PGE Polska Grupa Energetyczna S.A. Capital Group

Condensed interim consolidated financial statements
prepared in accordance with IFRS for the period ended 30 June 2011.

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Condensed interim consolidated financial statements for the 6- month period ended 30 June 2011 prepared in accordance with IFRS (in PLN thousand)

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Note	Period ended 30 June 2011 (reviewed)	Period ended 30 June 2010 (reviewed) *(transformed data*)*
CONSOLIDATED COMPREHENSIVE INCOME			
Continuing operations			
Total sales revenues		**13,915,332**	**10,132,713**
Costs of goods sold	**9.1**	(10,043,079)	(6,846,761)
Gross profit on sales		**3,872,253**	**3,285,952**
Other revenues	**9.3**	286,570	369,481
Other expenses	**9.3**	(1,326,913)	(1,262,348)
Financial revenues/expenses	**9.3**	(57,899)	(115,504)
Gross profit		**2,774,011**	**2,277,581**
Corporate income tax expense	**11**	(513,231)	(436,021)
Net profit from continuing operations		**2,260,780**	**1,841,560**
Discontinued operations			
Profit/(loss) for the period on discontinued operations	**20**	1,012	850
Net profit for the operating period		**2,261,792**	**1,842,410**
OTHER COMPREHENSIVE INCOME			
Valuation of available-for-sale financial assets		1,293	(111)
Revaluation of assets of associates		-	-
Foreign exchange differences from translation of foreign entities		(132)	1,764
Other comprehensive income for the period, net		**1,161**	**1,653**
TOTAL COMPREHENSIVE INCOME		**2,262,953**	**1,844,063**
Net profit attributable to:			
- equity holders of the parent company		2,220,232	1,499,471
- non-controlling interest		41,560	342,939
Total comprehensive income attributable to:			
- equity holders of the parent company		2,221,393	1,501,124
- non-controlling interest		41,560	342,939
Profit per share (in PLN)			
– basic earnings for the operating period		1.19	0.87
– basic earnings from continuing operations			

* transformation of comparative data is described in Note 5 to the foregoing financial statements

prepared in accordance with IFRS (in PLN thousand)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

ASSETS	Note	As at 30 June 2011 (reviewed)	As at 31 December 2010 (audited) *(transformed data*)*	As at 30 June 2010 (reviewed) *(transformed data*)*
Non-current assets				
Property, plant and equipment		41,732,497	41,442,181	39,433,071
Investment properties		26,627	24,959	25,177
Intangible assets		189,987	202,629	174,451
Loans and receivables		405,249	407,831	417,071
Available-for-sale financial assets		140,692	95,242	100,586
Shares in associates accounted for under the equity method		59,146	1,408,465	1,447,072
Other long-term assets		347,237	264,432	389,429
Deferred tax assets		246,329	286,621	373,808
Fixed assets related to discontinued operations		4,472	5,062	39,012
Total non-current assets		**43,152,236**	**44,137,422**	**42,399,677**
Current assets				
Inventories		1,274,040	1,090,549	1,227,540
Income tax receivables		29,384	29,976	21,276
Trade receivables		1,541,624	1,618,591	1,498,174
Other loans and financial assets		918,137	796,663	733,573
Available-for-sale short-term financial assets		6,689	80,251	71,647
Other short-term assets		1,297,503	921,724	747,648
Cash and cash equivalents		2,838,477	2,730,423	7,261,240
Assets classified as held for sale	**21.2**	1,328,380	7,572	5,664
Current assets related to discontinued operations		12,306	10,095	28,780
Total current assets		**9,246,540**	**7,285,844**	**11,595,542**
TOTAL ASSETS		**52,398,776**	**51,423,266**	**53,995,219**

* transformation of comparative data is described in Note 5 to the foregoing financial statements

Enclosed explanatory notes are integral part of the foregoing condensed interim consolidated financial statements

Condensed interim consolidated financial statements for the 6- month period ended 30 June 2011 prepared in accordance with IFRS (in PLN thousand)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

