Firm Domański Zakrzewski Palinka sp. k. and Morgan, Lewis & Bockius LLP.

Co-operation with advisory companies is being continued, among other with one of the most reputable companies engaged in preparing and supporting of realization of significant investment projects - CH2M Hill.

Pre-feasibility study of Polish first 2 nuclear power plants is currently under acceptance stage. The goal of pre-feasibility study is preliminary assessment of main feasibility and risk factors of the project, particularly in the scope of market aspects, schedule and organizational aspects, environmental and localization aspects and business aspects.

Agreement for performance of electricity transmission services concluded between PGE Dystrybucja S.A. and PSE Operator S.A.

On January 13, 2011 PGE Dystrybucja S.A. and PSE Operator S.A. concluded an agreement for provision of the electricity transmission services ("Agreement"). Agreement was concluded for indefinite period and will be performed on the whole operation area of PGE Dystrybucja S.A. As at effective date of the Agreement, the agreements existing between PSE Operator S.A. and the companies, which as from consolidation date were incorporated into PGE Dystrybucja S.A., were dissolved. As a result of concluding of above Agreement, centralization of settlements of services provided by Transmission System Operator ("TSO"), that are subject matter of the agreement, took place in PGE Dystrybucja S.A.

The subject matter of the Agreement is the provision of the services of electricity transmission, comprising both domestic and international transmission services provided by TSO for PGE Dystrybucja S.A. The Agreement also comprises the National Power System accessibility services provided by TSO to PGE Dystrybucja S.A. The settlements are conducted on the ground of tariff of PSE Operator. Total value of the Agreement for 5-year period is estimated at PLN 6.1 billion.

Non-core asset management concept within the PGE Capital Group

In the first quarter of 2011, the PGE Capital Group continued its activities under ”Non-core asset management concept within the PGE Capital Group". The aim of the programme is to transparently separate core activity from other activities as well as disposal and reorganisation of the assets.

In the first quarter of 2011, under the programme, shares/stocks of 3 companies were sold, liquidation of 1 company was completed and 1 holiday resort was sold. Sale of shares in one of the listed companies (Bank Ochrony Środowiska S.A.) had been continued.

In 2011 the sales of next shares/stocks of non-core companies, qualified to particular portfolios assigned for sale, will be finalised. The next stages of reorganization in the hotel-security-services, transport and medical areas will be implemented. The liquidation and bankruptcy proceedings of the non-core companies will also be finalized.

Consolidation Programme

In 2009-2010 Consolidation Programme was carried out in PGE Capital Group. As a result of the execution of the Consolidation Programme in 2010, the following formal and legal mergers took place in the given segments: (i) mining and conventional generation (formerly: mining and generation); (ii) renewables; (iii) distribution of the electric energy; (iv) retail sale of electric energy; as well as the merger of PGE Górnictwo i Energetyka S.A., PGE Energia S.A. and PGE Electra S.A. with PGE Polska Grupa Energetyczna S.A.

Merger of PGE Elektrownia Opole S.A. with PGE Górnictwo i Energetyka Konwencjonalna S.A. and Elektrownia Wiatrowa Kamieńsk Sp. z o.o. with PGE Energia Odnawialna S.A. are currently ongoing (for detailed description of the legal issues see Note 15.3 to the consolidated financial statements).

Merger of companies

On April 29, 2011 a merger of companies from hotels, security and services sector was registered.

The merger took place pursuant to Art. 492 § 1 p.1 of the Commercial Companies Code by way of transferring all assets of the acquired companies to the acquiring company in exchange for the shares, which acquiring company assigns to the partners of the acquired companies. In particular ELBEST sp. z o.o. with its registered office in Rogowiec (acquiring company) merged with: BESTUR sp. z o.o. with its registered office in Bełchatów, Przedsiębiorstwo Handlowo – Usługowe Global Tur sp. z o.o. with its registered office in Bogatynia, Energetyk SPA sp. z o.o. with its registered office in Iwonicz – Zdrój, Centrum Szkolenia i Rekreacji „Energetyk" sp. z o.o. with its registered office in Krasnobród and Przedsiębiorstwo Produkcyjno–Usługowe Media–Serwis Dychów sp. z o.o. with its registered office in Dychów (acquired companies) was registered.

The share capital of the company amounts to PLN 123,895 thousand and splits into 123,895 shares with a nominal value of PLN 1,000 each.

Current shareholders are:

- PGE Górnictwo i Energetyka Konwencjonalna S.A. holds 91.19% in the share capital of the company,
- PGE Dystrybucja S.A. holds 7.6% in the share capital of the company,
- PGE Obrót S.A. holds 1.12% in the share capital of the company.
- PGE Energia Odnawialna S.A. holds 0.09% in the share capital of the company,

Simultaneously, according to court decision, branches of Company, i.e. Elbest Sp. z o.o. Branch Iwonicz – Zdrój, Elbest Sp. z o.o. Branch Krasnobród, Elbest Sp. z o.o. Branch Bełchatów, Elbest Sp. z o.o. Branch Bogatynia, Elbest Sp. z o.o. Branch Dychów was registered.

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

In the opinion of the Company Management Board, the following factors will influence the Company and the Group's performance within at least next quarter of 2011:

- demand for electricity and heat;
- electricity prices on wholesale market;
- prices of property rights;
- availability and prices of fuels used in generation of electricity and heat, in particular prices of hard coal, fuel gas and oil;

- availability and costs of CO_2 emission rights;
- availability of cross-border transmission capacities;
- the tariff process for 2012, including in particular costs recognised by the President of the Energy Regulatory Office as reasonable and the amount of reasonable return on equity, as well as tariff approval date;
- decisions of the ERO President related to realisation of LTC Act;
- amendment to the Energy Law and others acts concerning the introduction of an obligation to sell electricity by way of tender or through a commodity exchange by generators incorporated in vertically integrated groups and entitled to receive compensations under Act on LTCs and introduction of support system for the electricity production in highly efficient co-generation in units fired by methane released and captured at lower mining works in active, under liquidation or closed coal mines or by gas obtained from biomass processing;
- court's ruling on the dispute between the President of the Energy Regulatory Office and generators from the PGE Group entitled to receive compensations under LTC Act with regard to the annual adjustments of the stranded costs for 2008 and annual adjustments of the stranded costs and annual adjustments of costs generated in gas-fuelled units for 2009;
- the date of commissioning of the 858MW in PGE Górnictwo i Energetyka Konwencjonalna S.A. Branch Elektrownia Bełchatów and decision of National Administrator of the Emission Rights Trading System („KASHUE") on allocation from the reserve of free allocations for CO_2 emission;
- possible different decision in law, tax and other contingent liabilities disputes, from which most relevant were presented in Note 15 to the consolidated financial statements;
- verdict of the Court of Competition and Consumer Protection in case of PGE's appeal against the decision on the President of the Office of the Competition and Consumer Protection with regard to the purchase of shares of ENERGA S.A.;
- changes in Group macroeconomic factors, including in particular interest rates and exchange rates, values of which affects evaluation of assets and liabilities shown by the Group.

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

As at the date of this consolidated quarterly report, according to the information hold by the Company, the only shareholder holding at least 5% of the total number of votes on the General Meeting of PGE Polska Grupa Energetyczna S.A. was the State Treasury, which held 1,295,637,952 shares of the Company, what constitutes 69.29% of the share capital and entitles to exercise the same amount of the votes at the General Meeting of the Company.

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

Shareholder	Number of shares	Number of votes	% in total votes on General Meeting
State Treasury	1,295,637,952	1,295,637,952	69.29%
Others	574,145,775	574,145,775	30.71%
Total	**1,869,783,727**	**1,869,783,727**	**100.00%**

As of the publication date of this consolidated quarterly report, PGE S.A. has held 22,898 own shares with a nominal value of PLN 10 each representing 22,898 of the total number of votes in the Company.

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

According to the best knowledge of the Management Board of PGE S.A., as of the date of submission of this quarterly report and as of the date of publishing of yearly report for 2010, Company's managers and supervisors had following number of shares:

Shareholder	Number of shares as of the date of publishing of yearly report (Mar 21,2011) (pieces)	Change in numer of owned shares (pieces)	Number of shares as of submission date of this quarterly report (pieces)
The Management Board	**0**	**no change**	**0**
The Supervisory Board	**1,123**	**no change**	**1,123**
Marcin Zieliński	500	no change	500
Grzegorz Krystek	350	no change	350
Katarzyna Prus	273	no change	273

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

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

Information on issue, redemption and repayment of debt securities and other securities were described in Note 16 to the consolidated financial statements and part B p. 1.2. of the foregoing report.

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

Within the Group, in the period from January 1, 2011 to March 31, 2011 PGE S.A. and its subsidiaries did not grant any loan securities or guarantees to another entity or its subsidiary, where the value of securities and guarantees constituted at least 10% of the Company's equity.

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

As at March 31, 2011 PGE S.A. and its subsidiaries were not a party in proceedings concerning liabilities or claims, in which the total value of a dispute constitutes at least 10% of Company equity except for applying by generators from PGE Group with application of statement of the overpaid excise tax and tax return with provisions for years 2006-2008 and first two months of 2009. The total overpaid tax to be returned to the PGE Group may amount to approximately PLN 3.4 billion, excluding interest (the generators are entitled to interest on the overpaid tax accrued from the date of payment of the overstated tax). This proceeding was described in Note 19.1 to the consolidated financial statements.

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

(all amounts in PLN thousand)

C. INTERIM CONDENSED FINANCIAL STATEMENTS OF PGE POLSKA GRUPA ENERGETYCZNA S.A IN ACCORDANCE WITH IFRS FOR THE PERIOD ENDED MARCH 31, 2011.

