PGE Polska Grupa Energetyczna S.A.

Interim condensed separate financial statements prepared in accordance with International Financial Reporting Standards for the period ended 30 June 2011.

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STATEMENT OF COMPREHENSIVE INCOME

	Note	Period ended 30 June 2011 (reviewed)	Period ended 30 June 2010 (not audited)*
COMPREHENSIVE INCOME			
Total sales revenues	**9.1**	**5,025,694**	**5,961,005**
Costs of goods sold	**9.2**	(4,848,236)	(5,831,396)
Gross profit on sales		**177,458**	**129,609**
Other revenues	**9.3**	991	26,727
Other expenses	**9.5**	(71,041)	(67,173)
Financial revenues/expenses	**9.6 - 9.7**	2,337,298	231,557
Profit before tax		**2,444,706**	**320,720**
Corporate income tax expense	**11.**	(30,158)	(39,479)
Net profit for the operating period		**2,414,548**	**281,241**
OTHER COMPREHENSIVE INCOME			
Valuation of available-for-sale financial assets		1,293	(110)
Other		-	-
Other comprehensive income for the period, net		**1,293**	**(110)**
TOTAL COMPREHENSIVE INCOME		**2,415,841**	**281,131**
Profit per share**			
– basic earnings for the operating period		1.29	0.15

* Comparative data is described in Note 3.3 and Note 4 to the foregoing financial statements.

** The calculation of profit per share for the period ended 30 June 2010 is described in Note 13.1 to the foregoing financial statements.

STATEMENT OF FINANCIAL POSITION

	Note	As at 30 June 2011 (reviewed)	As at 31 December 2010 (not audited)*	As at 30 June 2010 (not audited)*
Non-current assets				
Property, plant and equipment		225,273	232,310	237,973
Investment property		-	-	-
Intangible assets		17,024	18,449	21,039
Held-to-maturity investments		-	-	-
Loans and receivables	**12.2**	564,502	612,965	2,338,810
Available-for-sale financial assets	**12.**	22,532,488	22,466,679	19,306,177
Other long-term assets		-	-	-
Deferred tax assets		-	-	-
Non-current assets related to discontinued operations		**-**	**-**	**-**
Total non-current assets		**23,339,287**	**23,330,403**	**21,903,999**
Current assets				
Inventories		156,009	30,895	32,780
Income tax receivables		4,664	4,131	-
Short-term financial assets at fair value through profit or loss		-	-	-
Short-term held-to-maturity investments		-	-	-
Trade receivables	**12.**	593,782	867.579	798,033
Other loans and financial assets	**12.2**	3,705,697	4,770,065	2,215,760
Available-for-sale short-term financial assets	**12.**	216,427	1,938,560	1.937.448
Other current assets		2,410,773	661.775	35,406
Cash and cash equivalents		522,225	257.955	1,638,378
Current assets related to discontinued operations		-	-	-
Assets classified as held for sale	**20.1**	1,656,469	**-**	**-**
Total current assets		**9,266,046**	**8,530,960**	**6,657,805**
TOTAL ASSETS		**32,605,333**	**31,861,363**	**28,561,804**

* Comparative data is described in Note 3.3 and Note 4 to the foregoing financial statements.

STATEMENT OF FINANCIAL POSITION

	Note	As at 30 June 2011 (reviewed)	As at 31 December 2010 (not audited)*	As at 30 June 2010 (not audited)*
Equity				
Share capital	**13.**	18,697,837	18,697,837	17,300,900
Capital of the merging companies to raise the share capital of PGE Polska Grupa Energetyczna S.A.		-	-	1,396,937
Revaluation reserve		212	(1,081)	(1,272)
Treasury shares		(229)	(229)	-
Reserve capital		8,553,143	6,727,589	6,727,939
Other capital reserves		49,779	49,779	49,779
Retained earnings		2,304,997	2,931,783	308,146
Total equity		**29,605,739**	**28,405,678**	**25,782,429**
Long-term liabilities				
Interest-bearing loans, borrowings, bonds and leasing		-	-	-
Other liabilities		-	-	-
Provisions	**15.**	20,897	21,411	17,642
Deferred tax liabilities		11,480	8,648	15,635
Deferred income and government grants		-	-	-
Long-term liabilities related to discontinued operations		-	-	-
Total long-term liabilities		**32,377**	**30,059**	**33,277**
Short-term liabilities				
Trade liabilities	**17.**	363,785	973,072	875,819
Financial liabilities at fair value through profit or loss		-	-	-
Interest-bearing loans, borrowings, bonds and leasing	**17.**	962,824	2,011,132	124,420
Other short-term financial liabilities	**17.**	3,019	25,040	33,322
Other short-term non-financial liabilities	**14.**	1,251,263	36,964	1,351,845
Income tax liabilities		-	-	8,073
Deferred income		53	4,788	167
Short-term provisions	**15.**	386,273	374,630	352,452
Short-term liabilities related to discontinued operations		-	-	-
Total short-term liabilities		**2,967,217**	**3,425,626**	**2,746,098**
Total liabilities		**2,999,594**	**3,455,685**	**2,779,375**
TOTAL LIABILITIES AND EQUITY		**32,605,333**	**31,861,363**	**28,561,804**

* Comparative data is described in Note 3.3 and Note 4 to the foregoing financial statements.

STATEMENT OF CHANGES IN EQUITY

for the period ended 30 June 2011

(reviewed)	Share capital	Revaluation reserve	Treasury shares	Reserve capital	Other capital reserves	Retained earnings	Total
As at 1 January 2011	**18,697,837**	**(1,081)**	**(229)**	**6,727,589**	**49,779**	**2,931,783**	**28,405,678**
Profit for the period	-	-	-	-	-	2,414,548	2,414,548
Other comprehensive income	-	1,293	-	-	-	-	1,293
Total comprehensive income for the period	***-***	***1,293***	***-***	***-***	***-***	***2,414,548***	***2,415,841***
Retained earnings distribution	-	-	-	1,825,554	-	(1,825,554)	-
Dividend	-	-	-	-	-	(1,215,780)	(1,215,780)
As at 30 June 2011	**18,697,837**	**212**	**(229)**	**8,553,143**	**49,779**	**2,304,997**	**29,605,739**

STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2010

(not audited)*	Share capital	Capital of the merging companies to raise the share capital of PGE Polska Grupa Energetyczna S.A.	Revaluation reserve	Treasury shares	Reserve capital	Other capital reserves	Retained earnings	Total
As at 1 January 2010	**17,300,900**	**1,396,937**	**(1,162)**	**-**	**6,591,666**	**-**	**1,548,298**	**26,836,639**
Profit for the year	-	-	-	-	-	-	2,904,878	2,904,878
Other comprehensive income	-	-	81	-	-	-	-	81
Total comprehensive income for the year	***-***	***-***	***81***	***-***	***-***	***-***	***2,904,878***	***2,904,959***
Issue of shares following the merger of PGE S.A. with PGE Energia S.A. and PGE GiE 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 31 December 2010	**18,697,837**	**-**	**(1,081)**	**(229)**	**6,727,589**	**49,779**	**2,931,783**	**28,405,678**

* Comparative data is described in Note 3.3 and Note 4 to the foregoing financial statements.