EQUITY AND LIABILITIES	Note	As at 30 June 2011 (reviewed)	As at 31 December 2010 (audited) *(transformed data*)*	As at 30 June 2010 (reviewed) *(transformed data*)*
Equity attributable to equity holders of the parent				
Share capital	**12**	18,697,837	18,697,837	17,300,900
Revaluation reserve		212	(1,081)	(1,272)
Treasury shares		(229)	(229)	-
Foreign exchange differences from translation of foreign entities		813	945	952
Reserve capital		8,553,143	6,727,589	5,575,177
Other capital reserves		49,779	49,779	-
Retained earnings		10,737,203	11,558,411	8,453,249
Non-controlling interest		612,453	598,819	7,344,460
Total equity		**38,651,211**	**37,632,100**	**38,673,466**
Long-term liabilities				
Interest-bearing loans, borrowings, bonds and lease	**16**	1,505,824	1,804,429	2,232,815
Other long-term liabilities		9,194	14,403	12,771
Provisions	**14**	3,043,614	3,072,295	3,210,659
Deferred tax liabilities		1,396,267	1,194,763	1,379,318
Deferred income and government grants		1,245,343	1,112,553	1,095,755
Long-term liabilities related to discontinued operations		1,085	1,366	986
Total long-term liabilities		**7,201,327**	**7,199,809**	**7,932,304**
Short-term liabilities				
Trade liabilities		818,548	980,224	869,313
Financial liabilities at fair value through profit or loss		37,142	41,165	54,052
Interest-bearing loans, borrowings, bonds and lease	**16**	692,263	914,956	966,182
Other short-term financial liabilities		760,402	1,265,555	553,075
Other short-term non-financial liabilities	**13**	2,576,665	1,396,213	3,212,049
Income tax liabilities		67,768	218,158	162,383
Deferred income and government grants		104,874	100,157	41,053
Short-term provisions	**14**	1,480,970	1,668,640	1,513,516
Short-term liabilities related to discontinued operations		7,606	6,289	17,826
Total short-term liabilities		**6,546,238**	**6,591,357**	**7,389,449**
Total liabilities		**13,747,565**	**13,791,166**	**15,321,753**
TOTAL LIABILITIES AND EQUITY		**52,398,776**	**51,423,266**	**53,995,219**

* transformation of comparative data is described in Note 5 to the foregoing financial statements

Condensed interim consolidated financial statements for the 6- month period ended 30 June 2011 prepared in accordance with IFRS (in PLN thousand)

STATEMENT OF CHANGES IN CONSOLIDATED EQUITY

for the period ended 30 June 2011

(reviewed)	Share capital	Revaluation reserve	Treasury shares	Foreign exchange differences from translation	Reserve capital	Other capital reserves	Retained earnings	Total	Non-controlling interest	Total equity
As at 1 January 2011	**18,697,837**	**(1,081)**	**(229)**	**945**	**6,727,589**	**49,779**	**11,558,441**	**37,033,281**	**598,819**	**37,632,100**
Total comprehensive income for the period	***-***	***1,293***	***-***	***(132)***	***-***	***-***	***2,220,232***	***2,221,393***	***41,560***	***2,262,953***
Retained earnings distribution	-	-	-	-	1,825,554	-	(1,825,554)	**-**	-	**-**
Dividend	-	-	-	-	-	-	(1,215,780)	**(1,215,780)**	(27,892)	**(1,243,672)**
Change in scope of consolidation due to mergers	-	-	-	-	-	-	(136)	**(136)**	(34)	**(170)**
As at 30 June 2011	**18,697,837**	**212**	**(229)**	**813**	**8,553,143**	**49,779**	**10,737,203**	**38,038,758**	**612,453**	**38,651,211**

Condensed interim consolidated financial statements for the 6- month period ended 30 June 2011 prepared in accordance with IFRS (in PLN thousand)

STATEMENT OF CHANGES IN CONSOLIDATED EQUITY

for the year ended 31 December 2010

(audited) *(data transformed*)*	**Share capital**	**Revaluation reserve**	**Treasury shares**	**Foreign exchange differences from translation**	**Reserve capital**	**Other capital reserves**	**Retained earnings**	**Total**	**Non-controlling interest**	**Total equity**
As at 1 January 2010	**17,300,900**	**(1,161)**	**-**	**(812)**	**5,449,549**	**-**	**8,369,175**	**31,117,651**	**7,681,428**	**38,799,079**
Total comprehensive income for the period	***-***	***80***	***-***	***1,757***	***-***	***-***	***3,014,120***	***3,015,957***	***612,967***	***3,628,924***
Retained earnings distribution	-	-	-	-	136,441	49,779	(186,220)	**-**	-	**-**
Dividend	-	-	-	-	-	-	(1,335,330)	**(1,335,330)**	(673,996)	**(2,009,326)**
Purchase of new companies	-	-	-	-	-	-		**-**	7,648	**7,648**
Sale of subsidiaries	-	-	-	-	-	-		**-**	(13,786)	**(13,786)**
Changes in accounting policy	-	-	-	-	-	-	19,435	**19,435**	7,465	**26,900**
Purchase of treasury shares	-	-	(229)	-	(350)	-		**(579)**	-	**(579)**
Settlement of purchase of additional stock in subsidiaries:	-	-	-	-	-	-	531,526	**531,526**	(3,646,201)	**(3,114,675)**
Value of the purchased non-controlling interest	-	-	-	-	-	-	*3,646,201*	***3,646,201***	*(3,646,201)*	**-**
The acquisition cost of shares and stocks in subsidiaries	-	-	-	-	-	-	*(3,114,675)*	***(3,114,675)***	-	***(3,114,675)***
Settlement of the merger of parent company with subsidiaries:	1,396,937	-	-	-	1,141,949	-	1,145,735	**3,684,621**	(3,376,706)	**307,915**
Issue of shares as a result of the merger	*1,396,937*	-	-	-	*1,141,949*	-	*(2,538,886)*	-	-	**-**
Transfer of non-controlling interest as a result of the merger	-	-	-	-	-	-	*3,376,706*	***3,376,706***	*(3,376,706)*	**-**
Dividends taken over (attributable to non-controlling interest before the merger)	-	-	-	-	-	-	*307,915*	***307,915***	-	***307,915***
As at 31 December 2010	**18,697,837**	**(1,081)**	**(229)**	**945**	**6,727,589**	**49,779**	**11,558,441**	**37,033,281**	**598,819**	**37,632,100**