STATEMENT OF COMPREHENSIVE INCOME

	Period ended March 31, 2011 (not audited)	Period ended March 31, 2010 (not audited)
COMPREHENSIVE INCOME		
Total sales revenues	**2,880,485**	**3,228,465**
Costs of goods sold	(2,787,749)	(3,138,204)
Gross profit on sales	**92,736**	**90,261**
Other revenues	685	46,625
Other expenses	(39,024)	(32,451)
Financial revenues/ expenses	42,719	47,084
Profit before tax	**97,116**	**151,519**
Corporate income tax expense	(20,673)	(20,797)
Net profit from continuing operations	**76,443**	**130,722**
Profit for the period on discontinued operations	**-**	**-**
Net profit for the operating period	**76,443**	**130,722**
OTHER COMPREHENSIVE INCOME:		
Valuation of available-for-sale financial assets	737	13
Other	-	-
Other comprehensive income for the period, net	**737**	**13**
TOTAL COMPREHENSIVE INCOME	**77,180**	**130,735**
Profit per share		
- basic earnings for the reporting period	0.04	0.07
- basic earnings from the continuing operations	0.04	0.07

(all amounts in PLN thousand)

STATEMENT OF FINANCIAL POSITION

	As at March 31, 2011 (not audited)	As at December 31, 2010 (not audited)	As at March 31, 2010 (not audited)
Non-current assets			
Non-current assets	228,493	232,310	237,004
Investment property	-	-	-
Intangible assets	17,783	18,449	23,054
Held-to-maturity investments	-	-	-
Loans and receivables	621,328	612,965	1,933,185
Available-for-sale financial assets	22,466,096	22,466,679	20,909,677
Other long-term assets	-	-	-
Deferred tax assets	-	-	1,714
Non-current assets related to discontinued operations	-	-	-
Total non-current assets	**23,333,700**	**23,330,403**	**23,104,634**
Current assets			
Inventories	82,752	30,895	35,870
Income tax receivables	8,074	4,131	919
Short-term financial assets at fair value through the profit or loss	-	-	-
Held-to-maturity short-term investments	-	-	-
Trade receivables	516,834	867,579	1,004,897
Other loans and financial assets	4,867,824	4,770,065	913,628
Available-for-sale short-term financial assets	1,989,133	1,989,233	336,516
Other current assets	640,166	661,775	51,457
Cash and cash equivalents	144,288	257,955	2,978,025
Current assets related to discontinued operations	-	-	-
Total current assets	**8,249,071**	**8,581,633**	**5,321,312**
TOTAL ASSETS	**31,582,771**	**31,912,036**	**28,425,946**

(all amounts in PLN thousand)

STATEMENT OF FINANCIAL POSITION

	As at March 31, 2011 (not audited)	As at December 31, 2010 (not audited)	As at March 31, 2010 (not audited)
Equity			
Share capital	18,697,837	18,697,837	17,300,900
Capital of the merged companies to raise the capital of PGE Polska Grupa Energetyczna S.A.	-	-	1,396,937
Revaluation reserve	(344)	(1,081)	(1,149)
Treasury shares	(229)	(229)	-
Reserve capital	6,727,589	6,727,589	6,591,666
Other capital reserve	49,779	49,779	-
Retained earnings	3,058,899	2,982,456	1,729,693
Total equity	**28,533,531**	**28,456,351**	**27,018,047**
Long-term liabilities			
Interest-bearing loans and borrowings, bonds and leasing	498,008	-	-
Other liabilities	-	-	27
Provisions	21,126	21,411	17,811
Deferred tax liabilities	20,528	8,648	13,703
Deferred income	-	-	-
Long-term liabilities related to discontinued operations	-	-	-
Total long-term liabilities	**539,662**	**30,059**	**31,541**
Short-term liabilities			
Trade liabilities	337,658	973,072	939,703
Financial liabilities at fair value through profit or loss	-	-	-
Interest-bearing loans and borrowings, bonds and leasing	1,750,097	2,011,132	49,867
Other short-term financial liabilities	16,925	25,040	10,341
Other short-term non-financial liabilities	20,201	36,964	49,907
Income tax liabilities	-		3,885
Deferred income	-	4,788	214
Short-term provisions	384,697	374,630	322,441
Short-term liabilities related to discontinued operations	-	-	-
Total short-term liabilities	**2,509,578**	**3,425,626**	**1,376,358**
Total liabilities	**3,049,240**	**3,455,685**	**1,407,899**
TOTAL LIABILITIES AND EQUITY	**31,582,771**	**31,912,036**	**28,425,946**

Interim condensed financial statements in accordance with IFRS for the period ended March 31, 2011 (all amounts in PLN thousand)

STATEMENT OF CHANGES IN EQUITY

For the period ended March 31, 2011

(not audited)	Share capital	Revaluation reserve	Treasury shares	Reserve capital	Other capital reserves	Retained earnings	Total
As at January 1, 2011	**18,697,837**	**(1,081)**	**(229)**	**6,727,589**	**49,779**	**2,982,456**	**28,456,351**
Profit for the period	-	-	-	-	-	76,443	76,443
Other comprehensive income	-	737	-	-	-	-	737
Total comprehensive income for the period	***-***	***737***	***-***	***-***	***-***	***76,443***	***77,180***
Retained earnings distribution	-	-	-	-	-	-	-
Dividend	-	-	-	-	-	-	-
As at March 31, 2011	**18,697,837**	**(344)**	**(229)**	**6,727,589**	**49,779**	**3,058,899**	**28,533,531**

Interim condensed financial statements in accordance with IFRS for the period ended March 31, 2011 (all amounts in PLN thousand)

STATEMENT OF CHANGES IN EQUITY

For the period ended December 31, 2010

(not audited)	Share capital	Capital of the merged companies to raise the capital of PGE Polska Grupa Energetyczna S.A.	Revaluation reserve	Treasury shares	Reserve capital	Other capital reserves	Retained earnings	Total
As at January 1, 2010	**17,300,900**	**1,396,937**	**(1,162)**	**-**	**6,591,666**	**-**	**1,598,971**	**26,887,312**
Profit for the period	-	-	-	-	-	-	2,904,878	2,904,878
Other comprehensive income	-	-	81	-	-	-	-	81
Total comprehensive income for the period	***-***	***-***	***81***	***-***	***-***	***-***	***2,904,878***	***2,904,959***
Issue of shares as a result of merger of PGE S.A., PGE GiE S.A. and PGE Energia S.A.	1,396,937	(1,396,937)	-	-	-	-	-	-
Purchase of treasury shares	-	-	-	(229)	(350)	-	-	(579)
Retained earnings distribution	-	-	-	-	136,273	49,779	(186,052)	-
Dividend	-	-	-	-	-	-	(1,335,341)	(1,335,341)
As at December 31, 2010	**18,697,837**	**-**	**(1,081)**	**(229)**	**6,727,589**	**49,779**	**2,982,456**	**28,456,351**

Interim condensed financial statements in accordance with IFRS for the period ended March 31, 2011 (all amounts in PLN thousand)

STATEMENT OF CHANGES IN EQUITY

For the period ended March 31, 2010

(not audited)	Share capital	Capital of the merged companies to raise the capital of PGE Polska Grupa Energetyczna S.A.	Revaluation reserve	Treasury shares	Reserve capital	Other capital reserves	Retained earnings	Total
As at January 1, 2010	**17,300,900**	**1,396,937**	**(1,162)**	**-**	**6,591,666**	**-**	**1,598,971**	**26,887,312**
Profit for the period	-	-	-	-	-	-	130,722	130,722
Other comprehensive income	-	-	13	-	-	-	-	13
Total comprehensive income for the period	***-***	***-***	***13***	***-***	***-***	***-***	***130,722***	***130,735***
Retained earnings distribution	-	-	-	-	-	-	-	-
Dividend	-	-	-	-	-	-	-	-
As at March 31, 2010	**17,300,900**	**1,396,937**	**(1,149)**	**-**	**6,591,666**	**-**	**1,729,693**	**27,018,047**

(all amounts in PLN thousand)

STATEMENT OF CASH FLOWS

	Period ended March 31, 2011	Period ended March 31, 2010
Cash flows – operating activities		
Gross profit related to discontinued operations	**-**	**-**
Gross profit related to continuing operations	**97,116**	**151,519**
Adjustments for:		
Amortization and depreciation	6,190	7,558
Interest and dividend, net	(33,990)	(21,862)
Profit / (loss) on investment activities	(13,924)	(553)
Change in receivables	331,823	24,159
Change in inventories	(51,857)	32,154
Change in liabilities (excluding loans and bank credits)	(647,666)	(139,263)
Change in prepayments and accruals	16,821	65,612
Change in provisions	9,783	(48,448)
Income tax paid	(12,909)	(28,109)
Other	-	13,878
Net cash from operating activities	**(298,613)**	**56,645**
Cash flows – investment activities		
Disposal of property, plant and equipment and intangible assets	(2,657)	84
Purchase of property, plant and equipment and intangible assets	-	(6,530)
Purchase/disposal of investment property	-	-
Disposal of financial assets	474,198	354,403
Purchase of financial assets	(493,811)	(318,329)
Dividends received	-	-
Interest received	-	870
Loans repaid	-	-
Loans granted	-	-
Other	-	-
Net cash from investment activities	**(22,270)**	**30,498**
Cash flows – financial activities		
Proceeds from the issue of shares	-	-
Proceeds from bank credits and issue of bonds	2,554,825	-
Repayment of loans, bonds and finance lease	(2,326,813)	(506,710)
Dividends paid	(2,141)	(875)
Interest paid	(19,853)	(5,931)
Other	-	-
Net cash from financial activities	**206,018**	**(513,516)**
Net change of cash and cash equivalents	**(114,865)**	**(426,373)**
Effect of foreign exchange rate changes	1,224	114
Cash and cash equivalents, beginning of the period	**258,383**	**3,401,549**
Cash and cash equivalents, end of the period, including	**143,518**	**2,975,176**
including restricted cash and cash equivalents	-	-
Related to discontinued operations	-	-

1. General information

The foregoing interim condensed financial statements were prepared by PGE Polska Grupa Energetyczna S.A. ("PGE S.A.", the "Company") with the registered seat in Warsaw, 2 Mysia Street and comprises the data for the 3-month period ended March 31, 2011 ("financial statements"). The financial statements include comparable data for the 3-month period ended March 31, 2010 and as at December 31, 2010.

PGE Polska Grupa Energetyczna S.A. was founded on the basis of Notary Deed of August 2, 1990 and registered in the District Court in Warsaw, XVI Commercial Department on September 28, 1990. The Company was registered in the National Court Register maintained by the District Court for the Capital City of Warsaw, XII Commercial Department, under no. KRS 0000059307.

PGE S.A. is a parent company of a PGE Polska Grupa Energetyczna S.A. Capital Group („PGE Capital Group", „PGE CG", "PGE Group") and prepares consolidated financial statements, comprising activities of direct and indirect subsidiaries, in accordance with International Financial Reporting Standards approved by the European Union. The foregoing financial statements should be read together with the interim condensed consolidated financial statements for the period ended March 31, 2011, that present the overall activity of PGE Capital Group.

Acting pursuant to article 45 paragraph 1b of the Accounting Act dated September 29, 1994, the Extraordinary General Meeting of the Company of August 3, 2010 adopted resolution concerning the preparation of the Company's individual financial statements starting from January 1, 2011 in accordance with the requirements of the International Financial Reporting Standards ("IFRS"). First-time adoption of IFRS is presented in Note 4 of the foregoing financial statements.

The core activity of PGE S.A. include:

a) activities of central companies and holdings, excluding financial holdings,
b) activities of financial holdings,
c) guidance over effectiveness of management,
d) rendering of other services related to the activities mentioned in points a–c,
e) trade of electricity.

The Company conducts its activities in accordance with appropriate concessions.

2. The composition of the Management Board of the Company

As at January 1, 2011 the composition of the Management Board was as follows:

- Mr Tomasz Zadroga – the President of the Management Board,
- Mr Marek Szostek – the Vice-President of the Management Board,
- Mr Piotr Szymanek – the Vice-President of the Management Board,
- Mr Wojciech Topolnicki – the Vice-President of the Management Board,
- Mr Marek Trawiński – the Vice-President of the Management Board.