STATEMENT OF CHANGES IN EQUITY

for the period ended 30 June 2010

(not audited)*	Share capital	Capital of the merging companies to raise the share capital of PGE Polska Grupa Energetyczna S.A.	Revaluation reserve	Treasury shares	Reserve capital	Other capital reserves	Retained earnings	Total
As at 1 January 2010	**17,300,900**	**1,396,937**	**(1,162)**	**-**	**6,591,666**	**-**	**1,548,298**	**26,836,639**
Profit for the period	-	-	-	-	-	-	281,241	281,241
Other comprehensive income	-	-	(110)	-	-	-	-	(110)
Total comprehensive income for the period	***-***	***-***	***(110)***	***-***	***-***	***-***	***281,241***	***281,131***
Retained earnings distribution	-	-	-	-	136,273	49,779	(186,052)	-
Dividend	-	-	-	-	-	-	(1,335,341)	(1,335,341)
As at 30 June 2010	**17,300,900**	**1,396,937**	**(1,272)**	**-**	**6,727,939**	**49,779**	**308,146**	**25,782,429**

* Comparative data is described in Note 3.3 and Note 4 to the foregoing financial statements.

STATEMENT OF CASH FLOWS

	Period ended 30 June 2011 (reviewed)	Period ended 30 June 2010 (not audited)*
Cash flow from operating activities		
Gross profit related to continuing operations	**2,444,706**	**320,720**
Adjustments for:		
Depreciation and amortization	12,036	14,908
Interest and dividend, net	(2,344,741)	(164,502)
Profit / (loss) on investment activities	(1,166)	(16,872)
Change in receivables	285,026	239,426
Change in inventories	(125,115)	35,237
Change in liabilities, excluding loans and borrowings	(607,210)	(239,742)
Change in prepayments and accruals	22,870	82,880
Change in provisions	11,130	(16,156)
Income tax paid	(28,163)	(40,740)
Other	6	(1,684)
Net cash from operating activities	**(330,621)**	**213,475**
Cash flow from investment activities		
Disposal of property, plant and equipment and intangible assets	97	300
Purchase of property, plant and equipment and intangible assets	(4,663)	(9,637)
Purchase/disposal of investment property	-	-
Disposal of financial assets	4,622,873	728,533
Purchase of financial assets	(3,523,727)	(2,429,226)
Dividends	482,758	85,021
Interest received	122,334	66,377
Loans repaid	-	-
Loans granted	-	-
Other	-	22,292
Net cash from investment activities	**1,699,672**	**(1,536,340)**
Cash flow from financial activities		
Proceeds from the issue of shares	-	-
Proceeds from borrowings, bank credits and issue of bonds	3,624,623	124,418
Repayment of borrowings, loans, bonds and finance lease	(4,687,834)	(558,050)
Dividends paid	(2,333)	(875)
Interest paid	(41,087)	(7,124)
Other		-
Net cash from financial activities	**(1,106,631)**	**(441,631)**
Net change of cash and cash equivalents	**262,420**	**(1,764,496)**
Effect of foreign exchange rate changes	1,638	565
Cash and cash equivalents at the beginning of period	**258,383**	**3,401,549**
Cash and cash equivalents at the end of period, including	**520,803**	**1,637,053**
Restricted cash	-	-

* Comparative data is described in Note 3.3 and Note 4 to the foregoing financial statements.

1. General information

The foregoing condensed interim financial statements were prepared by PGE Polska Grupa Energetyczna S.A. ("PGE S.A.", "Company"), seated in Warsaw, 2 Mysia Street and includes the 6- month period ended 30 June 2011 („financial statements"). The financial statements include comparative data for the 6- month period ended 30 June 2010 and as at 31 December 2010.

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

The Company is the Parent Company of PGE Capital Group ("PGE Capital Group", "PGE CG") and prepares consolidated financial statements including the activities of direct and indirect subsidiaries in accordance with International Financial Reporting Standards as adopted by the European Union. The foregoing financial statements should be analyzed alongside with the interim condensed consolidated financial statements for the period ended 30 June 2011, which presents the overall activity of the PGE Capital Group.

Pursuant to Art. 45 item 1b of the Accounting Act dated 29 September 1994, the Extraordinary General Shareholders' Meeting dated 3 August 2010 decided to prepare the separate financial statements in accordance with International Financial Reporting Standards ("IFRS"). The consequences of the first-time adoption of IFRS were described in Note 4 of the foregoing financial statements.

Core operations of the Company are as follows:

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

Business activities are conducted under appropriate concessions.

2. The composition of the Management Board

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

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

In the period from 1 January 2011 until the date of preparation of the foregoing financial statements, in the composition of the Management Board the following changes took place:

- on 5 January 2011 the Supervisory Board adopted a resolution of Vice-President for Financial matters – Wojciech Topolnicki dismissal,
- on 16 March 2011 the Supervisory Board adopted a resolution of Vice-President for Operational matters – Marek Trawiński dismissal,
- on 16 March 2011 the Supervisory Board adopted a resolution of Vice-President for Financial matters – Wojciech Ostrowski appointment, effective 17 March 2011,
- on 16 March 2011 the Supervisory Board adopted a resolution of Vice-President for Operational matters – Paweł Skowroński appointment, effective 17 March 2011.

As of the day of preparation of the foregoing financial statements, the composition of the Management Board was:

- Tomasz Zadroga — the President of the Management Board,
- Wojciech Ostrowski — the Vice-President of the Management Board,
- Paweł Skowroński — the Vice-President of the Management Board,
- Marek Szostek — the Vice-President of the Management Board,
- 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. were prepared in accordance with International Accounting Standard 34 *Interim financial reporting*, in accordance with International Accounting Standards, which regard interim financial reporting as adopted by the European Union, published and effective during the period of preparation of the foregoing financial statements and in the scope required under the Minister of Finance Regulation of 19 February 2009 on current and periodic information provided by issuers of securities and conditions of recognition as equivalent information required by the law of a non-Member State (Official Journal no. 33, item 259) ("Regulation").