* transformation of comparative data is described in Note 5 to the foregoing financial statements

Enclosed explanatory notes are integral part of the foregoing condensed interim consolidated financial statements

Condensed interim consolidated financial statements for the 6- month period ended 30 June 2011 prepared in accordance with IFRS (in PLN thousand)

STATEMENT OF CHANGES IN CONSOLIDATED EQUITY

for the period ended 30 June 2010

(reviewed) *(data transformed*)*	Share capital	Revaluation reserve	Foreign exchange differences from translation	Reserve capital	Other capital reserves	Retained earnings	Total	Non-controlling interest	Total equity
As at 1 January 2010	**17,300,900**	**(1,161)**	**(812)**	**5,449,549**	**-**	**8,369,175**	**31,117,651**	**7,681,428**	**38,799,079**
Total comprehensive income for the period	***-***	***(111)***	***1,764***	***-***	***-***	***1,499,471***	***1,501,124***	***342,939***	***1,844,063***
Changes in accounting policy	-	-	-	-	-	21,336	**21,336**	8,195	**29,531**
Retained earnings distribution	-	-	-	125,628	-	(125,628)	**-**	-	**-**
Purchase of non-controlling interest shares	-	-	-	-	-	15,771	**15,771**	(15,771)	**-**
Settlement of purchased shares and stocks in subsidiaries	-	-	-	-	-	(12,008)	**(12,008)**	-	**(12,008)**
Dividend	-	-	-	-	-	(1,314,868)	**(1,314,868)**	(672,331)	**(1,987,199)**
As at 30 June 2010	**17,300,900**	**(1,272)**	**952**	**5,575,177**	**-**	**8,453,249**	**31,329,006**	**7,344,460**	**38,673,466**

* transformation of comparative data is described in Note 5 to the foregoing financial statements

Condensed interim consolidated financial statements for the 6- month period ended 30 June 2011 prepared in accordance with IFRS (in PLN thousand)

CONSOLIDATED STATEMENT OF CASH FLOWS

	Period ended 30 June 2011 (reviewed)	**Period ended 30 June 2010** (reviewed) *(transformed data*)*
Cash flows – operating activities		
Gross profit related to discontinued operations	**1,269**	**1,097**
Gross profit related to continuing operations	**2,774,011**	**2,277,581**
Adjustments for:		
Share of profit from associates accounted for under the equity method	(168,413)	(112,248)
Depreciation and amortization	1,325,466	1,313,422
Interest and dividend, net	28,763	91,330
Profit /loss on investment activities	(5,166)	(34,229)
Change in receivables	(50,189)	286,984
Change in inventories	(183,491)	36,594
Change in liabilities (excluding loans and bank credits)	(134,756)	(19,312)
Change in prepayments and accruals	45,344	85,391
Change in provisions	(216,351)	(82,235)
Income tax paid	(444,871)	(568,704)
Other	(21,490)	144,138
Net cash from operating activities	**2.950,126**	**3,419,809**
Cash flows – investment activities		
Disposal of property, plant and equipment and intangible assets	16,529	10,633
Purchase of property, plant and equipment and intangible assets	(2,130,382)	(1,880,212)
Purchase/disposal of investment property	-	-
Disposal of financial assets	20,210	112,363
Purchase of financial assets	(85,788)	(119,607)
Purchase of stocks and shares in subsidiaries	-	(225)
Dividends	1,533	26,325
Interest received	17,746	6,168
Loans repaid	134	2,759
Loans granted	-	(2,568)
Other	(6,310)	37,482
Net cash from investment activities	**(2,166,328)**	**(1,806,882)**
Cash flows – financial activities		
Proceeds from the issue of shares	-	-
Proceeds from bank credits and issue of bonds	1,245,636	2,091,567
Repayment of loans, bonds and finance lease	(1,780,610)	(4,039,450)
Dividends paid	(91,533)	(2,397)
Interest paid	(53,643)	(105,055)
Other	2,251	95
Net cash from financial activities	**(677,899)**	**(2,055,240)**
Net change of cash and cash equivalents	**105,899**	**(442,313)**
Effect of foreign exchange rate changes	3,894	4,073
Cash and cash equivalents, beginning of the period	**2,736,858**	**7,705,934**
Cash and cash equivalents, end of the period, including	**2,842,757**	**7,263,621**
Restricted cash and cash equivalents	181,243	138,408
Related to discontinued operations	6,111	2,253