Since January 1, 2011 till the date of preparation of the foregoing financial statements following changes were made to the composition of the Management Board:

- on January 5, 2011 the Supervisory Board of the Company adopted the resolution to recall the Vice-President of the Management Board for Finance Mr Wojciech Topolnicki,
- on March 16, 2011 the Supervisory Board of the Company adopted the resolution to recall the Vice-President of the Management Board for Operational Affairs Mr Marek Trawiński,
- on March 16, 2011 the Supervisory Board adopted a resolution on appointment of Mr Wojciech Ostrowski to the Management Board as from March 17, 2011 and entrusting him the duties of Vice-President for Finance
- on March 16, 2011 the Supervisory Board adopted a resolution on appointment of Mr Paweł Skowroński to the Management Board as from March 17, 2011 and entrusting him the duties of Vice-President for Operational Affairs.

As at the balance sheet date and the date of preparation of the foregoing financial statements the composition of the Management Board of the Company was as follows:

- Mr Tomasz Zadroga – the 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 Marek Szostek – the Vice-President of the Management Board,
- Mr Piotr Szymanek – the Vice-President of the Management Board.

3. The basis for the preparation of the financial statements

3.1. Statement of compliance

The foregoing financial statements of PGE Polska Grupa Energetyczna S.A. have been prepared in accordance with International Accounting Standard 34 *Interim Financial Reporting*, in accordance with the appropriate accounting standards which apply to interim financial reporting adopted by the European Union, published and in force during the preparation of these financial statements, as well as in accordance with the Regulation of the Polish Minister of Finance of February 19, 2009 on current and periodic information published by issuers of securities and on conditions under which such information may be recognized as being equivalent to information required by the regulations of law of a state which is not a member state. (Journal of Laws of 2009 No. 33, item 259, as amended) (“Regulation”).

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

3.2. General preparation principles

The financial statements were prepared assuming the continuation of business activities by the Company in the foreseeable future. As at the date of the preparation of these financial statements, no circumstances were found that would suggest a threat to the continuation of business activities by the Company.

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

Following exchange rates were adopted for the appraisal needs of the items included in statement of financial position:

	March 31, 2011	December 31, 2010	March 31, 2010
USD	2.8229	2.9641	2.8720
EURO	4.0119	3.9603	3.8622

3.3. Comparative data

On August 31, 2010 PGE Polska Grupa Energetyczna S.A. merged with PGE Górnictwo i Energetyka S.A. and PGE Energia S.A., while on December 31, 2010 PGE merged with PGE Electra S.A. The merger with subsidiaries meets the definition of restructuring under common control, that is excluded from IFRS 3 *Business combinations*. The absence of a Standard or an Interpretation that specifically applies to a transaction, other event or condition, is covered by IAS 8 point 10-12. Based on these provisions, the entity preparing its financial statement in accordance with IFRS is obliged to develop and apply an accounting policy that results in information that is relevant to the economic decision-making needs of users and is reliable, in that the financial statements represent truly and fairly the financial position, financial performance and cash flows of the entity; reflect the economic substance of transactions other events and conditions, and not merely the legal form; are neutral, prudent and complete in all material respects.

According to analysis made by the Company, the entities of complex financial information and under common control are preferred to be accounted for using the pooling of interest method. The method is based on the assumption that entities were controlled by the same party or parties both before and after the business combination, that control is not transitory, and the financial statements reflect the continuity of common control. With regards to the above, the financial statements are prepared as if the entities have always been merged.

In practice it means that the financial statements of all entities under business combination were aggregate, intercompany eliminations of transaction, settlements and equity relationships were made, and the valuations of assets and liabilities were unified. The whole business combination transaction was settled within equity with no influence on goodwill.

4. First-time adoption of IFRS

As it was described in Note 1 to these condensed financial statements, the Company is the parent company of the PGE Capital Group, which consolidated financial statements are prepared in accordance with IFRS. The date of transition to IFRS by PGE Capital Group was January 1, 2006. Pursuant to art. 45 p. 1b of the Accounting Act dated September 29, 1994 (the “Accounting Act”), on August 3, 2010 the Extraordinary General Meeting of the Company took decision on preparation of the stand-alone financial statement in accordance with IFRS starting from January 1, 2011.

The International Accounting Standards Board issued International Financial Reporting Standard 1 *First-time Adoption of International Financial Reporting Standards* (“IFRS 1”), effective for financial statements prepared for the periods starting January 1, 2004 or later. IFRS 1 applies when an entity adopts IFRS for the first time or when, in the entity’s previous financial statements, discrepancies with particular standards were stated. According to IFRS 1 an entity’s first IFRS financial statements are the first annual financial statements in which the entity adopts IFRS, by an explicit and unreserved statement in those financial statements of compliance with IFRS.

According to the above, the financial statements are the first condensed interim financial statements prepared in accordance with IFRS approved by the EU. For the needs of these financial statements, the date of transition to IFRS is January 1, 2010. As at the date of approval of theses financial statements for publication, the last financial statements of the Group prepared in accordance with Polish Accounting Standards, specified in the Accounting Act, were the financial statements for the year ended December 31, 2010.

According to IFRS 1, the financial statements were prepared as if the Company has always applied IFRS; however there were some exemptions from obligatory transitions specified in IFRS 1:

Fair value or revaluation as deemed cost (IFRS 1, D16-D17).

According to International Accounting Standard 29 *Financial Reporting in Hyperinflationary Economies* (IAS 29) the value of assets and liabilities reported during the hyperinflationary period should be measured in current prices as at the end of the hyperinflationary period so that they constituted comparative data for the following reporting periods. The above IAS relates to non-monetary balance sheet positions. Property, plant and equipment and equity are significant non-monetary positions for the Company. The Polish economy fulfilled criteria of a hyperinflationary economy until the end of 1996; starting from 1997 the criteria were no longer fulfilled. The Company did not apply IAS 29 regulations for the previous reporting periods. However, with regards to Polish law regulations, a revaluation of non-current assets was made as at January 1, 1995 in order to reflect the hyperinflation effect on their carrying amount with the use of revaluation indexes specified for particular groups of assets by the Ministry of Finance. This revaluation did not comply with IAS 29 as the Company did not use the general price index and did not execute the revaluation of non-current assets as at December 31, 1996.

Property, plant and equipment and intangible assets are measured in values, which were adopted for preparation of the consolidated financial statements of the PGE Capital Group, in which PGE is a parent company.

Interim condensed financial statements in accordance with IFRS for the period ended March 31, 2011 (all amounts in PLN thousand)

The reconciliation between previously used and new accounting standards

The reconciliation of equity and assets for the year ended December 31, 2010 and the net profit for the year ended December 31, 2010 and the equity as at January 1, 2010 prepared in accordance with the Polish Accounting Standards and IFRS are presented below:

		Equity as at January 1, 2010	Equity as at December 31, 2010	Comprehensive income for the year ended December 31, 2010	Assets as at January 1, 2010	Assets as at December 31, 2010
Data presented according to Polish Accounting Act		**26,935,056**	**28,519,570**	**2,920,423**	**29,060,787**	**32,002,907**
1.	Valuation of property, plant and equipment and intangible assets	134,908	127,766	(7,142)	166,554	157,736
2.	Valuation of financial instruments	(182,840)	(191,233)	(8,473)	(180,313)	(191,797)
3.	Valuation of reserves for employee benefits	188	248	60	(44)	(58)
4.	Net presentation of deferred tax	-	-	-	(49,872)	(53,053)
5.	Net presentation of social funds	-	-	-	(3,595)	(3,699)
6.	Other	-	-	10	(155)	-
	Total adjustments transforming to IFRS	**(47,744)**	**(63,219)**	**(15,545)**	**(67,425)**	**(90,871)**
Data in accordance with IFRS		**26,887,312**	**28,456,351**	**2,904,878**	**28,993,362**	**31,912,036**

The main adjustments between Polish Accounting Standards and IFRS are presented below:

Property, plant and equipment valuation

The company measured property, plant and equipment and intangible assets in values, which were adopted for preparation of the consolidated financial statements of the PGE Capital Group - in which PGE is a parent company – and used that value as a deemed purchase cost as at the date of transition to IFRS.

Valuation of financial instruments

The difference between valuation of financial instruments between statements prepared according to PAS and IFRS relates mainly to shares held in Exatel S.A. Before the adoption of IFRS, the shares in Exatel S.A. were subject to revaluation write-off in amount of PLN 188,324 thousand. After the cease of the premises confirming the loss of value, the above write-off was reversed in the financial statements prepared according to the Accounting Act.

However according to the IAS 39 clause 66, impairment losses of the capital instruments which are not quoted, valued at cost are not subject to reversal. In connection with the above the balance sheet value of shares of Exatel S.A. in the financial statement of the Company prepared in accordance with IFRS is lower by PLN 188,324 thousand in comparison to the value presented in the financial statements prepared in accordance with the Accounting Act.

Assets of the Social Fund

According to Polish legal regulations, PGE manages assets of the Social Fund (ZFŚS) on behalf of their employees. Contributions paid to ZFŚS are deposited in separate bank accounts.

In the financial statements in accordance with IFRS, assets of the Social Fund were not recognized as there is no probability of the future economic benefits, which might generate inflow of cash or cash equivalents in the Group’s bank account.

5. Changes in the applied accounting principles

Till December 31, 2010 the Company prepared its stand-alone financial statements in accordance with the Accounting Act. Starting from January 1, 2011 the Company prepares stand-alone and consolidated financial statements in accordance with IFRS. Main adjustments between Polish Accounting Standards and IFRS were presented in Note 4 to the foregoing financial statements.

6. New standards and interpretations published, not yet effective

The following standards, changes in already effective standards and interpretations were not approved by the European Union and are not effective as at January 1, 2011:

- IFRS 9 *Financial Instruments* – effective for the periods starting January 1, 2013;
- amendments to IFRS 7 *Financial instruments: Disclosures* – effective for the periods starting July 1, 2011;
- amendments to IAS 12 *Income tax* – effective for the periods starting January 1, 2012;
- amendments to IFRS 1 *First-time Adoption of IFRS* – effective for the periods starting 1 July 2011.

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 the foregoing financial statements IFRS 9 is not yet approved and as a result its impact on the future financial statements of the Company is not yet determined.

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

7. Accounting principles applied

Due to the fact that the foregoing financial statements is the first financial statements prepared in accordance with IFRS, the most significant accounting principles of PGE Capital Group applied by PGE Polska Grupa Energetyczna S.A. for the preparation of these stand-alone financial statements are presented below.

7.1. Property, plant and equipment

Property, plant and equipment are assets:

- held for use in the production or supply of goods or services, for rental to others, or for administrative purposes;
- expected to be used for more than one year;
- for which it is probable that future economic benefits associated with them will flow to the entity;
- the cost of which can be measured reliably.

Significant items of property, plant and equipment used before the date of transition to IFRS, i.e. 1 January 2006, were measured at fair value as at this day (deemed cost). Differences between fair value and carrying amount were recognized in retained earnings. Property, plant and equipment as well as fixed assets under construction after the date of transition to IFRS are measured at cost of acquisition or cost of manufacturing.

After recognition as an asset, an item of property, plant and equipment shall be measured at its net value, i.e. initial value (or at deemed cost for items of property, plant and equipment used before the transition to IFRS) less any accumulated depreciation and any impairment losses. Initial value comprises of purchase price including all costs directly attributable to the purchase and making capable of operating. Capitalization of costs ends when the item is brought to the location and conditions necessary for it to be capable of operating in the manner intended by the management.