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

3.2. General rules of preparation

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

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

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

	30 June 2011	31 December 2010	30 June 2010
USD	2.7517	2.9641	3.3946
EURO	3.9866	3.9603	4.1458

3.3. Comparative data

On 31 August 2010 PGE Polska Grupa Energetyczna S.A. merged with PGE Górnictwo i Energetyka S.A. and PGE Energia S.A., on 31 December 2010 the Company merged with PGE Electra S.A. The merger with subsidiaries met the definition of restructuring of companies under common control, which is excluded from the scope of 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 merger of entities under common control is 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 consolidated at the beginning of the comparable period.

In practice, it meant that the reports of all merging companies were aggregated, intercompany transactions, settlements and equity relations were eliminated, and valuation of assets and liabilities were unified. The whole business combination transaction was settled within equity with no influence on goodwill.

The pooling of interest method was also used to settle the above mentioned business combination in the financial statement prepared in accordance with the Accounting Act, which applied to financial reporting of the Company until the end of 2010. The following is reconciliation between data disclosed in the interim condensed financial information of PGE Polska Grupa Energetyczna S.A. for the period ended 30 June 2010 and the restated comparative data in accordance with the Accounting Act.

	Equity as at 1 January 2010	Equity as at 30 June 2010	Total comprehensive income for the period ended 30 June 2010	Assets as at 1 January 2010	Assets as at 30 June 2010
Data consistent with Polish accounting principles					
PGE Polska Grupa Energetyczna S.A.*	24,196,442	23,124,073	242,500	25,956,485	25,698,494
PGE Górnictwo i Energetyka S.A.	5,215,239	5,102,040	(2,839)	5,220,738	5,214,892
PGE Energia S.A.	7,568,625	7,542,115	(455)	7,569,279	7,568,501
PGE Electra S.A.	126,014	159,299	33,285	928,962	725,147
Adjustments resulting from the use of pooling of interests method	(10,171,264)	(10,055,164)	147	(10,614,677)	(10,533,080)
Comparative data consistent with Polish accounting principles	**26,935,056**	**25,872,363**	**272,638**	**29,060,787**	**28,673,954**

* Data disclosed in condensed interim financial information for the period ended 30 June 2010

The restatement of total comparative data from the Accounting Act to data prepared in accordance with IFRS is presented in Note 4 to the foregoing financial statements.

4. First-time adoption of International Financial Reporting Standards

As described in Note 1 of the foregoing condensed financial statements, the Company is the parent company of the PGE Capital Group, which prepares its consolidated financial statements in accordance with IFRS. The date of transition of the PGE Capital Group to IFRS was 1 January 2006. Pursuant to Art. 45 item 1b of the Accounting Act dated 29 September 1994 the Extraordinary General Shareholders' Meeting dated 3 August 2010 decided to prepare the separate financial statements in accordance with International Financial Reporting Standards ("IFRS") from 1 January 2011.

The International Accounting Standards Board issued International Financial Reporting Standard 1 *First-time Adoption of International Financial Reporting Standards*, which is effective for the preparation of financial statements for periods started on 1 January 2004 and later. IFRS 1 regards entities, which prepare financial statements in accordance with IFRS for the first time and entities, which were using IFRS, but their financial statements included a statement of non-compliance with certain standards. IFRS 1 requires the first financial statement prepared in accordance with IFRS to be the first annual financial statement, in which the entity applies all IFRS standards, alongside with the statement of full compliance with all standards.

According to the above, financial statements for each quarter of 2011 constitute the first condensed interim financial statements prepared in accordance with IFRS as adopted by the EU. For the foregoing financial statements, the date of transition to IFRS is 1 January 2010. The last available financial statement prepared in accordance with Polish accounting principles, as defined in the Accounting Act, as at the date of approval of the foregoing financial statement, is the financial statement prepared for the year ended 31 December 2010.

In accordance to IFRS 1, the financial statement was prepared as if the Company always applied IFRS, whereas the Company benefited from the following exemptions from the requirement to restate, referred to in IFRS 1:

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

International Accounting Standard 29 *Financial Reporting in Hyperinflationary Economies* (IAS 29) required, that values of assets and liabilities disclosed in hyperinflationary periods will be presented in current prices as at the end of the hyperinflationary reporting period and be the basis for assets and liabilities valuation in financial statements of future periods. The above standard applies to non-monetary balance sheet items. Significant balance sheet items of the Company are tangible assets and equity. Until the end of 1996, the Polish economy met the criteria of a hyperinflationary economy, since 1997 it does not anymore. The Company did not apply IAS 29 in previous years and only carried out a revaluation of fixed assets as at 1 January 1995 in order to reflect the effects of inflation on their carrying value through the use of revaluation rates determined by the Minister of Finance for different groups of fixed assets, in accordance with regulations applicable in Poland. This revaluation was not made in accordance with IAS 29, because the Company did not use general price indicators and did not make a revaluation of fixed assets as at 31 December 1996.

Property, plant and equipment and intangible assets are valued at amounts, which have been adapted to the preparation of the consolidated financial statements of the PGE Capital Group, for which the Company is the Parent Company.

Additionally, upon the adoption of IFRS for separate reporting purposes from 1 January 2011, the Company restated comparative data. The agreement of equity, assets and net profit in the comparative period between accounting principles applied before and IFRS is presented below:

		Equity as at		**Net profit for the period ended**		**Assets as at**		
		1January 2010	**31 December 2010**	**30 June 2010**	**31 December 2010**	**1 January 2010**	**30 June 2010**	**31 December 2010**
Total data in accordance with Polish accounting principles*		**26,935,056**	**28,519,570**	**272,638**	**2,920,423**	**29,060,787**	**28 673,954**	**32,002,907**
1.	Valuation of property, plant and equipment and intangible assets	134,908	127,766	(3,536)	(7,142)	166,554	162 189	157.736
2.	Valuation of financial instruments	(233,513)	(241,906)	12,142	(8,473)	(230,986)	(217,311)	(242,470)
3.	Valuation of retirement, pensions and other benefits provisions	188	248	(13)	60	(44)	(41)	(58)
4.	Presentation of deferred tax, net	-	-	-	-	(49,872)	(52 780)	(53.053)
5.	Presentation of Social Fund, net	-	-	-	-	(3,595)	(4 342)	(3.699)
6.	Other	-	-	10	10	(155)	135	-
	Impact of New accounting principles applied – total	**(98,417)**	**(113,892)**	**8,603**	**(15,545)**	**(118,098)**	**(112,150)**	**(141,544)**
Data in accordance with IFRS		**26,836,639**	**28,405,678**	**281,241**	**2,904,878**	**28,942,689**	**28,561,804**	**31,861,363**

* Combined data in accordance with the Accounting Act was restated as a result of the merger, in accordance with rules described in Note 3.3 of the foregoing financial statements.