* transformation of comparative data is described in Note 5 to the foregoing financial statements

1. General information

PGE Polska Grupa Energetyczna S.A. Capital Group

The foregoing condensed interim financial statements were prepared by PGE Polska Grupa Energetyczna S.A. ("PGE S.A.", "Company"), seating in Warsaw, 2 Mysia Street and include 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. Capital Group ("Group", "Capital Group", "PGE Group") comprises the parent company PGE Polska Grupa Energetyczna S.A. and subsidiaries (please refer to Note 2).

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.

Core operations of the Group companies are as follows:

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

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

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

Condensed interim consolidated financial statements for the 6- month period ended 30 June 2011 prepared in accordance with IFRS (in PLN thousand)

2. Entities included in the Group

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

	Entity	Share of Capital Group entities as at 30 June 2011	Parent company as at 30 June 2011	Share of Capital Group entities as at 31 December 2010	Parent company as at 31 December 2010
	Segment: wholesale				
1.	PGE Polska Grupa Energetyczna S.A. *Warszawa*	The Parent Company of the Group			
2.	ELECTRA Deutschland GmbH Germany	100.00%	PGE Polska Grupa Energetyczna S.A.	100.00%	PGE Polska Grupa Energetyczna S.A.
	Segment: mining and conventional energy				
3.	PGE Górnictwo i Energetyka Konwencjonalna S.A. *Bełchatów*	91.03%	PGE Polska Grupa Energetyczna S.A	91.03%	PGE Polska Grupa Energetyczna S.A
		7.88%	PGE Obrót S.A.	7.88%	PGE Obrót S.A.
		0.02%	PGE Energia Odnawialna S.A.	0.02%	PGE Energia Odnawialna S.A.
4.	PGE Elektrownia Opole S.A. *Bełchatów*	85.00%	PGE Polska Grupa Energetyczna S.A	85.00%	PGE Polska Grupa Energetyczna S.A
5.	Przedsiębiorstwo Energetyki Cieplnej Sp. z o.o. *Zgierz*	50.97%	PGE Górnictwo i Energetyka Konwencjonalna S.A.	50.97%	PGE Górnictwo i Energetyka Konwencjonalna S.A.
6.	PWE Gubin Sp. z o.o. *Sękowice*	100.00%	PGE Polska Grupa Energetyczna S.A.	100.00%	PGE Polska Grupa Energetyczna S.A.
	Segment: renewable energy				
7.	PGE Energia Odnawialna S.A. *Warszawa*	100.00%	PGE Polska Grupa Energetyczna S.A.	100.00%	PGE Polska Grupa Energetyczna S.A.
8.	Elektrownia Wiatrowa Kamieńsk Sp. z o.o. *Kamieńsk*	100.00%	PGE Energia Odnawialna S.A.	100.00%	PGE Energia Odnawialna S.A.
9.	Elektrownia Wiatrowa Resko Sp. z o.o. *Czymanowo*	100.00%	PGE Energia Odnawialna S.A.	100.00%	PGE Energia Odnawialna S.A.
10.	Biogazownia Łapy Sp. z o.o. *Warszawa*	100.00%	PGE Energia Odnawialna S.A.	100.00%	PGE Energia Odnawialna S.A.
11.	Biogazownia Wożuczyn Sp. z o.o. *Warszawa*	100.00%	PGE Energia Odnawialna S.A.	100.00%	PGE Energia Odnawialna S.A.
12.	Elektrownia Wiatrowa Turów Sp. z o.o. *Warszawa*	100.00%	PGE Energia Odnawialna S.A.	100.00%	PGE Energia Odnawialna S.A.
13.	EO Baltica Sp. z o.o. *Warszawa*	100.00%	PGE Energia Odnawialna S.A.	100.00%	PGE Energia Odnawialna S.A.
14.	Bio-Energia ESP S.A. *Gdynia*	99.65%	PGE Energia Odnawialna S.A.	99.65%	PGE Energia Odnawialna S.A.
	Segment: distribution				
15.	PGE Dystrybucja S.A. *Lublin*	89.91%	PGE Obrót S.A.	89.91%	PGE Obrót S.A.
		10.05%	PGE Polska Grupa Energetyczna S.A.	10.05%	PGE Polska Grupa Energetyczna S.A.