The depreciable amount is the cost of an asset. Depreciation commences when the asset is capable of operating. Depreciation is performed on the basis of a depreciation plan reflecting the future useful life of the asset. The depreciation method used shall reflect the pattern in which the asset's future economic benefits are expected to be consumed by the entity.

The following useful lives are adopted for property, plant and equipment:

Group	Average depreciation period in years	Applied depreciation periods in years
Buildings and construction	26	2 – 52
Machinery and equipment	2	1 – 39
Vehicles	2	1 – 10
Other	3	1 – 15

Depreciation method, depreciation rate and residual value of property, plant and equipment are verified at least each financial year. Changes identified during verification shall be accounted for as a change in an accounting estimate and possible adjustments to depreciation amounts shall be recognized in the year in which the verification took place and in the following periods.

If there have been events or changes which indicate that the carrying amount of property, plant and equipment may not be recoverable, the assets are analysed for potential impairment. If there are indications of impairment, the value of those assets or cash-generating units is decreased by an appropriate impairment loss.

The carrying amount of an item of property, plant and equipment can be derecognized on disposal or when no future economic benefits are expected from its use or disposal. The gain or loss arising from the derecognizing of an item of property, plant and equipment (determined as the difference between the net disposal revenues, if any, and the carrying amount of the item) shall be included in the profit or loss when the item is derecognized.

Investments relating to fixed assets under construction or assembly are recognized at cost of acquisition or cost of manufacturing less impairment losses. Property, plant and equipment under construction are not depreciated until the construction is finished and the items are available for use.

7.2. Intangible assets

An intangible asset is an identifiable non-monetary asset without physical substance, such as:

- assets acquired by the entity and recognized in non-current assets, with an economic useful life exceeding one year intended to be used by the company, in particular:
  - copyrights, concessions, licenses (including computer software),
  - patents, trademarks, utility and decorative designs, computer software,
  - know-how, i.e. equivalent value of information related to knowledge on industry, trade, science or organization,
- development costs,
- goodwill, excluding internally generated goodwill.

An intangible asset is measured initially at cost (cost of acquisition or cost of manufacturing). The cost of a separately acquired intangible asset comprises:

- purchase price and attributable costs, such as import duties and non-refundable purchase taxes, after deducting trade discounts and rebates, and
- any directly attributable cost of preparing the asset for its intended use: costs of employee benefits, professional fees and costs of testing whether the asset is functioning properly.

After initial recognition, an intangible asset shall be carried at its cost less any accumulated amortization and any accumulated impairment losses.

The cost of an internally generated intangible asset, except for development costs, are not capitalized and are recorded in the profit or loss for the period when the related cost was incurred.

The Company assesses whether the useful life of intangible assets is definite or indefinite. If the useful life is definite, the Company estimates the length of useful period, the volume of production or other measures as the basis to define the useful life. An intangible asset shall be regarded by the entity as having an indefinite useful life when, based on an analysis of all of the relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows for the entity.

The amortizable amount of an intangible asset with a definite useful life shall be allocated on a systematic basis over its useful life. Amortization shall begin when the asset is available for use.

Intangible assets with a definite useful life shall be amortized over their useful life and analyzed for potential impairment, if there are indications of impairment. The amortization period and method are reviewed at least each financial year. If the expected useful life of the asset is different from previous estimates, the amortization period shall be changed accordingly. If there has been a change in the expected pattern of consumption of the future economic benefits embodied in the asset, the amortization method shall be changed to reflect the changed pattern.

Intangible assets with an indefinite useful life and those not being used are subject to impairment testing each year.

The following useful lives are adopted for intangible assets:

Group	Average depreciation period in years	Applied depreciation periods in years
Acquired patents and licenses	2	1 -15
Costs of finished developed works	<1	5
Other	7	4 - 10

7.3. Research and development costs

All intangible assets internally generated by the Company are not recognized as assets, but rather as expenses, and in the period when the related costs are incurred, except for development costs. An intangible asset arising from development shall be recognized if, and only if, an entity can demonstrate all of the following:

- the technical feasibility of completing the intangible asset so that it will be available for use or sale,
- its intention to complete the intangible asset and use or sell it,
- its ability to use or sell the intangible asset,
- how the intangible asset will generate probable future economic benefits,
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset, and
- its ability to reliably measure the expenditure attributable to the intangible asset during its development.

Development works include:

- the design, construction and testing of pre-production or pre-use prototypes and models,
- the design of tools, jigs, moulds and dies involving new technology,
- the design, construction and operation of a pilot plant that is not of a scale economically feasible for commercial production, and
- the design, construction and testing of a chosen alternative for new or improved materials, devices, products, processes, systems or services.

The cost of development works is the sum of expenditures incurred from the date when the intangible asset first meets the above mentioned recognition criteria. The cost of an internally generated intangible asset comprises all directly attributable costs necessary to create, produce, and prepare the asset to be capable of operating in the manner intended by management. Examples of directly attributable costs are:

- costs of materials and services used or consumed in generating the intangible asset,
- costs of employee benefits arising from the generation of the intangible asset,
- fees to register a legal right, and
- amortization of patents and licenses that are used to generate the intangible asset.

The following are not components of the cost of a self-constructed intangible asset:

- selling, administrative and other general overhead expenditure unless this expenditure can be directly attributed to preparing the asset for use;
- clearly identified inefficiencies and initial operating losses incurred before an asset achieves planned performance;
- expenditure on training staff to operate the asset.

7.4. Borrowings costs

Borrowing costs, including relevant foreign exchange differences, that are directly attributable to the acquisition, construction or production of a qualifying asset shall be eligible for capitalization relevant to items of property, plant and equipment and intangible assets, in accordance with IAS 23. In case of exchange differences arising from foreign currency borrowings, they are capitalized to the extent that they are regarded as an adjustment to interest costs.

7.5. Financial assets

Financial assets are classified in the following categories:

- Held-to-maturity investments (HTM),
- Financial assets at fair value through the profit or loss (FVP),
- Loans and receivables,
- Available-for-sale financial assets (AFS).

Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity that the Company has the positive intention and ability to hold to maturity. Held-to-maturity investments shall be measured at amortized cost using the effective interest method. If the maturity exceeds 12 months, the financial assets held to maturity are classified as long-term assets.

Financial assets at fair value through profit or loss

A financial asset at fair value through profit or loss is a financial asset that meets either of the following conditions:

- It is classified as held for trading. A financial asset is classified as held for trading if it is:
  - acquired or incurred principally for the purpose of selling in the near term;
  - part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking; or
  - derivative, except for a derivative that is a designated and effective hedging instrument.
- Upon initial recognition it is designated by the entity as at fair value through profit or loss (in accordance with IAS 39). Any financial asset within the scope of this standard may be designated when initially recognized as a financial asset at fair value through profit or loss except for investments in equity instruments that do not have a quoted market price in an active market, and whose fair value cannot be reliably measured.

These assets are measured at fair value considering the market value as at the balance sheet date. The change in fair value of those assets is recognized in financial income or expense in the statement of comprehensive income.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are classified as current assets, if their maturity does not exceed 12 months from the balance sheet date. Loans and receivables with maturity exceeding 12 months are classified as non-current assets. If the time value of money changes significantly over the period, the assets are measured at a discounted value. Loans and receivables are recognized at amortized cost.

Available-for-sale financial assets

All other assets account for available-for-sale financial assets. Financial assets available for sale are recognized at fair value as at each balance sheet date. Fair value of an instrument which does not have a quoted market price is estimated with regards to another instrument of similar characteristics or based on future cash flows relevant to an investment asset (measurement at discounted cash flow method).

Positive and negative differences between fair value of available-for-sale financial assets (if their price is determinable on a regulated active market or if the fair value may be estimated by some other reliable method) and acquisition price, net of deferred tax, of financial assets available for sale are reflected in other comprehensive income, except for:

- impairment losses,
- foreign exchange differences gains and losses relevant to financial assets,
- interest calculated based on the effective interest rate method.

Dividends from equity instrument in AFS portfolio shall be recognized in profit or loss on the date that the Group's right to receive payment is established.

When a decline in the fair value of an available-for-sale financial asset has been recognized in other comprehensive income and there is objective evidence that the asset is impaired, the cumulative loss that had been recognized in other comprehensive income shall be transferred to profit or loss even though the financial asset has not been derecognized. The amount of the cumulative loss that is removed from revaluation reserve and recognized in profit or loss shall be the difference between the acquisition cost (net of any principal repayment and amortization) and current fair value, less any impairment loss on that financial asset previously recognized in profit or loss. Impairment losses recognized in profit or loss for an investment in an equity instrument classified as available for sale shall not be reversed through profit or loss. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in profit or loss, the impairment loss shall be reversed, with the amount of the reversal recognized in profit or loss.

7.6. Impairment of non-financial non-current assets

The Company assesses at each balance sheet date whether there is any indication that an asset may be impaired. If any such indication exists, or if there is a need to perform an annual impairment testing, the Company estimates the recoverable amount of the asset or cash-generating unit.

Recoverable amount is defined as the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use. Recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. If the carrying value is higher than the recoverable value, an impairment loss is made. When estimating the value in use of an asset, future cash flows are discounted to the current value using a discount rate before tax, which represents current market estimation of time and risk relevant to an asset. Impairment loss relevant to assets used in continuing operations are reflected in costs relating to functions of an impaired asset.

The Company assesses at the end of each reporting period whether there is any indication that an impairment loss recognized in prior periods for an asset may no longer exist or may have decreased. If any such indication exists, the Company estimates the recoverable amount of that asset. An impairment loss recognized in prior periods for an asset other than goodwill shall be reversed if, and only if, there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If this is the case, the carrying amount of the asset shall be increased to its recoverable amount. That increase is a reversal of an impairment loss. The increased carrying amount of an asset other than goodwill attributable to a reversal of an impairment loss shall not exceed the carrying amount that would have been determined (net of amortization or depreciation) had no impairment loss been recognized for the asset in prior years. A reversal of an impairment loss for an asset other than goodwill shall be recognized immediately in the profit or loss. After a reversal of an impairment loss is recognized, the depreciation (amortization) charge for the asset shall be adjusted in future periods to allocate the asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

7.7. Embedded derivatives

An embedded derivative is a component of a hybrid (combined) instrument that also includes a non-derivative host contract - with the effect that some of the cash flows of the combined instrument vary in a way similar to a stand-alone derivative.

The Company verifies concluded and binding agreements in order to identify embedded derivatives.

An embedded derivative shall be separated from the host contract and accounted for as a derivative if, and only if:

- the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract;
- a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and
- the hybrid (combined) instrument is not measured at fair value with changes in fair value recognized in profit or loss.

Embedded derivatives are recognized in a similar way as stand-alone derivatives which are not classified as hedging instruments.

According to IAS 39, the rule that economic characteristics and risk of an embedded derivative denominated in foreign currency are closely related to economic characteristics and risk of a host contract also includes the situation when the currency of the host contract is a custom currency for the trading contracts of non-financial positions on this derivative market.