The settlement of the merger, which was described in Note 3.3 of the foregoing financial statements, and the adoption of IFRS, caused an appropriate restatement of comparative data disclosed in explanatory notes to the financial statement.

The main adjustments between Polish accounting principles and IFRS are presented below:

Valuation of non-current assets

The Company discloses non-current assets in values, which have been adopted for the preparation of the consolidated financial statements of the PGE Capital Group – for which the Company is the Parent Company – and applied these values as deemed cost determined as at the day of transition to IFRS.

Valuation of financial instruments

The difference in the valuation of financial instruments between financial statements prepared in accordance with the Accounting Act and financial statements prepared in accordance with IFRS relates mainly to Exatel shares held. In the period before the date of transition to IFRS, shares in Exatel disclosed in the financial statements were covered by a write-off of PLN 188,324 thousand. After indications of impairment in the financial statement in accordance with the Accounting Act have receded, the above write-off was reversed.

However, according to IAS 39 par. 66, losses due to impairment of unquoted equity instruments measured at cost are not reversed. Accordingly, the carrying value of the Exatel shares in the financial statements of the Company prepared accordance with IFRS is lower by PLN 188,324 thousand and the value of AWSA Holland II is lower by PLN 50.673 thousand in relation to the value disclosed in the financial statements in accordance with the Accounting Act.

Assets of the Social Fund

According to the Polish law, the Company manages the Social Fund on behalf of their employees. Contributions paid to the Social Fund are deposited on separate bank accounts.

In the financial statement in accordance with IFRS, the Social Fund assets were not disclosed due to the lack of expected future economic benefits that could contribute to the impact of cash and cash equivalents on the Company's account.

5. Applied accounting principles changes

Until 31 December 2010, the Company applied regulations of the Accounting Act for the purpose of preparation of separate financial statements. From 1 January 2011 the Company prepares the separate, as well as the consolidated financial statements in accordance with IFRS. The most important differences between previously applied and new reporting principles are disclosed in Note 4 of 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 1 January 2011:

- IFRS 9 *Financial Instruments* – effective for the periods starting 1 January 2013;
- IFRS 10 *Consolidated Financial Statements* – effective for the periods starting 1 January 2013;
- IFRS 11 *Joint Agreements* – effective for the periods starting 1 January 2013;
- IFRS 12 *Disclosure of interests in other entities* – effective for the periods starting 1 January 2013;
- IFRS 13 *Fair value measurement* – effective for the periods starting 1 January 2013;
- Amended IAS 19 *Employee benefits* – effective for 1 January 2013 ;
- Amended IAS 27 *Separate financial statements* – effective for the periods starting 1 January 2013;
- Amended IAS 28 *Investments in associates and joint ventures* – effective for the periods starting 1 January 2013;
- Amendments to IFRS 1 *First-time Adoption of International Financial Reporting Standards* - effective for the periods starting 1 July 2011.
- Amendments to IFRS 7 *Financial Instruments: Disclosures* – effective for the periods starting 1 July 2011;
- Amendments to IFRS 9 *Financial Instruments* – effective for the periods starting 1 January 2013;
- Amendments to IAS 1 *Presentation of financial statements*– effective for the periods starting 1 July 2012
- Amendments to IAS 12 Income Taxes – effective for the periods starting 1 January 2012;

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 financial statements of the Company. 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 financial statements of the PGE S.A. is not yet determined.

The Company is currently analyzing the potential impact of other standards on future financial statements.

7. Accounting policies

The foregoing condensed financial statements is the first separate financial statement prepared in accordance with IFRS, therefore the Company presents the most important accounting policies of the PGE Capital Group applied by PGE Polska Grupa Energetyczna S.A. in preparing the separate financial statement 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 and
- 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 less its residual value. 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 analyzed for potential impairment. If the performed test will indicate impairment of the asset, the value of those assets or cash-generating units is decreased to the recoverable amount 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,
- 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 and
- 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).

Shares owned by the Company, for which it is not possible to reliably determine the fair value are valued at historical cost. If objective evidence of impairment of those assets exists, the amount of impairment is measured as difference between the carrying value of the financial asset and the present value of estimated future cash flows discounted using the current market rate of return for similar financial assets.

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 entity'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 labor 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 entities 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. 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 has 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 the Corporate Collective Labor 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 Labor 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 entity creates appropriate provisions.

The cost of the provision for entitled retirees, as at the day when the additional protocol to Inter-corporate Collective Labor Agreement became effective, was fully recognized in the statement of comprehensive income for the year ended 31 December 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 entities 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 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 economical 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 entity 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 entity 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 production of energy 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,
- interest,
- 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 of estimates

In the period covered by the financial statements, no significant changes to estimates influencing the numbers presented in the financial statements took place. The Company updated the value of provisions disclosed in the statement of financial position.

9. Revenues and expenses

9.1. Sales revenues

	6- month period ended 30 June 2011	6- month period ended 30 June 2010 (comparative data)
Sales revenues		
Sales of finished goods and merchandise with excise tax	*4,903,588*	*5,911,662*
Excise tax	-	-
Revenues from sale of finished goods and merchandise	**4,903,588**	**5,911,662**
Revenues from sale of services	117,988	45,253
Revenues from lease	4,118	4,090
Total sales revenues	**5,025,694**	**5,961,005**

Sales of the Company relates mainly to the domestic market. Export sales for the period ended 30 June 2011 amounted to PLN 212,159 thousand and for the period ended 30 June 2010 it amounted to PLN 194,629 thousand.