prepared in accordance with IFRS (in PLN thousand)

	Entity	Share of Capital Group entities as at 30 June 2011	Parent company as at 30 June 2011	Share of Capital Group entities as at 31 December 2010	Parent company as at 31 December 2010
	Segment: retail sale				
16.	PGE Obrót S.A. *Rzeszów*	99.31%	PGE Polska Grupa Energetyczna S.A.	99.31%	PGE Polska Grupa Energetyczna S.A.
	Segment: other				
17.	EXATEL S.A. *Warszawa*	94.938%	PGE Polska Grupa Energetyczna S.A.	94.938%	PGE Polska Grupa Energetyczna S.A.
		0.537%	PGE Inwest Sp. z o.o.	0.537%	PGE Inwest Sp. z o.o.
		0.137%	PGE Obrót S.A.	0.137%	PGE Obrót S.A.
		0.001%	PGE Dystrybucja S.A.	0.001%	PGE Dystrybucja S.A.
18.	ELBIS Sp. z o.o. *Rogowiec*	100.00%	PGE Górnictwo i Energetyka Konwencjonalna S.A.	100.00%	PGE Górnictwo i Energetyka Konwencjonalna S.A.
19.	MEGAZEC Sp. z o.o. *Bydgoszcz*	100.00%	PGE Górnictwo i Energetyka Konwencjonalna S.A.	100.00%	PGE Górnictwo i Energetyka Konwencjonalna S.A.
20.	ELBEST Sp. z o.o. *Rogowiec*	91.19%	PGE Górnictwo i Energetyka Konwencjonalna S.A.	100.00%	PGE Górnictwo i Energetyka Konwencjonalna S.A.
		7.60%	PGE Dystrybucja S.A.		
		1.12%	PGE Obrót S.A.		
		0.09%	PGE Energia Odnawialna S.A.		
	BESTUR Sp. z o.o. *Bełchatów*	-	b)	100.00%	PGE Górnictwo i Energetyka Konwencjonalna S.A.
	Przedsiębiorstwo Handlowo-Usługowe GLOBAL - TUR Sp. z o.o. *Bogatynia*	-	b)	100.00%	PGE Górnictwo i Energetyka Konwencjonalna S.A.
	Centrum Szkolenia i Rekreacji „Energetyk" Sp. z o.o. *Krasnobród*	-	b)	99.50%	PGE Obrót S.A.
21.	Energoserwis - Kleszczów Sp z o.o. *Kleszczów*	51.00%	ELBIS Sp. z o.o.	51.00%	ELBIS Sp. z o.o.
22.	Niepubliczny Zakład Opieki Zdrowotnej MegaMed Sp. z o.o. *Bełchatów*	97.40%	PGE Górnictwo i Energetyka Konwencjonalna S.A	97.40%	PGE Górnictwo i Energetyka Konwencjonalna S.A
		2.60%	PGE Elektrownia Opole S.A.	2.60%	PGE Elektrownia Opole S.A.
23.	ELMEN Sp. z o.o. *Rogowiec*	100.00%	ELBIS Sp. z o.o.	100.00%	ELBIS Sp. z o.o.
24.	EnBud Sp. z o.o. *Czymanowo*	100.00%	PGE Energia Odnawialna S.A.	100.00%	PGE Energia Odnawialna S.A.
25.	Dychowskie Przedsiębiorstwo Eksploatacji Elektrowni ELDEKS Sp. z o.o. *Dychów*	100.00%	PGE Energia Odnawialna S.A	100.00%	PGE Energia Odnawialna S.A
26.	ESP Usługi Sp. z o.o. *Warszawa*	100.00%	PGE Energia Odnawialna S.A.	100.00%	PGE Energia Odnawialna S.A.
27.	Budownictwo Hydroenergetyka - Dychów Sp. z o. o *Dychów*	100.00%	PGE Energia Odnawialna S.A	100.00%	PGE Energia Odnawialna S.A

prepared in accordance with IFRS (in PLN thousand)