A “stand-alone” embedded derivative is reflected in the statement of financial position at fair value, and changes in fair value are recognized in profit or loss.

The Company assesses at initial recognition whether the embedded derivative is to be a stand-alone instrument.

7.8. Derivatives and hedging instruments

The Company uses derivatives in order to hedge against the risk relevant to changes in interest rates and foreign exchange differences. The most frequently used derivatives are forward contracts and interest rate swaps. Such derivatives are designated at fair value. Depending on whether the value of a derivative or a hedge instrument is positive or negative, it can be recognized as a financial asset or financial liability respectively.

The gain or loss from change of values of the hedging instrument at fair value (for a derivative hedging instrument not qualifying for hedge accounting) shall be recognized directly in profit or loss.

The fair value of currency forward contracts is estimated with reference to current forward rates for contracts of similar maturity. Fair value of interest rate swaps is estimated with reference to the market value of similar financial instruments.

Hedge accounting recognizes three types of hedging relationships:

- fair value hedge: a hedge of the exposure to changes in fair value of a recognized asset or liability,
- cash flow hedge: a hedge of the exposure to variability in cash flows that is attributable to a particular risk associated with a recognized asset, liability or forecast transaction, or
- hedge of a net investment in a foreign operation.

A hedge of a foreign currency risk of a firm commitment is accounted for as a cash flow hedge.

At the inception of the hedge the Company is formally designating and documenting the hedging relationship and the entity’s risk management objective and strategy for undertaking the hedge. That documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the Company will assess the hedging instrument’s effectiveness in offsetting the exposure to changes in the hedged item’s fair value or cash flows attributable to the hedged risk. The hedge is expected to be highly effective in achieving offsetting changes in fair value or cash flows attributable to the hedged risk, consistently with the originally documented risk management strategy for that particular hedging relationship. The hedge is assessed on an ongoing basis throughout the financial reporting periods for which the hedge was designated to determine if it is effective.

7.9. Inventories

Inventories are assets:

- held for sale in the ordinary course of business;
- in the process of production for such sale; or
- in the form of materials or supplies to be consumed in the production process or in the rendering of services.

Inventories are measured at the lower of cost and net realizable value.

The cost of inventories comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

At initial recognition, inventories are measured as follows:

- Materials and merchandise – at purchase price,
- Finished goods, semi-finished products and production in progress – at the cost of manufacturing, comprising costs of direct materials and labour and a justified portion of indirect production costs.

Cost of usage of inventories is determined as follows:

- Materials and merchandise – at weighed average cost formula, however in case of representation and advertising materials and office supplies the expense can be recognized in profit or loss in the period when incurred.

As at the balance sheet date, the cost of inventories cannot be higher than net realizable value. Net realizable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

The inventories of the Company include purchased, intended for a further resale, greenhouse gases emission rights and equivalents of these. These assets are measured at purchase cost less possible impairment as at the balance sheet date. The cost of greenhouse gases emission rights shall be assigned by using specific identification.

7.10. Trade receivables

The recoverable amount of receivables is measured at least at each balance sheet date, i.e. in the nominal value increased by applicable penalty interest, in accordance with the principle of prudence, i.e. less applicable impairment losses.

The Company assesses at each balance sheet date whether there is any objective evidence that a receivable or a group of receivables is impaired. If a recoverable amount of the receivable is lower than the carrying amount, the amount of the impairment loss is measured as the difference between the carrying amount of the receivable and the present value of estimated future cash flows.

A write offs on a receivable is recognized in other operating expenses or financial expenses, depending on the relevant receivable.

Long-term receivables are measured at present (discounted) value.

7.11. Cash and cash equivalents

Cash comprises cash on hand and demand deposits. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

7.12. Other assets and short-term prepayments

The Company recognizes an asset as a short-term prepayment under the following conditions:

- an expense was incurred in the past in relation to the Company's operating activity,

- it can be reliably measured,
- it refers to future reporting periods.

Prepayments are recognized in reliably measured amounts, which refer to future periods and will generate future economic benefits for the Company.

A prepayment is settled over time or in proportion to the value of goods and services provided. The period and method of the settlement is based on the characteristics of the relevant expenses, in accordance with the principle of prudence.

The entity review at each reporting year-end whether it is probable enough that future economic benefits relevant to a prepayment will flow to the Company, so that the prepayment can be recognized as an asset.

Purchased perpetual usufruct of land is recognized as an operating lease in accordance with IAS 17 *Leasing*. The value of perpetual usufruct of land is recognized as other assets and is amortized over the lease term.

Perpetual usufruct of land acquired free of charge due to administrative decision is not recognized in the statement of financial position.

Other assets also comprise receivables from the state.

7.13. Equity

Equity is stated at nominal value, divided by kind, in accordance with law regulations and the Company's Articles of Association.

Share capital in the statement of financial position is stated at the value specified in the parent company's Articles of Association and as registered in the Court Register. Declared, but not yet brought in, share capital contributions are recognized as outstanding share capital contributions with a negative value.

7.14. Provisions

The Company creates a provision when the entity have a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and if a reliable estimate can be made of the amount of the obligation.

Provisions are reflected in profit or loss as operating expenses, other operating expenses or financial expenses, depending on relevant future obligations.

When the effect of the time value of money is material, the amount of a provision shall be the present value of the expenditures expected to be required to settle the obligation.

The discount rate (or rates) shall be a pre-tax rate (or rates) that reflect(s) current market assessments of the time value of money and the risks specific to the liability. The discount rate(s) shall not reflect risks for which future cash flow estimates have been adjusted.

The following provisions are expected to be created in particular:

Provision for medical benefits, Social Fund allowance and other retirement and pension benefits

The value of liabilities towards former employees is estimated on the basis of conditions of Corporate Collective Labour Agreement (Zakładowy Układ Zbiorowy Pracy) or other legal regulations. These liabilities result from employees' rights acquired during the employment period. The provision created is recognized in operating expenses in the amount corresponding with future employees' benefits.

Provision for cash equivalent related to energy tariff for employees of power industry

Based on the Inter-Corporate Collective Labour Agreement (Ponadzakładowy Układ Zbiorowy Pracy) changed in 2005, the Company is obliged to pay benefits, so called "energy tariff", to the former employees of the electric power engineering industry. Due to the above, since December 2005 the Company creates appropriate provisions.

The cost of the provision for entitled retirees, as at the day when the additional protocol to Inter-corporate Collective Labour Agreement became effective, was fully recognized in the statement of comprehensive income for the year ended December 31, 2005. The cost of past employment, relating to present employees but future retirees, is recognized on a straight-line basis over the average period until the benefits become vested. The value of the provision is estimated by an actuary. The cost of creating the provision is recognized in operating expenses.

Retirement and pension benefits and jubilee benefits

According to the institutional defined remuneration plan the employees of the Company are entitled to receive jubilee, retirement and pension benefits. Jubilee benefits are paid after an employee has worked for a specified period of time. Retirement and pension benefits are paid once when the employee retires or becomes a pensioner. The amount of benefits paid depends on the period of working and the average remuneration of the employee. The Company recognizes a provision for future obligations relevant to retirement and pension benefits and jubilee benefits for the purpose of assigning costs to the periods in which they are incurred. According to IAS 19 jubilee benefits are classified as other long-term employee benefits, whereas the retirement and pension benefits are classified as post-employment benefits. The present value of these obligations is measured by an independent actuary at each balance sheet date. The ultimate cost of a defined benefit plan comprises discounted future payments, taking into account employee turnover, as at the balance sheet date. Demographic assumptions and employee turnover information are based on historical data. Actuarial gains and losses are recognized in profit or loss.

7.15. Share-based payments

Share-based payments are a transfer of equity instruments of the Company or equivalents made by the Company or its shareholders to third parties (including employees), which provided the Company with goods or services, unless the transfer is made for a purpose different than the payment for goods and services supplied.

The Company recognizes the goods or services received or acquired in a share-based payment transaction as well as the corresponding increase in equity when it obtains the goods or as the services are received. When the goods or services received or acquired in a share-based payment transaction do not qualify for recognition as assets, they shall be recognized as expenses.

The Company measures the goods or services received, together with the corresponding increase in equity, directly, at the fair value of the goods or services received, unless that fair value cannot be estimated reliably. If the entity cannot estimate reliably the fair value of the goods or services received, the entity shall measure their value, and the corresponding increase in equity, indirectly, by reference to the fair value of the equity instruments granted.

The cost of the equity instruments granted to the employees shall be recognized in the period from the grant date to the vesting date. The cost is measured at the fair value of equity instruments granted at the grant date. For transactions with employees and others providing similar services, the entity is required to measure the fair value of the equity instruments granted, because it is typically not possible to estimate reliably the fair value of employee services received. If applicable, the Company will take into account the terms and conditions upon which those equity instruments were granted when measuring the fair value. For goods or services measured by reference to the fair value of the equity instruments granted, vesting conditions, other than market conditions, shall not be taken into account when estimating the fair value of the shares or share options at the measurement date. Instead, vesting conditions are taken into account by adjusting the number of equity instruments included in the measurement of the transaction amount so that, ultimately, the amount recognized for goods or services received as consideration for the equity instruments granted is based on the number of equity instruments that eventually vest. The entity shall revise that estimate, if necessary, if subsequent information indicates that the number of equity instruments expected to vest differs from previous estimates.

For cash-settled share-based payment transactions, the entity shall measure the goods or services acquired and the liability incurred at the fair value of the liability. Until the liability is settled, the entity shall remeasure the fair value of the liability at each balance sheet date and at the date of settlement, with any changes in fair value recognized in profit or loss for the period.

7.16. Profit-based payments for employees benefits and special funds

According to Polish industry practice, shareholders may distribute the entity's profit for employee benefits, such as: an increase of the Social Fund (ZFŚS) or employee awards from profit. Such payments are reflected in statutory financial statements, similarly to dividend payments, as changes in equity. According to IFRS, profit distribution to the Social Fund or employee awards from profit are classified as operating expenses in the period for which the profit distribution took place.

7.17. Liabilities

Liabilities are present Company's obligations, arising from past events, settlement of which will cause an outflow of resources embodying economic benefits from the Company.

Trade and other liabilities are stated at the amount due. When the effect of the time value of money is material, long-term liabilities are presented at the current (discounted) value.

A liability shall be classified as current when it satisfies any of the following criteria:

- it is expected to be settled in the Company's normal operating cycle;
- it is held primarily for the purpose of being traded;
- it is due to be settled within twelve months after the balance sheet date; or
- the entity does not have an unconditional right to defer settlement of the liability for at least twelve months after the balance sheet date.

All other liabilities shall be classified as non-current.

If the Company expects, and has the discretion, to refinance or roll over an obligation for at least twelve months after the balance sheet date under an existing loan facility, it classifies the obligation as non-current, even if it would otherwise be due within a shorter period. However, when refinancing or rolling over the obligation is not at the discretion of the entity (for example, there is no agreement to refinance), the potential to refinance is not considered and the obligation is classified as current.