9.2. Costs by kind and functions

	6- month period ended 30 June 2011	6- month period ended 30 June 2010 (comparative data)
Costs by kind		
Depreciation/ amortization	12,036	14,908
Materials and energy	1,427	2,208
External services	21,418	33,643
Taxes and charges	6,246	4,906
Personnel expenses	34,061	36,447
Other cost by kind	34,157	23,236
Total costs by kind	**109,345**	**115,348**
Change in prepayments, accruals and inventories	(4,217)	312
Cost of products and services for the entity's own needs	-	-
Distribution and selling expenses	(9,335)	(9,568)
General and administrative expenses	(56,980)	(49,935)
Cost of merchandise and materials sold	4,809,423	5,775,239
Cost of goods sold	**4,848,236**	**5,831,396**

9.3. Other revenues and expenses

	6- month period ended 30 June 2011	6- month period ended 30 June 2010 (comparative data)
Other operating revenues	991	26,727
Distribution and selling expenses	(9,335)	(9,568)
General and administrative expenses	(56,980)	(49,935)
Other operating expenses	(4,726)	(7,670)
Financial revenues	2,402,555	247,065
Financial expenses	(65,257)	(15,508)

9.4. Other operating revenues

	6- month period ended 30 June 2011	6- month period ended 30 June 2010 (comparative data)
Profit on disposal of property, plant and equipment	93	341
Reversal of revaluation write offs on receivables	-	54
Provisions reversed	845	25,342
Compensations, penalties and fines received	3	759
Taxes refunded	30	26
Court fees refunded	10	38
Other	10	167
Total other operating revenues	**991**	**26,727**

9.5. Other operating expenses

	6- month period ended 30 June 2011	6- month period ended 30 June 2010 (comparative data)
Creation of revaluation write offs on receivables	9	16
Provisions created	4,468	6,630
Donations granted	39	200
Compensations	1	123
Court fees paid	8	5
Liquidation of damages/ removal of failures	-	3
Liquidation of non-current assets	48	100
Redemption of receivables	78	-
Other	75	593
Total other operating expenses	**4,726**	**7,670**

9.6. Financial revenues

	6- month period ended 30 June 2011	6- month period ended 30 June 2010 (comparative data)
Financial revenues from financial instruments	**2,402,327**	**242,799**
Dividends	2,259,361	82,779
Interest revenue	142,699	141,060
Revaluation/ reversal of revaluation write offs	12	3,084
Profit on disposal of investments	255	32
Foreign exchange gains	-	15,844
Other financial revenues	**228**	**4,266**
Interest on state receivables	-	4,200
Other	228	66
Total financial revenues	**2,402,555**	**247,065**

9.7. Financial expenses

	6- month period ended 30 June 2011	6- month period ended 30 June 2010 (comparative data)
Financial expenses from financial instruments	**55,633**	**2,537**
Interest expenses	54,086	2,537
Impairment losses	1	-
Foreign exchange losses	1,546	-
Other financial expenses	**9,624**	**12,971**
Interest expenses (including effect of discount unwinding)	8,903	5,545
Interest paid relating to state liabilities	19	5
Other	702	7,421
Total financial expenses	**65,257**	**15,508**

10. Impairment allowances of assets – recognition and reversal

	6- month period ended 30 June 2011	6- month period ended 30 June 2010 (comparative data)
Impairment allowances of inventories		
- recognition	-	10
- reversal	212	197

11. Income tax

Income tax disclosed in the statement of comprehensive income	6- month period ended 30 June 2011	6- month period ended 30 June 2010 (comparative data)
Current income tax	27,629	34,434
Deferred income tax	2,529	5,045
Total	**30,158**	**39,479**

Moreover, the Company disclosed in the financial statements a deferred tax provision of PLN 303 thousand in the period ended 30 June 2011 and a deferred tax provision of PLN 26 thousand in the period ended 30 June 2010.

12. Financial assets

	Carrying amount					
		30 June 2011			31 December 2010	
Categories and classes of financial assets:	**Long-term**	**Short-term**	**Total**	**Long-term**	**Short-term**	**Total**
Loans and receivables, including:						
(i) Trade receivables	-	593,782	**593,782**	-	867,579	**867,579**
(iii) Other financial loans and receivables	564,502	3,705,697	**4,270,199**	612,965	4,770,065	**5,383,030**
▪ Bonds, bill and notes receivable acquired	429,282	3,662,504	**4,091,786**	467,938	4,723,147	**5,191,085**
▪ Originated loans	135,220	37,665	**172,885**	145,027	30,180	**175,207**
▪ Other financial receivables	-	5,528	**5,528**	-	16,738	**16,738**
Total loans and receivables:	**564,502**	**4,299,479**	**4,863,981**	**612,965**	**5,637,644**	**6,250,609**
Available-for-sale financial assets, including:						
(i) Shares in entities not quoted on active markets	22,528,939	216,427	**22,745,366**	22,464,726	1,938,560	**24,403,286**
(ii) Shares quoted on active markets	3,549	-	**3,549**	1,953	-	**1,953**
Total available-for-sale financial assets:	**22,532,488**	**216,427**	**22,748,915**	**22,466,679**	**1,938,560**	**24,405,239**

12.1. Trade receivables

Trade receivables relate mainly to the sale of electricity and coal to related parties of the PGE Capital Group. As at 30 June 2011 the balance of three biggest customers, i.e. PGE Obrót S.A., PGE Górnictwo i Energetyka Konwencjonalna S.A. and PGE Elektrownia Opole S.A. accounted for 93% of the balance of trade receivables.

12.2. Loans and receivables, including acquired bonds, bill and notes

As at 30 June 2011	Long-term	Short-term
Bonds issued by PGE Górnictwo i Energetyka Konwencjonalna S.A.	160,800	3,662,504
Bonds issued by Autostrada Wielkopolska S.A.	268,481	-
Loan granted PGE Systemy S.A.	2,933	1,641
Loan granted Vattenfall AB	132,288	33,758
Loan granted PGE Inwest Sp. z o.o.	-	2,266
Deposits	-	5,451
Other	-	77
Total	**564,502**	**3,705,697**

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

PGE S.A. acquires bonds issued by companies of the PGE Capital Group. The funds obtained from issue of bonds are used to finance investments, repay financial liabilities secured by assignment of long-term power and electricity sales agreements and to finance the current activities. The bonds bear interest based on WIBOR (1M, 3M, 6M) plus a margin.

Prepayment (loan) granted Vattenfall AB

In periods before the balance sheet date the Company made prepayments for transmission services to Vattenfall Aktiebolag („VAB"). These prepayments were related to an execution of Restructuring Agreement signed by PGE S.A. and VAB on 28 May 2003 and were associated with a purchase of SwePol Link AB shares as well as a construction and exploitation of a permanent electricity link between Polish and Swedish electric system. Taking into consideration the character of transactions mentioned above, 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.

Prepayments were being cleared in course of executing the above mentioned contract, which expired in August 2010. During the reporting period works with the objective of settling the issues of prepayments outstanding after expiry of the VAB contract were carried out at the Company. As at the date of preparation of these financial statements there is no certainty as to successful completion of the Company's efforts with respect to extension of cooperation; therefore there is an uncertainty as to recovery of amounts involved. The Company assumes that the issue of continuing cooperation will be resolved successfully, and that the nominal values of prepayment will be cleared or returned.