	Entity	Share of Capital Group entities as at 30 June 2011	Parent company as at 30 June 2011	Share of Capital Group entities as at 31 December 2010	Parent company as at 31 December 2010
28.	Przedsiębiorstwo Usługowo-Produkcyjne ELTUR-SERWIS Sp. z o.o. *Bogatynia*	100.00%	PGE Górnictwo i Energetyka Konwencjonalna S.A.	100.00%	PGE Górnictwo i Energetyka Konwencjonalna S.A.
29.	Przedsiębiorstwo Produkcji Sorbentów i Rekultywacji ELTUR–WAPORE Sp. z o.o. *Bogatynia*	100.00%	PGE Górnictwo i Energetyka Konwencjonalna S.A.	100.00%	PGE Górnictwo i Energetyka Konwencjonalna S.A.
30.	Przedsiębiorstwo Usługowo-Produkcyjne TOP SERWIS Sp. z o.o. *Bogatynia*	100.00%	Przedsiębiorstwo Usługowo-Produkcyjne ELTUR-SERWIS Sp. z o.o.	100.00%	Przedsiębiorstwo Usługowo-Produkcyjne ELTUR-SERWIS Sp. z o.o.
31.	ENESTA Sp. z o.o. *Stalowa Wola*	84.85%	PGE Dystrybucja S.A.	84.85%	PGE Dystrybucja S.A.
		2.48%	PGE Górnictwo i Energetyka Konwencjonalna S.A.	2.48%	PGE Górnictwo i Energetyka Konwencjonalna S.A.
32.	NOM Sp. z o.o. *Warszawa*	100.00%	EXATEL S.A.	100.00%	EXATEL S.A.
33.	Energo-Tel S.A. *Warszawa*	51.10%	EXATEL S.A.	51.10%	EXATEL S.A.
		48.90%	NOM Sp. z o.o.	48.80%	NOM Sp. z o.o.
34.	E-Telbank Sp. z o.o. *Warszawa*	100.00%	EXATEL S.A.	100.00%	EXATEL S.A.
35.	RAMB Sp. z o.o. *Bełchatów*	100.00%	PGE Górnictwo i Energetyka Konwencjonalna S.A.	100.00%	PGE Górnictwo i Energetyka Konwencjonalna S.A.
36.	Przedsiębiorstwo Transportowo Sprzętowe BETRANS Sp. z o.o. *Rogowiec*	100.00%	PGE Górnictwo i Energetyka Konwencjonalna S.A.	100.00%	PGE Górnictwo i Energetyka Konwencjonalna S.A.
	Przedsiębiorstwo Transportowe ELTUR-TRANS Sp. z o.o. *Bogatynia*	-	a)	100.00%	PGE Górnictwo i Energetyka Konwencjonalna S.A.
37.	Przedsiębiorstwo Wulkanizacji Taśm i Produkcji Wyrobów Gumowych BESTGUM POLSKA Sp. z o.o. *Rogowiec*	100.00%	PGE Górnictwo i Energetyka Konwencjonalna S.A.	100.00%	PGE Górnictwo i Energetyka Konwencjonalna S.A.
38.	ELECTRA Bohemia s.r.o. *Czechy*	100.00%	PGE Polska Grupa Energetyczna S.A.	100.00%	PGE Polska Grupa Energetyczna S.A.
39.	Zakład Energetyczny Białystok Przedsiębiorstwo Transportowo-Usługowe ETRA Sp. z o.o. *Białystok*	100.00%	PGE Dystrybucja S.A	100.00%	PGE Dystrybucja S.A
40.	Zakład Energetyczny Białystok Przedsiębiorstwo Produkcyjno-Handlowe EKTO Sp. z o.o. *Białystok*	100.00%	PGE Dystrybucja S.A.	100.00%	PGE Dystrybucja S.A.
41.	Energetyczne Systemy Pomiarowe Sp. z o.o. *Białystok*	100.00%	PGE Dystrybucja S.A.	100.00%	PGE Dystrybucja S.A.
42.	Zakład Energetyczny Białystok Pracownia Projektowa ENSPRO Sp. z o.o. *Białystok*	100.00%	PGE Dystrybucja S.A.	100.00%	PGE Dystrybucja S.A.
43.	EPO Sp. z o.o. *Opole*	50.00%	PGE Elektrownia Opole S.A.	50.00%	PGE Elektrownia Opole S.A.
44.	Zakład Obsługi Energetyki Sp. z o.o. *Zgierz*	100.00%	PGE Dystrybucja S.A.	100.00%	PGE Dystrybucja S.A.

Condensed interim consolidated financial statements for the 6- month period ended 30 June 2011 prepared in accordance with IFRS (in PLN thousand)

	Entity	Share of Capital Group entities as at 30 June 2011	Parent company as at 30 June 2011	Share of Capital Group entities as at 31 December 2010	Parent company as at 31 December 2010
45.	PGE Serwis Sp. z o.o. *Warszawa*	100.00%	PGE Polska Grupa Energetyczna S.A.	100.00%	PGE Polska Grupa Energetyczna S.A.
46.	PGE Systemy S.A. *Warszawa*	100.00%	PGE Polska Grupa Energetyczna S.A.	100.00%	PGE Polska Grupa Energetyczna S.A.
47.	PGE Inwest Sp. z o.o. *Warszawa*	100.00%	PGE Polska Grupa Energetyczna S.A.	100.00%	PGE Polska Grupa Energetyczna S.A.
48.	PGE Inwest spółka z ograniczoną odpowiedzialnością II S.K.A. in liquidation *Warszawa*	100.00%	PGE Polska Grupa Energetyczna S.A.	100.00%	PGE Polska Grupa Energetyczna S.A.
49.	PGE Energia Jądrowa S.A. *Warszawa*	100.00%	PGE Polska Grupa Energetyczna S.A.	100.00%	PGE Polska Grupa Energetyczna S.A.
50.	PGE EJ 1 Sp. z o.o. *Warszawa*	51.00%	PGE Energia Jądrowa S.A.	51.00%	PGE Energia Jądrowa S.A.
		49.00%	PGE Polska Grupa Energetyczna S.A.	49.00%	PGE Polska Grupa Energetyczna S.A.