Some current liabilities, such as trade payables, are part of the working capital used in the entity's normal operating cycle. Such operating items are classified as current liabilities even if they are due to be settled more than twelve months after the balance sheet date.

7.18. The Social Fund

The Company is compensating liabilities and assets of the Social Fund and the Efficiency Improvement Fund. Such an arrangement reflects the relationship between the entity and the Funds, in which the entity is a trustee. This means, that the entity is legitimately entitled to the Funds' assets, however the Fund and its members are the beneficiaries.

7.19. Deferred income

Deferred income is recognized under the principle of prudence and the principle of simultaneous recognition of revenues and expenses. Deferred income comprises:

- equivalents of economic benefits received or due from business partners to be realized in subsequent reporting periods;
- cash obtained to finance acquisition or production of fixed assets, fixed assets under construction and development works, settled through other operating revenue in the amount of depreciation charges of non-current assets financed from this source. This also applies to partially redeemed loans and credits and donations the purpose of which is to acquire an item of property, plant and equipment and to finance the development works;

- property, plant and equipment and intangible assets acquired free of charge. Deferred income allowances are recognized in other operating revenues settled in line with depreciation charges of these assets;
- income relevant to sale and leaseback of property, plant and equipment and intangible assets. Deferred income allowances are reflected in other operating revenues throughout the period of the lease. If there is a high probability of the buy-out of the leased asset after the lease period and the lease period is significantly different from the economic useful life of the asset, then allowances on deferred income are recognized simultaneously with depreciation of the asset.

7.20. Leases

A finance lease is a lease that transfers substantially all the risks and rewards incidental to ownership of an asset. Title may or may not eventually be transferred. At the commencement of the lease term, the lessees shall recognize finance leases as assets and liabilities in their statement of financial positions at amounts equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments, each determined at the inception of the lease. Any initial direct costs of the lessee are added to the amount recognized as an asset. Classification of the lease is made at the initial recognition, based on the economic contents of the lease agreement. Minimum lease payments shall be apportioned between the finance charge and reduction of the outstanding liability. The finance charge shall be allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability. Financial costs shall be recognized in financial expenses in profit or loss throughout the lease term in the periods in which they are incurred.

An operating lease is a lease under which the lessor holds significant part of risks and rewards incidental to ownership of the asset. Lease payments under an operating lease shall be recognized as an expense on a straight-line basis over the lease term unless another systematic basis is more representative of the time pattern of the user's benefit.

7.21. Taxes

Corporate income tax in the statement of comprehensive income comprises actual fiscal charges for the reporting period calculated by the Company in accordance with regulations of the Corporate Income Tax Act and a change in deferred tax assets and deferred tax liabilities not charged or credited directly to equity.

Deferred tax asset or deferred tax liability is calculated on the basis of temporary differences between the carrying amount of a given asset or liability and its tax base and tax loss possible for recovering in the future.

A deferred tax liability shall be recognized for all taxable temporary differences, except to the extent that the deferred tax liability arises from:

- the initial recognition of goodwill or the initial recognition of an asset or liability in a transaction which is not a business combination and at the time of the transaction, affects neither accounting profit nor taxable profit (tax loss)
- taxable temporary differences associated with investments in subsidiaries, branches and associates, and interests in joint ventures in case of which the parent, investor or venturer is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

A deferred tax asset shall be recognized for all deductible temporary differences to the extent that it is probable that taxable profit will be available against which the deductible temporary difference can be utilized, unless the deferred tax asset arises from:

- the initial recognition of an asset or liability in a transaction that is not a business combination and at the time of the transaction, affects neither accounting profit nor taxable profit (tax loss),
- deductible temporary differences associated with investments in subsidiaries, branches and associates, and interests in joint ventures in case of which a deferred tax asset shall be recognized to the extent that, and only to the extent that, it is probable that the temporary

difference will reverse in the foreseeable future and taxable profit will be available against which the temporary difference can be utilized.

The carrying amount of a deferred tax asset shall be reviewed at each balance sheet date. An entity shall reduce the carrying amount of a deferred tax asset to the extent that it is no longer probable that sufficient taxable profit will be available to allow the benefit of part or all of deferred tax asset to be utilized. Any such reduction shall be reversed to the extent that it becomes probable that sufficient taxable profit will be available.

Deferred tax assets are recognized only to the extent expected for the related amount attributable to negative temporary differences to be used to reduce taxable profits in the future and tax losses to be settled, recognizing the prudence principle. Deferred tax assets are recognized if, and only if, their utilization is probable.

The Company shall record deferred tax liabilities in the amount of income tax to be paid in the future due to positive temporary differences, i.e. differences which will result in increase of tax base in the future.

Deferred tax assets and liabilities shall be measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

7.22. Revenues

Revenue from sales is recognized when it is probable that the economic benefits associated with the sale transaction will flow to the Company and the amount of the revenue can be measured reliably. The revenue is recognized after deducting value added tax (VAT), excise tax and other sales-based taxes as well as discounts. When recognizing the revenue, the criteria specified below are also taken into account.

Revenues from sale of goods and merchandise

Revenues from the sale of goods and merchandise are recognized when the finished goods/merchandise are issued and related risks and rewards have been transferred and when the amount of revenue can be reliably measured and costs incurred can be reliably estimated.

Revenues from sale of goods and merchandise include:

- amounts receivable from wholesale and retail sale of: electricity, heat energy, lignite, certificates of origin of energy from renewable energy sources, certificates of origin from generation in high efficiency cogeneration plants, emission rights and rendered services relevant to core business operations based on the net price, less applicable discounts, rebates and excise tax,
- amounts receivable from sales of materials and merchandise based on the net price, less applicable discounts and rebates.

Revenues from services rendered

When the outcome of a transaction involving the rendering of long-term services can be estimated reliably, revenue associated with the transaction shall be recognized by reference to the stage of completion of the transaction at the balance sheet date less the revenues which influenced the previous reporting periods. Depending on the class of transaction, the stage of completion of the transaction can be recognized on the basis of:

- surveys of work performed;
- services performed to date as a percentage of total services to be performed; or
- the proportion of costs incurred to a given date to the estimated total costs of the transaction. Only costs that reflect services performed to date are included in costs incurred to date. Only costs that reflect services performed or to be performed are included in the estimated total costs of the transaction.

When the outcome of the transaction involving the rendering of services cannot be estimated reliably, revenue shall be recognized only to the extent of the expenses recognized that are recoverable.

7.23. Expenses

Cost of goods sold

Cost of goods sold includes:

- production costs incurred in the reporting period with adjustments related to changes in inventories (finished goods, semi-finished products and production in progress) and costs relevant to production of goods for the Company's own use,
- value of electricity sold and materials at purchase prices,
- impairment losses on property, plant and equipment, intangible assets and receivables,
- distribution and selling expenses as well as general and administrative expenses incurred in the reporting period (reflected separately in the statement of comprehensive income).

Production costs that can be directly assigned to revenues recognized by the entities influence the profit or loss for the reporting period in which they were incurred.

Production costs that can only be indirectly assigned to revenues or other economic benefits recognized by the entities, influence the profit or loss in the portion they are relevant to the given reporting period, under the principle of matching of expenses and revenue or other economic benefits and the rules of measurement of property, plant and equipment and inventories.

7.24. Other operating revenues and expenses

Other operating expenses and revenues include in particular:

- profit or loss on disposal of property, plant and equipment and intangible assets,
- reversal or creation of write offs, except from write offs related to financial operations or reflected in cost of goods sold,
- acquiring or disposal of assets and cash free of charge, including donations,
- due and obtained compensations, penalties and other expenses not relating to core operations.

7.25. Financial revenues and expenses

Financial revenues and expenses include in particular gains or losses relating to:

- disposal of financial assets, investment property and investment in entities not consolidated,
- revaluation of financial instruments, except from financial assets available for sale, the result of which is reflected in revaluation reserve,
- share of profits of other entities,
- interests,
- changes in provisions related to the approaching incurrence of the expense (unwinding of the discount effect),
- foreign exchange differences resulting from operations performed during the reporting period and measurement of the carrying amount of assets and liabilities at the balance sheet date, except for the foreign exchange differences recognized in the initial value of a non-current asset, to the extent they are recognized as an adjustment to interest costs and foreign exchange differences relevant to valuation of financial instruments classified to AFS portfolio,
- other operations relevant to financial operations.

Revenues and expenses from interest shall be recognized over the relevant period using the effective interest method relating to the carrying amount of a given financial instrument under the principle of materiality. Dividends are recognized when the shareholders' right to receive payments is established.

7.26. Earnings per share

Net earnings per share for each period are calculated by dividing the net profit for a given period allocated to shareholders of the parent company by the weighted average number of shares during that period.

7.27. Cash flow statement

Cash flows shall be prepared using the indirect method.

8. Change in estimates

In the period covered by the financial statements, there were no significant changes to estimates affecting the values disclosed in the financial statements. The Company made a revaluation of provisions recognised in the statement of financial position.

(all amounts in PLN thousand)

9. Revenues and expenses

9.1. Sales revenues

	3 months ended March 31, 2011	3 months ended March 31, 2010
Sales revenues		
Sales of finished goods and merchandise with excise tax	*2,817,033*	*3,204,691*
Excise tax	-	-
Revenues from sale of finished goods and merchandise	**2,817,033**	**3,204,691**
Revenues from sale of services	61,402	21,730
Revenues from lease	2,050	2,044
Total sales revenues	**2,880,485**	**3,228,465**

The sales by the Company relate mainly to the domestic market. Export sales amounted to PLN 162,678 thousand in the period ended March 31, 2011 and to PLN 109,871 thousand in the period ended March 31, 2010.