12.3. Shares in entities not quoted on active markets

As at 30 June 2011	Long-term	Short-term
Shares in subsidiaries		
PGE Górnictwo i Energetyka Konwencjonalna S.A.	12,989,357	-
PGE Obrót S.A.	6,632,648	-
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.	25,452	-
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	-
Exatel S.A.	-	214,005
PGE Inwest Sp. z o.o. II S.K.A. in liquidation	-	72
Shares in jointly controlled entities		
Energopomiar Sp. z o.o.	1,063	-
Shares in associates		
Swe-Pol Link AB	36,717	-
Shares in other entities		
Pracownicze Towarzystwo Emerytalne "Nowy Świat" S.A.	~0	-
AWSA Holland II	64,500	-
Towarowa Giełda Energii S.A.	-	2,350
Total	**22,528,939**	**216,427**

Additionally, the Company owns Sygnity S.A. shares, which are disclosed in the value resulting from the current listing on the Warsaw Stock Exchange (Giełda Papierów Wartościowych w Warszawie S.A.).

The carrying value of shares in PGE Górnictwo i Energetyka Konwencjonalna S.A., PGE Obrót S.A., PGE Elektrownia Opole S.A. and PGE Dystrybucja S.A. was verified in accordance with IAS 36 *Impairment of Assets* on 31 December 2010.

PGE Inwest Sp. z o.o. II S.K.A. was put into liquidation in March 2011. The remaining financial assets held for sale disclosed as short-term assets are shares, which disposal is planned before the end of 2011. As at 30 June 2011 these assets do not meet the definition of assets held for sale as defined in IFRS 5 *Non-current assets held for sale and discontinued operations.*

Moreover, the Company recognizes Polkomtel shares as assets held for sale. The issue of sale of these shares is described in Note 20.1 of the foregoing financial statements.

13. Share capital

Series/ issue	Type of shares	Type of preference	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/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 PGE Energia S.A.
Total			**1,869,783,727**	**18,697,837,270.00**	

All shares of the Company have been paid.

As at 1 January 2011 and 30 June 2011 the State Treasury owned 69.29% shares of the Company, other shareholders owned 30.71% shares of the Company.

Treasury shares

As a consequence of PGE S.A. merger with PGE GiE S.A. and PGE Energia S.A., PGE S.A. acquired 22,898 treasury shares for the amount of PLN 579 thousand. The value of one share resulted from a valuation made for the merger. The purpose of the acquisition was the redemption of shares. Treasury shares shall be redeemed pursuant to a resolution of the general meeting of shareholders, through decrease of the share capital

13.1. Earnings per share

On 31 August 2010 PGE Polska Grupa Energetyczna S.A. merged with PGE Górnictwo i Energetyka S.A. and PGE Energia S.A., on 31 December 2010 the Company merged with PGE Electra S.A. Since the above mentioned transaction was accounted for with the pooling of interest method, the earnings per share ratio for the period ended 30 June 2010 was calculated based on the amount of shares after the increase of share capital.

14. Dividends paid and dividends declared

	Period ended 30 June 2011	Year ended 31 December 2010
Dividend paid from retained earnings	1,215,345	1,335,330
Dividend paid from other capital reserves	-	-
Total cash dividends from ordinary shares	**1,215,345**	**1,335,330**
Cash dividends per share (in PLN)	0.65	0.71*

* On 31 August 2010 PGE Polska Grupa Energetyczna S.A. merged with PGE Górnictwo i Energetyka S.A. and PGE Energia S.A. In the financial statements, dividends paid relate to the merged entities. Therefore, to calculate the value of dividend per share, the amount of shares after the increase of share capital was taken. Dividend per share paid by PGE Polska Grupa Energetyczna S.A. without the influence of the merger amounted to 0.76 PLN.

Dividend for 2010

On 29 June 2011 the Ordinary Meeting of Shareholders decided to allocate the profit of 2010 to pay the dividend of 0.65 PLN per share. Taking the amount of treasury shares from the Day of adopting the resolution on distribution of profit, the dividend will amount to PLN 1,215,345 thousand. Dividend date was set on 15 September 2011, the payment date on 30 September 2011. The declared dividend is disclosed in the statement of financial position as at 30 June 2011 as other non-financial liabilities.

Additionally, in accordance with the adopted accounting policy in accordance with IFRS, in the statement of changes in equity for the period ended 30 June 2011, in the position of dividends attributable to shareholders of the parent company the Company discloses an adjustment regarding the obligatory payment from profit for previous periods of PLN 435 thousand.

15. Provisions

Period ended 30 June 2011	Post-employment benefits	Provisions for jubilee benefits	Provisions for third parties claims	Provisions for employee claims	Provisions for certificates of origin held for redemption	Other provisions	Total
As at 1 January 2011	**20,303**	**3,459**	**350,055**	**670**	**-**	**21,554**	**396,041**
Costs of present employment/ benefits paid	(1,919)	(26)	-	-	-	-	(1,945)
Actuarial gains and losses excluding discount rate adjustment	-	-	-	-	-	-	-
Costs of past employment	38	-	-	-	-	-	38
Discount rate adjustments	-	-	-	-	-	-	-
Interest costs	558	95	8,249	-	-	-	8,902
Created during the year	-	-	4,298	-	113	9,551	13,962
Reversed	-	-	-	(670)	-	(429)	(1,099)
Used	-	-	-	-	-	(8,729)	(8,729)
Other changes	-	-	-	-	-	-	-
As at 30 June 2011	18,980	3,528	362,602	-	113	21,947	407,170
Short-term as at 30 June 2011	1,471	140	362,602	-	113	21,947	386,273
Long-term as at 30 June 2011	17,509	3,388	-	-	-	-	20,897

Period ended 31 December 2010	Post-employment benefits	Provisions for jubilee benefits	Provisions for third parties claims	Provisions for legal disputes	Provisions for employee claims	Other provisions	Total
As at 1 January 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)	-	-	(120)	(7,528)	**(9,492)**
Costs of past employment	76	-	-	-	-	-	**76**
Discount rate adjustments	859	108	-	-	-	-	**967**
Interest costs	1,194	225	-	-	-	-	**1,419**
Created during the year	-	-	109,200	32	670	35,266	**145,168**
Reversed	-	-	(110,613)	(76)	-	(14,396)	**(125,085)**
Other changes	(150)	-	-	-	-	-	**(150)**
As at 31 December 2010	**20,303**	**3,459**	**350,055**	**-**	**670**	**21,554**	**396,041**
Short-term as at 31 December 2010	**2,060**	**291**	**350,055**	**-**	**670**	**21,554**	**374,630**
Long-term as at 31 December 2010	**18,243**	**3,168**	**-**	**-**	**-**	**-**	**21,411**

15.1. Provisions for post employments benefits and jubilee benefits

The Company pays retirement or pension allowances in the amount specified in the Corporate Collective Labor Agreement when an employee retires or becomes a pensioner. Moreover, the former employees of the Company receive benefits in the form of medical care, coal allowance, Social Fund allowance, etc. Due to the above, the Company creates a relevant provision for mentioned allowances based on the valuation made by an actuary.