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

b) The merger of ELBEST Sp. z o.o. of Rogowiec (acquiring company) with: BESTUR Sp. z o.o. of Bełchatów, Przedsiębiorstwo Handlowo – Usługowe Global Tur Sp. z o.o. of Bogatynia, Energetyk SPA Sp. z o.o. of Iwonicz – Zdrój, Centrum Szkolenia i Rekreacji „Energetyk" Sp. z o.o. of Krasnobród and Przedsiębiorstwo Produkcyjno–Usługowe Media–Serwis Dychów Sp. z o.o. of Dychów (acquired companies) was registered on 29 April 2011. The share capital of the company amounts to PLN 123,895 thousand. After the merger, the owners of the company are:

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

Apart from the above-mentioned transformations during the period ended 30 June 2011 no significant changes in the structure of the Group companies that are subject to full consolidation took place. Moreover, on 18 March 2011 the General Meeting of Shareholders of PGE Inwest Spółka z ograniczoną odpowiedzialnościa II spółka komandytowo-akcyjna adopted a resolution to liquidate the company.

3. The basis for the preparation of financial statements

Statement of compliance

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

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

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

General rules of preparation

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

Due to reporting obligations arising from the publication of shares of the parent company, PGE Polska Grupa Energetyczna S.A., the Board of the Company decided to implement International Financial Reporting Standards ("IFRS") as adopted by the European Union ("EU"). The first consolidated financial statements of the PGE Capital Group containing an unreserved statement of compliance with IFRS as adopted by the EU was consolidated financial statements for the year ended 31 December 2007.

The bookkeeping of: PGE Polska Grupa Energetyczna S.A., PGE Górnictwo i Energetyka Konwencjonalna S.A., PGE Obrót S.A. and PGE Energia Odnawialna S.A. is maintained in accordance with the accounting policies (principles) specified in the IFRS as adopted by the EU. ELECTRA Deutschland GmbH and ELECTRA Bohemia s.r.o., seated in Germany and the Czech Republic, run their books in compliance with German and Czech reporting regulations. Other entities of the PGE Capital Group run their books in accordance with the accounting policies (principles) specified in the Accounting Act dated 29 September 1994 ("the Accounting Act") and related bylaws and therefore the consolidated financial statements include adjustments not included in the accounting books of entities of the Group introduced in order to bring the financial statements of these companies to comply with IFRS as adopted by the EU.

4. Presentation currency

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

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

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

Condensed interim consolidated financial statements for the 6- month period ended 30 June 2011 prepared in accordance with IFRS (in PLN thousand)

5. Changes in applied accounting policies and valuation adjustment

Period ended 30 June 2010

During the previous and current reporting periods, the Group changed the presentation of selected liabilities and short-term provisions as well as of selected revenues and expenses. Moreover, the Group changed the presentation of "estimate of electricity sales" (estimate sales of electricity not recognized with measuring devices as at balance sheet date) in assets and liabilities and made a valuation adjustment of financial instruments. Consequently, the Group transformed the data presented in comparable consolidated statement of financial position, consolidated statement of comprehensive income and consolidated statement of cash flows as presented in the following tables:

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Period ended 30 June 2010 *(published data)*	**Change of revenues and expenses presentation**	**Period ended 30 June 2010** *(transformed data)*
Operating activity			
Revenues from sale of products and merchandise, with excise tax	*9,722,678*	*27,828*	*9,750,506*
Excise tax	*(224,157)*	*-*	*(224,157)*
Revenues from sale of finished goods and merchandise	9,498,521	27,828	9,526,349
Revenues from sale of services	429,039	(6,039)	423,000
Revenues from lease	13,440	-	13,440
Revenues from LTC compensations	169,924	-	169,924
Revenues from sale	**10,110,924**	**21,789**	**10,132,713**
Cost of goods sold	(6,700,497)	(146,264)	(6,846,761)
Gross profit on sales	**3,410,427**	**(124,475)**	**3,285,952**
Other operating revenues	257,233	-	257,233
Distribution and selling expenses	(751,573)	4,737	(746,836)
General and administrative expenses	(447,999)	119,738	(328,261)
Other operating expenses	(187,251)	-	(187,251)
Financial revenues	254,496	-	254,496
Financial expenses	(370,000)	-	(370,000)
Share of profit of associates	112,248	-	112,248
Gross profit	**2,277,581**	**-**	**2,277,581**