9.2. Cost by kind and functions

	3 months ended March 31, 2011	3 months ended March 31, 2010
Costs by kind		
Amortization and depreciation	6,190	7,647
Materials and energy	602	1,064
External services	7,809	16,252
Taxes and charges	4,176	4,302
Personal expenses	15,693	16,961
Other cost by kind	20,063	8,682
Total costs by kind	**54,533**	**54,908**
Change in prepayments, accruals and products	54	2,706
Cost of products and services for the entity's own needs	-	-
Distribution and selling expenses	(4,620)	(8,458)
General and administrative expenses	(29,629)	(23,273)
Cost of merchandise and materials sold	2,767,411	3,112,321
Cost of goods sold	**2,787,749**	**3,138,204**

(all amounts in PLN thousand)

9.3. Other operating revenues and expenses

	3 months ended March 31, 2011	3 months ended March 31, 2010
Other operating revenues	685	46,625
Distribution and selling expenses	(4,620)	(8,458)
General and administrative expenses	(29,629)	(23,273)
Other operating expenses	(4,775)	(720)
Financial revenues	93,005	72,469
Financial expenses	(50,286)	(25,385)

9.4. Other operating revenues

	3 months ended March 31, 2011	3 months ended March 31, 2010
Profit on disposal of property, plant and equipment	-	93
Reversal of revaluation write offs on receivables	-	54
Provisions reversed	670	45,597
Compensations, penalties and fines received	3	754
Taxes refunded	-	20
Court fees refunded	4	35
Other	8	72
Total other operating revenues	**685**	**46,625**

9.5. Other operating expenses

	3 months ended March 31, 2011	3 months ended March 31, 2010
Loss on disposal of property, plant and equipment and intangible assets	3	-
Provisions created	4,555	-
Donations granted	36	61
Compensations	1	120
Court fees paid	8	-
Liquidation of non-current assets	33	79
Redemption of receivables	78	-
Other	61	460
Total other operating expenses	**4,775**	**720**

(all amounts in PLN thousand)

9.6. Financial revenues

	3 months ended March 31, 2011	3 months ended March 31, 2010
Financial revenues from financial instruments	**92,792**	**66,764**
Dividends	-	-
Interest revenue	63,654	64,029
Revaluation/ reversal of revaluation write offs	10	24
Profit on disposal of investments	6,399	1,423
Foreign exchange gains	22,729	1,288
Other financial revenues	**213**	**5,705**
Provisions reversed	-	1,572
Interest on state receivables	-	4,097
Other	213	36
Total financial revenues	**93,005**	**72,469**

9.7. Financial expenses

	3 months ended March 31, 2011	3 months ended March 31, 2010
Financial expenses from financial instruments	**44,899**	**21,139**
Interest expenses	28,056	2,495
Revaluation	-	-
Impairment losses	-	-
Loss on disposal of investments	-	-
Foreign exchange losses	16,843	18,644
Other financial expenses	**5,387**	**4,246**
Interest expenses including unwinding of the discount	4,429	869
Interest paid relating to state liabilities	19	-
Other	939	3,377
Total financial expenses	**50,286**	**25,385**

(all amounts in PLN thousand)

10. Creation of revaluation write-offs for assets and their reversal

	3 months ended March 31, 2011	3 months ended March 31, 2010
Revaluation write-offs for property, plant, and equipment		
- creation of write-off	-	-
- reversal of write-off	-	-
Revaluation write-offs for intangible assets		
- creation of write-off	-	-
- reversal of write-off	-	-
Revaluation write-offs for inventories		
- creation of write-off	-	12
- reversal of write-off	162	-

11. Income tax

Corporate income tax in profit and loss account	3 months ended March 31, 2011	3 months ended March 31, 2010
Current income tax	8,966	19,427
Deferred income tax	11,707	1,370
Total	**20,673**	**20,797**

Moreover, the Company recognized provision for deferred tax in the amount of PLN 173 thousand in other comprehensive income for the period ended March 31, 2011 and the provision for deferred tax in the amount of PLN 3 thousand in other comprehensive income for the period ended March 31, 2010.

Interim condensed financial statements in accordance with IFRS for the period ended March 31, 2011 (all amounts in PLN thousand)

12. Financial assets

	Carrying amount					
	March 31, 2011			December 31, 2010		
Categories and classes of financial assets :	**Long-term**	**Short-term**	**Total**	**Long-tem**	**Short-term**	**Total**
Loans and receivables, including						
(i) Trade receivables	-	516,834	**516,834**	-	867,579	**867,579**
(ii) Deposits and investments	-	-	**-**	-	-	**-**
(iii) Other financial loans and receivables	621,328	4,867,824	**5,489,152**	612,965	4,770,065	**5,383,030**
▪ Bonds, bill and notes receivable acquired	477,745	4,797,442	**5,275,187**	467,938	4,723,147	**5,191,085**
▪ Originated loans	143,583	34,701	**178,284**	145,027	30,180	**175,207**
▪ Other financial receivables	-	35,681	**35,681**	-	16,738	**16,738**
Total loans and receivables:	**621,328**	**5,384,658**	**6,005,986**	**612,965**	**5,637,644**	**6,250,609**
Available-for-sale financial assets, including:						
(i) Shares in entities not quoted on active markets	22,463,233	1,989,133	**24,452,366**	22,464,726	1,989,233	**24,453,959**
(ii) Shares quoted on active markets	2,863	-	**2,863**	1,953	-	**1,953**
(iii) Investment quoted an active markets	-	-	**-**	-	-	**-**
(iv) Other financial assets available for sale	-	-	**-**	-	-	**-**
Total available-for-sale financial assets:	**22,466,096**	**1,989,133**	**24,455,229**	**22,466,679**	**1,989,233**	**24,455,912**

(all amounts in PLN thousand)

12.1. Trade receivables

The trade receivables relate mainly to sales of electricity and coal to subsidiaries in the PGE Capital Group. As at March 31, 2011 the balance of three major recipients i.e. PGE Obrót S.A., PGE Górnictwo i Energetyka Konwencjonalna S.A. and PGE Elektrownia Opole S.A. constituted 87% of the trade receivables.

12.2. Loans and receivables, including purchased bonds, bills of exchange, treasury bills

As at March 31, 2011	Long-term part	Short-term part
Bonds issued by PGE Górnictwo i Energetyka Konwencjonalna S.A.	214,400	4,797,442
Bonds issued by Autostrada Wielkopolska S.A.	263,345	-
Loan originated to PGE Systemy S.A.	3,283	1,222
Loan originated to Vattenfall AB	140,300	31,243
Loan originated to PGE Inwest sp. z o.o.	-	2,236
Security deposits	-	35,537
Other	-	144
Total	**621,328**	**4,867,824**

Bonds issued by PGE Górnictwo i Energetyka Konwencjonalna S.A.

PGE S.A. purchases bonds issued by PGE Group companies. The funds from the issue of bonds are being used for investment financing, repayment of debts secured by cession of the long-term power purchases agreements and for financing of current operations.The bonds are subject to interest rates based on WIBOR (1M, 3M, 6M) plus margin.

Prepayment (loan) granted to 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 May 28, 2003 and were associated with a purchase of SwePol Link AB shares as well as a construction and exploitation of a permanent electricity link between Polish and Swedish electric system. Taking into consideration the character of transactions mentioned above, in the financial statements prepared in accordance with IFRS, a part of the prepayments made is presented as the cost of purchase of shares in an associate and the other part is presented as a loan.

The prepayments were settled under the above agreement, which expired in August 2010. During the reporting period, the Company was working on the settlement of the status of the remaining prepayments after the expiry of the contract with the VAB. As at the day of preparation of the foregoing consolidated financial statements, there is an uncertainty whether the Company's efforts to extend the cooperation will be successful. As a result it is uncertain that the amounts engaged will be retrieved. The Company assumes that the issue will be positively resolved and the nominal value of prepayments will be settled or paid back.

(all amounts in PLN thousand)

12.3. Shares in entities not quoted on active markets

As at March 31, 2011	Long-term	Short-term
PGE Górnictwo i Energetyka Konwencjonalna S.A.	12,989,357	-
PGE Obrót S.A.	6,632,609	-
PGE Elektrownia Opole S.A.	1,387,768	-
PGE Dystrybucja S.A.	946,640	-
PGE Energia Odnawialna S.A.	323,616	-
PGE Energia Jądrowa S.A.	62,500	-
PGE EJ 1 Sp. z o.o.	37,240	-
Swe-Pol Link AB	36,717	-
PWE Gubin Sp. z o.o.	25,348	-
ELECTRA Deutschland GmbH	13,990	-
PGE Serwis Sp. z o.o	3,800	-
PGE Systemy S.A.	1,000	-
Electra Bohemia s.r.o./Czech Republic/	1,598	-
PGE Inwest sp. z o.o.	1,050	-
Pracownicze Towarzystwo Emerytalne "Nowy Świat" S.A.	~0	-
Polkomtel S.A.	-	1,656,469
Exatel S.A.	-	214,005
AWSA Holland II	-	115,173
Towarowa Giełda Energii S.A.	-	2,350
Energopomiar Sp. z o.o.	-	1,064
PGE Inwest Sp. z o.o. II S.K.A.	-	72
Total	**22,463,233**	**1,989,133**

Additionally, the Company holds shares of Sygnity S.A., which are presented in value resulting from the current quotations on the Warsaw Stock Exchange.

The balance sheet value of the shares held in PGE Górnictwo i Energetyka Konwencjonalna S.A., PGE Obrót S.A., PGE Elektrownia Opole S.A. and PGE Dystrybucja S.A. was recently verified in accordance with IAS 36 *Impairment of assets* as at December 31, 2010.

In March 2011 PGE Inwest Sp. z o.o. II S.K.A. was put into liquidation. Other available-for-sale financial assets presented in the short-term part are the shares in companies, that are planned to be sold by the end of 2011. As at March 31, 2011 these assets do not fulfil the definition of the available-for-sale assets in the meaning of IFRS 5 *Non-current assets held for sale and discontinued operations*.

(all amounts in PLN thousand)

13. Share capital

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

All the shares of the Company have been paid.

As at January 1, 2011 and as at March 31, 2011 the State Treasury held 69.29% of the shares of the Company and the other shareholders held 30.71% of the shares of the Company.

Own shares

As a result of the merger of PGE S.A. with PGE GiE S.A. and PGE Energia S.A., in 2010 PGE S.A. purchased 22,898 own shares for PLN 579 thousand. The shares were purchased for redemption. The redemption of the own shares will take place pursuant to a resolution by the general meeting, through the decrease in the share capital.

14. Dividends paid and dividends declared

	Period ended March 31, 2011	Period ended December 31, 2010
Cash dividends from ordinary shares		
Dividend paid from retained earnings	-	1,335,330
Dividend paid from other capital reserves	-	-
Total cash dividends from ordinary shares	**-**	**1,335,330**
Cash dividends per share (in PLN)	-	0.71*

* On August 31, 2010 PGE Polska Grupa Energetyczna S.A. merged with PGE Górnictwo i Energetyka S.A. and PGE Energia S.A. In the financial statements, the relevant values related to the merged companies are presented as dividends paid from the Company's capital. In connection with the above, the number of shares after the capital increase as a result of merger was applied for the calculation of the dividend per share. Dividend per share paid by PGE Polska Grupa Energetyczna S.A. , without the influence of the merger with the subsidiaries, amounted to PLN 0.76.

Dividend for 2010

The Management Board of the Company proposed to distribute the profit for the year 2010 for the dividend for shareholders in amount of PLN 0.65 per share. Given the number of own shares as at the date of profit distribution proposal, the dividend shall amount to PLN 1,215,345 thousand. As at the date of these financial statements, this motion has not yet been approved by the General Meeting of the Company.