According to the corporate system of remuneration the employees of the Company 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 Company recognizes a provision for future obligations relevant to jubilee awards in order to assign costs to the periods they refer to. The current value of these obligations is measured by an independent actuary at each balance sheet date.

15.2. 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 16.3 to the foregoing financial statements.

15.3. Other provisions

In provisions for employee claims the Company discloses the „annual bonus" paid on the basis of the corporate collective labour agreement and the provision for possible employee benefits related to unused holidays.

16. Legal claims and contingent liabilities and receivables

Contingent liabilities	30 June 2011	31 December 2010
Repayment of bill collateral	-	9,856
Other contingent liabilities	-	2,467
Total contingent liabilities	**-**	**12,323**

Presented below are the most significant legal claims and other contingent liabilities in PGE Polska Grupa Energetyczna S.A.

16.1. Repayment of bill collateral

Pursuant to merger with PGE Electra S.A., PGE S.A. acquired guarantee agreements executed as a surety for the obligations of Electra Deutschland GmbH to foreign third parties. The guarantees expired in the II quarter of 2011.

16.2. Other contingent liabilities

The Company recognized a provision for contingent liabilities held by the Company until the end of the I quarter of 2011 for failure of the Central Electricity Trading System (Polish abbreviation: CSOEE; the system is made available to PGE Group companies), due to fulfilment of such criteria as the likelihood of transferring the amount of claim to the claimant.

Moreover, there are 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, it is stated that the amount of claims is immaterial for the Company.

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. is a party to arbitration proceedings with the company Atel. The proceeding is held before the Court of Arbitration in Vienna. The subject of the arbitration proceeding is the claim of Atel, raised against PGE, resulting from the lack of realization of an electricity supply agreement signed on 28 October 1997. Claims submitted by Atel in a supplemented (rephrased) lawsuit from 4 October 2010 amount to EUR 155 million. The arbitration proceeding is held in writing and involves the exchange of pleadings between the parties and presenting evidence in form of written statements of witnesses, experts and the parties themselves in front of the Court. The final 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 arbitrators, the hearing in Vienna in April was cancelled. A new final hearing is scheduled for 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 90 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. Contingent receivables and other assets

As at 30 June 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 settled. The total amount of the claims amounts to PLN 54 million plus interest due.

17. Financial liabilities

Financial liabilities at amortized cost (as at 30 June 2011)	Long-term	Short-term	Total
Interest bearing loans and credits	-	-	-
Bonds issued	-	962,824	962,824
Trade liabilities	-	363,785	363,785
Other financial liabilities	-	3,019	3,019
Total	**-**	**1,329,628**	**1,329,628**

Cash flows from bonds issued by the Company were as follows:

	6-month period ended 30 June 2011	6-month period ended 30 June 2010
Issue	3,624,624	-
Buy-out	4,477,650	525,000

In the first half 2011 PGE Capital Group held a possibility to issue bonds within two programmes : the programme for outside purchasers of the amount of PLN 10 billion and the programme for entities in the PGE Capital Group of the amount of PLN 5 billion.

Bond issue programme in the amount of PLN 10 billion

On 9 November 2010, PGE S.A. signed two agreements with a consortium of banks, under which the bond issue programme was established:

- Bond Purchase Commitment Agreement ("Commitment Agreement"),
- Bond Issue Programme Agreement ("Programme Agreement") ,

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 8 November 2013.

Bonds are subject to the partial underwriting (in the amount of 1,5 billion as at the date of preparation of these financial statements) i.e 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 15 November 2010 till 31 October 2013.

As at 30 June 2011 the Underwriters were the following banks: Bank Polska Kasa Opieki S.A., Banca Infrastrutture Innovazione e Sviluppo S.p.A., Nordea Bank AB, Nordea Bank Polska S.A., ING Bank N.V., ING Bank Śląski S.A. and PKO BP S.A.

Bonds are to be issued as specified in article 9 paragraph 3 of the Act on Bonds dated 29 June 1995 (Official Journal 2001, no. 120, item 1300 with amendments) based on the Programme Agreement and the Issue Terms, as bearer discount bonds (bearer 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 pay a guaranteed interest rate, 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 entitled to the benefits of monetary nature only.
As at 30 June 2011, PGE S.A. did not have the bonds issued under this Programme.

18. Investment liabilities

As at 30 June 2011, the Company did not have any material investment liabilities.

19. Information on related entities

Transactions with related entities are concluded using current market prices of provided goods, products and services based on the cost of manufacturing. The State Treasury is the dominant shareholder of PGE Polska Grupa Energetyczna S.A. and as a result in accordance with IAS 24 *Related Party Disclosures*, State Treasury companies are recognized as related entities.

The total value of transactions with such entities is presented in the table below.

19.1. Subsidiaries in the PGE Capital Group

	Sales to subsidiaries	Purchases from subsidiaries	Trade receivables from subsidiaries	Trade liabilities towards subsidiaries
01.01.-30.06.2011	4,692,128	727,989	578,451	61,412
01.01.-30.06.2010	3,994,423	5,067,423	918,657	656,245

Sales to subsidiaries in the PGE Capital Group relates mainly to coal and electricity. Purchases from subsidiaries in the PGE Capital Group relates mainly to electricity. The decrease of purchases value results from the implementation of a new energy trade model, which was described in Note 20.2 of the foregoing financial statement.

Moreover, as at 30 June 2011 the Company owned bonds issued by subsidiaries disclosed as loans and receivables of a carrying value of PLN 3,823,304 thousand and disclosed liabilities from bonds issued to subsidiaries of a carrying value of PLN 962.824 thousand.

19.2. Associates

	Sales to associates	Purchases from associates	Trade receivables from associates	Trade liabilities towards associates
01.01.-30.06.2011	37	158	15	36
01.01.-30.06.2010	17	148	6	21

Additionally, as at 30 June 2011 the Company presented a dividend receivable from Polkomtel S.A. of PLN 223,960 thousand.