Interim condensed financial statements prepared in accordance with International Financial Reporting Standards for the 3-month period ended March 31, 2011 (all amounts in PLN thousand)

15. Provisions

Period ended March 31, 2011	Post-employment benefits	Provisions for jubilee benefits	Provisions for third parties claims	Provisions for employee claims	Other	Total
As at January 1, 2011	**20,303**	**3,459**	**350,055**	**670**	**21,554**	**396,041**
Costs of present employment / Benefits paid	(990)	(14)	-	-	-	**(1,004)**
Actuarial gains and losses excluding discount rate adjustment	-	-	-	-	-	**-**
Costs of past employment	19	-	-	-	-	**19**
Revaluation of discount rate adjustments	-	-	-	-	-	**-**
Interest costs	279	48	4,102	-	-	**4,429**
Created during the reporting period	-	-	4,593	-	4,204	**8,797**
Reversed	-	-	-	(670)	-	**(670)**
Used	-	-	-	-	(1,789)	**(1,789)**
Other changes	-	-	-	-	-	**-**
As at March 31, 2011	**19,611**	**3,493**	**358,750**	**-**	**23,969**	**405,823**
Short-term, as at March 31, 2011	**1,763**	**215**	**358,750**	**-**	**23,969**	**384,697**
Long-term as at March 31, 2011	**17,848**	**3,278**	**-**	**-**	**-**	**21,126**

Interim condensed financial statements prepared in accordance with International Financial Reporting Standards for the 3-month period ended March 31, 2011 (all amounts in PLN thousand)

Period ended December 31, 2010	Post-employment benefits	Provisions for jubilee benefits	Provisions for third parties claims	Provisions for legal disputes	Provisions for employee claims	Other	Total
As at January 1, 2010	**20,297**	**3,874**	**351,468**	**44**	**120**	**8,212**	**384,015**
Costs of present employment	222	485	-	-		-	**707**
Actuarial gains and losses excluding discount rate adjustment	(781)	(803)	-	-	-	-	**(1,584)**
Benefits paid	(1,414)	(430)	-	-	-	-	**(1,844)**
Cost of past employment	76	-	-	-	-	-	**76**
Discount rate adjustment	859	108	-	-	-	-	**967**
Interest costs	1,194	225	-	-	-	-	**1,419**
Created during the reporting period	-	-	109,200	32	670	35,266	**145,168**
Reversed	-	-	(110,613)	(76)	-	(14,396)	**(125,085)**
Used	-	-	-	-	(120)	(7,528)	**(7,648)**
Other changes	(150)	-	-	-	-	-	**(150)**
As at December 31, 2010	**20,303**	**3,459**	**350,055**	**-**	**670**	**21,554**	**396,041**
Short-term, as at December 31, 2010	**2,060**	**291**	**350,055**	**-**	**670**	**21,554**	**374,630**
Long-term as at December 31, 2010	**18,243**	**3,168**	**-**	**-**	**-**	**-**	**21,411**

(all amounts in PLN thousand)

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

The Company pays retirement and pension severance to the retiring employees in amounts specified in the Collective Agreement. Moreover, former employees of the Company receive medical treatment, write-offs for the Social Fund etc. In connection with the above, the Company creates proper provision for the present value of these liabilities, on the ground of the valuation made by an actuary.

According to the corporate system of remuneration the employees of the Group 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 the liabilities as at the balance sheet date is calculated by an independent actuary.

15.2. Provisions for third-party claims

The provision presented in that position relates to the dispute with Alpiq Holding AG. The issue is described in Note 16.3 to these financial statements.

15.3. Other provisions

In provisions for employees affairs, the Company presents the “annual bonus” paid on the ground of the corporate collective labour agreement and provision for employee benefits related to unused annual leave.

16. Legal claims and contingent liabilities and receivables

Contingent liabilities	March 31, 2011	March 31, 2010
Repayment of bill collateral	3,201	9,856
Other contingent liabilities	2,467	2,467
Total contingent liabilities	**5,668**	**12,323**

The most significant legal claims and other contingent liabilities of the PGE are presented below.

16.1. Bill collateral

As a result of merger with PGE Electra S.A., the Company took over the guarantee agreements for the liabilities of Electra Deutschland GmbH towards not related foreign entities. The guarantees expire in the second quarter of 2011.

16.2. Other contingent liabilities

As at March 31, 2011 Company recognised contingent liabilities resulting from the failure of the CSTE (Central System for Trading Electricity), which is accessible to the PGE Group companies.

There are also claims against the Company filed by former employees, who demand re-employment. The value of the claim amounts to an annual remuneration. In general, the compensation amounts up to the value of three-month remuneration. Taking into consideration the nature of disputes, the amount of claims is immaterial for the Company.

(all amounts in PLN thousand)

16.3. Other legal and court issues

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

Since 2009 PGE Polska Grupa Energetyczna S.A. has been a party of the arbitrage proceedings with Atel. The proceedings are conducted before the Arbitration Tribunal in Vienna. The subject-matter of the dispute is the claim by Atel resulting from lack of realisation and cancellation of the agreement for electricity supplies, that was concluded between the parties on October 28, 1997. The claim by Atel amounts to approximately EUR 155 million according to the supplemented (changed) suit by Atel dated October 4, 2010. The arbitrage proceedings is taking place in writing and consists of exchange of pleadings between the parties, presenting the Tribunal with written statements by witnesses, experts and involved parties.

The hearing, which will summarize the outcomes of proceedings in writing, and during which witnesses and experts will be heard by the Arbitration Tribunal, was scheduled for early April 2011. Due to the illness of one of the arbiters, the April date was cancelled. A new date is scheduled for mid-September 2011.

On the basis of available data, to its best knowledge, PGE S.A. made a reasonable estimation of claims which can be reasonably considered justified by the Arbitration Tribunal. The Company established a provision for the claim thus estimated, in the amount exceeding EUR 89 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 indemnity.

16.4. Receivables and other contingent assets

As at March 31, 2011, the Company did not have any material contingent receivables.

In 2009, the Company filed a motion related to an excess payment of the excise tax on imports and Intra-Community purchase of electric energy in the period from January 2006 to February 2009. The Company states that the excess payment results from discrepancies between the Polish and Community law. In January 2011, the Company lodged complaints to RAC (Regional Appeal Court) in Warsaw against the decisions of the President of Customs Chamber upholding decisions of the court of first instance related to the rejection of the excess payment of excise tax for the period from January – December 2006, paid in relation to imports of electric energy. In the remaining parts, the tax proceedings had not been completed. As the day of preparation of the foregoing financial statements, the issue was not finally settled. The total amount of the claims amounts to PLN 54 million plus interest due.

17. Financial liabilities at amortised cost

As at March 31, 2011	Long-term	Short-term	Total
Interest bearing loans and credits	-	560,158	**560,158**
Bonds issued	498,008	1,189,939	**1,687,947**
Trade liabilities	-	337,658	**337,658**
Other financial liabilities	-	16,925	**16,925**
Total	**498,008**	**2,104,680**	**2,602,688**

Until the preparation date of these financial statements the Company repaid all debt presented in the above table as long-term liabilities.

Among above presented loans and credits the Company presents only current account credits.

The cash flows from the bonds issued by the Company are presented below:

	3 months ended March 31, 2011	3 months ended March 31, 2010
Bond issue	2,165,999	-
Buy-out	2,278,584	456,500

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

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

On February 3, 2011 Powszechna Kasa Oszczędności Bank Polski S.A. joined the Programme as the new Underwriter of the Programme.

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

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

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

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

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

The bondholders are only entitled to the benefits of monetary nature.

The Company begin bond issued under the Programme stating from January 26, 2011.

18. Investment liabilities

As at March 31, 2011 the Company did not have any significant investment liabilities.

19. Information on related entities

Transactions with related entities are concluded using current market prices of provided goods, products and services or are based on the cost of manufacturing. As the State Treasury is a dominant entity in relation to the Company, according to IAS 24 *Related Party Disclosures* State Treasury companies are recognized as related entities.

The total value of transactions with such entities and the level of receivables and liabilities are presented in the tables below.

(all amounts in PLN thousand)

19.1. Subsidiaries in PGE Capital Group

	Sale to related parties	Purchase from related parties	Trade receivables from related parties	Trade liabilities towards related parties
Jan 1, 2011 -Mar 31, 2011	2,646,349	454,216	484,410	81,377
Jan 1, 2010 -Mar 31, 2010	2,245,042	2,678,622	772,806	713,687

Sales to subsidiaries in PGE Group mainly relate to coal and electricity. Purchases from subsidiaries in PGE Group mainly relate to purchase of electricity. Decrease in purchase value from subsidiaries is connected with implementation of new energy trading model, which is described in Note 20 to the foregoing financial statements.

Additionally, as at March 31, 2011, Company recognized bonds issued by subsidiaries with a carrying value of PLN 5,011,842 thousand in loans and receivables and disclosed liabilities from bond issued to subsidiaries with a carrying value of PLN 1,188,877 thousand.

19.2. Associates

	Sale to related parties	Purchase from related parties	Trade receivables from related parties	Trade liabilities towards related parties
Jan 1, 2011 -Mar 31, 2011	19	78	15	48
Jan 1, 2010 -Mar 31, 2010	9	55	47	32

19.3. State Treasury companies

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

	Sale to related parties	Purchase from related parties	Trade receivables from related parties	Trade liabilities towards related parties
Jan 1, 2011 -Mar 31, 2011	42,502	589,813	6,311	207,201
Jan 1, 2010 -Mar 31, 2010	498,890	337,016	143,640	146,591

The most important transactions with State Treasury entities refer to electricity market transactions with PSE Operator S.A. and purchase of coal from Polish mines. Decrease in sales to State Treasury entities is connected with implementation of new energy trading model, which is described in Note 20 to the foregoing financial statements.

Moreover, the PGE Capital Group makes significant deals on energy market through Towarowa Giełda Energii S.A. (TGE, Power Exchange). Due to the fact that this entity is only the organiser of the trading on the power exchange, the transactions made through TGE are not treated as transactions with related entity.

(all amounts in PLN thousand)

19.4. Key management personnel remuneration

Key management comprises of the Management Board and Supervisory Board of PGE Polska Grupa Energetyczna S.A.

	3 months ended March 31, 2011	3 months ended March 31, 2010
Short-term employee benefits (salaries and salary related costs)	376	837
Jubilee and retirement benefits		-
Post-employment benefits	75	120
Termination benefits		-
Total remuneration paid to key management	**451**	**957**

	3 months ended March 31, 2011	3 months ended March 31, 2010
The Management Board	358	780
The Supervisory Board	93	177
Total	**451**	**957**

The amounts presented for the Management Board and the Supervisory Board of the Company, during 3-month period ended March 31, 2010, also comprise of the remuneration of boards of the companies merged with PGE S.A. in 2010 i.e. PGE Górnictwo i Energetyka S.A., PGE Energia S.A. and PGE Electra S.A.

20. Significant events during the reporting period and subsequent events

Changes in Electricity Trading Model in PGE Capital Group

The amended Energy Law, which introduced an obligation for electricity producers to sell electricity produced in a given year on the power exchanges, came into force on August 9, 2010.

As a result of implementation of the above regulation, since August 2010, some part of energy produced by generators from PGE Group, was sold to power exchange. Starting from 2011, according to the approved trading model, generators from PGE Group sell their energy pursuant to art. 49a of the Energy Law, i.e.:

- in the range falling under art. 49a section 1 and 2 of the Energy Law (so called "power exchange obligation") - whole volumes of energy produced on wholesale market, in the mode indicated in the Energy Law,
- in the range exempt from "power exchange obligation" because of energy production from highly-efficient cogeneration and from renewable sources - directly to PGE S.A.
- in the range exempt from "power exchange obligation" because of energy sales to consumers via direct line - directly to these consumers.

Introduction of power exchange obligation was aimed at larger transparency of the transactions, supporting of creation of reliable price indexes and securing public and equal access to the electricity.

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

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

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