19.3. Transactions with State Treasury entities

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

	Sale to State Treasury entities	Purchases from State Treasury entities	Trade receivables from State Treasury entities	Trade liabilities towards State Treasury entities
01.01.-30.06.2011	60,119	1,161,736	6,455	235,524
01.01.-30.06.2010	992,924	630,119	142,488	117,662

The most important transactions with State Treasury entities refer to transactions on the electricity market with PSE Operator S.A. and purchase of coal from Polish mines. The decrease of sales values to State Treasury entities results from the implementation of a new energy trade model, which was described in Note 20.2 of the foregoing financial statement.

Furthermore, the Company made significant transactions on the energy market through the Polish Power Exchange. Due to the fact that this entity only deals with the organization of trading, purchases and sales through it are not treated as transactions with related parties.

19.4. Key management personnel remuneration

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

	6- month period ended 30 June 2011	6- month period ended 30 June 2010
Short-term employee benefits (salaries and salary related costs)	789	1.963
Jubilee and retirement benefits	-	-
Post-employment benefits	213	120
Termination benefits	-	-
Total remuneration paid to key management	**1,002**	**2,083**

	6- month period ended 30 June 2011	6- month period ended 30 June 2010
Management Board	815	1.725
Supervisory Board	187	358
Total	**1,002**	**2,083**

The amounts refer to the Management Board and the Supervisory Board of the Company in the 6-month period ended 30 June 2010 comprise also of the remuneration of Companies merged with PGE Polska Grupa Energetyczna S.A. during 2010: 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

20.1. Sale of shares of Polkomtel S.A.

On 30 June 2011 a preliminary sale agreement regarding the sale of 100% of Polkomtel shares, including the stake of 21.85% owned by PGE S.A. between PGE S.A., PKN ORLEN S.A., KGHM Polska Miedź S.A. Vodafone Americas Inc, Vodafone International Holdings B.V. and Węglokoks S.A. as seller and Spartan Capital Holdings Sp. z o.o, a special purpose vehicle controlled by Mr. Zygmunt Solorz-Żak, as buyer was signed.

According to the agreement, the Company will sell 4,479,191 ordinary shares of Polkomtel S.A. with a nominal value of PLN 100 per share, representing 21.85% of share capital of Polkomtel S.A., for the total price of 3,289,474,171 PLN. The sale price for shares will be paid by the buyer in cash.

The total value of the transaction based on the company value was determined at PLN 18.1 billion. After the deduction of Polkomtel's debt and dividend, which Polkomtel will pay in favour of its current shareholders, the total payment amount is PLN 15.1 billion. A part of the dividend from Polkomtel S.A. for 2010 payable to PGE S.A. amounts to PLN 223,959,550 and was paid on 29 July 2011.

In case of breach of certain provisions of the Agreement, the Buyer is obliged, accordingly with the Agreement, to pay contractual penalties of 15% of the price. The payment of the price and contractual penalties was secured through the issue of letters of credit in favour of the Sellers.

The transaction requires the approval of the Office of Competition and Consumer Protection which, according to the agreement, needs to be acquired until the end of 2011, otherwise the agreement will terminate, unless the parties should decide otherwise. After completion of the transaction and the acquisition of 100% of Polkomtel S.A. by Spartan Capital Holdings Sp. z o.o., PGE S.A. will not hold any shares of Polkomtel S.A.

20.2. Changes in the electricity trade model in the PGE Capital Group

On 9 August 2010 an amendment to the Energy Law, which requires energy companies involved in electricity production to sell electricity produced during the year on commodity exchanges, came into force.

With the introduction of this regulation since August 2010, a part of the energy produced by companies of the PGE Capital Group was sold on commodity exchanges. As of 2011, according to the approved trading model, PGE Group producers sell energy according to the requirements of Article 49a of the Act - Energy Law, namely:

- with respect to the scope subject to the requirements of Article 49a(1) and (2) (so-called stock exchange commitment), they sell the whole volume of energy produced to the wholesale market, according to the procedure prescribed by the Act - Energy Law,
- with respect to the scope exempted from the stock exchange commitment, for energy production in high-efficiency cogeneration and renewable energy sources directly to PGE S.A.,
- with respect to the scope exempted from the stock exchange commitment, for sales of energy to customers through direct line, directly to these customers.

The purpose of the introduction of obligation to sell energy on commodity exchanges was to increase the transparency of transactions, support for creating reliable price indices and to provide the public with public, equal access to electricity.

20.3. Establishment of a Bond Issuance Program of Polska Grupa Energetyczna S.A.

On August 29, 2011 PGE Polska Grupa Energetyczna S.A. entered into an agreement for an unlimited term with Bank Polska Kasa Opieki S.A. (as the Agent, Payment Agent and Depositary) and ING Bank Śląski S.A. (as the Sub-Agent, Payment Sub-Agent or Sub-Depositary), pursuant to which a bond issuance program was established.

The maximum amount of debt arising from bonds issued under the Program (which is the maximum acceptable nominal value of bonds issued and not redeemed) may not exceed PLN 5 billion.

The Program allows for issuance of book entry bearer bonds, in accordance with the Bonds Act of June 19, 1995, anticipated to mature - depending on he type of bond - for discount bonds (zero coupon bonds) within not more than 1 year, and for coupon bonds - within not less than 1 year but not more than 10 years, according to the conditions of issuance of the given bond series. Bonds will be issued as non-public bonds, in accordance with Article 9(3) of the Bonds Act. The bonds can be dematerialized at the National Depository of Securities (KDPW S.A.) and quoted in the Alternative Trading System of the Warsaw Stock Exchange or BondSpot S.A. within Catalyst (a bonds market operated by the Warsaw Stock Exchange and BondSpot S.A.).

Issuance of bonds under the Program will be denominated in Polish zlotys and the nominal value of a single bond will be PLN 10,000 or a multiple of that amount. Pricing terms for the bonds - discount for zero-coupon bonds or interest rate/coupon for coupon bonds - will be determined on the basis of market rates of exchange during the bonds offering process. Bondholders will only be entitled to cash payments for ownership of bonds.

The bonds issued under the Program will constitute an unsubordinated and unsecured obligation of the Compa

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

Tomasz Zadroga
President of the Management Board

Wojciech Ostrowski
Vice-President of the Management Board

Paweł Skowroński
Vice-President of the Management Board

Marek Szostek
Vice-President of the Management Board

Piotr Szymanek
Vice-President of the Management Board