Condensed interim consolidated financial statements for the 6- month period ended 30 June 2011 prepared in accordance with IFRS (in PLN thousand)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	As at 30 June 2010 *(published data)*	**Valuation adjustments of financial instruments**	**Change of estimates presentation**	**Change of assets classified as held for sale presentation**	**As at 30 June 2010** *(transformed data)*
Current assets					
Inventories	1,227,540	-	-	-	1,227,540
Income tax receivables	21,276	-	-	-	21,276
Trade receivables	1,903,980	-	(405,806)	-	1,498,174
Other loans and financial assets	733,573	-	-	-	733,573
Available-for-sale short-term financial assets	122,320	(50,673)	-	-	71,647
Other short-term assets	341,842	-	405,806	-	747,648
Cash and cash equivalents	7,261,240	-	-	-	7,261,240
Group assets classified as held for sale	-	-	-	5,664	5,664
Current assets related to discontinued operations	28,780	-	-	-	28,780
Total current assets	**11,640,551**	**(50,673)**	**-**	**5,664**	**11,595,542**
Group assets classified as held for sale	5,664	-	-	(5,664)	-

Condensed interim consolidated financial statements for the 6- month period ended 30 June 2011 prepared in accordance with IFRS (in PLN thousand)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (continued)

	As at 30 June 2010 *(published data)*	Valuation adjustments of financial instruments	Change of estimates presentation	Change of liabilities and provisions presentation	As at 30 June 2010 *(transformed data)*
Share capital	17,300,900	-	-	-	17,300,900
Revaluation capital	(1,272)	-	-	-	(1,272)
Treasury shares	-	-	-	-	-
Foreign Exchange differences from translation of foreign entities	952	-	-	-	952
Reserve capital	5,575,177	-	-	-	5,575,177
Other capital reserves	-	-	-	-	-
Retained earnings	8,503,922	(50,673)	-	-	8,453,249
Non-controlling interest	7,344,460	-	-	-	7,344,460
Total equity	**38,724,139**	**(50,673)**	**-**	**-**	**38,673,466**
Short-term liabilities					
Trade liabilities	874,237		(4,924)	-	869,313
Financial liabilities measured at fair value through profit or loss	54,052	-	-	-	54,052
Interest-bearing loans, borrowings, bonds and lease	966,182	-	-	-	966,182
Other short-term financial liabilities	512,372	-	4,924	35,779	553,075
Other short-term non-financial liabilities	3,143,271	-	-	68,778	3,212,049
Income tax liabilities	162,383	-	-	-	162,383
Deferred income	41,053	-	-	-	41,053
Accruals	834,823	-	-	(834,823)	-
Short-term provisions	783,250	-	-	730,266	1,513,516
Short-term liabilities related to discontinued operations	17,826	-	-	-	17,826
Total short-term liabilities	**7,389,449**	**-**	-	**-**	**7,389,449**

Condensed interim consolidated financial statements for the 6- month period ended 30 June 2011 prepared in accordance with IFRS (in PLN thousand)

CONSOLIDATED STATEMENT OF CASH FLOWS

	Period ended 30 June 2010 *(published data)*	**Change of estimates presentation**	**Change of liabilities and provisions presentation**	**Period ended 30 June 2010** *(transformed data)*
Cash flows - operating activities				
Gross profit related to discontinued operations	1,097	-	-	1,097
Gross profit related to continued operations	2,277,581	-	-	2,277,581
Adjustments:				
Share of profit from of associates accounted for under the equity method	(112,248)	-	**-**	(112,248)
Depreciation and amortization	1,313,422	-	**-**	1,313,422
Interest and dividend, net	91,330	-	**-**	91,330
(Profit)/loss on investment activities	(34,229)	-	**-**	(34,229)
Change in receivables	357,094	(70,110)	**-**	286,984
Change in inventories	36,594	-	**-**	36,594
Change in short-term liabilities (excluding loans and bank credits)	(82,306)	-	62,994	(19,312)
Change in prepayments, accruals and deferred income and expenses	222,546	70,110	(207,265)	85,391
Change in provisions	(226,506)	-	144,271	(82,235)
Income tax paid	(568,704)	-	-	(568,704)
Other	144,138	-	-	144,138
Net cash from operating activities	**3,419,809**	**-**	**-**	**3,419,809**

For comparability purposes, the Group also transformed the data presented in Notes 8 and 9 of the foregoing financial statements.

Condensed interim consolidated financial statements for the 6- month period ended 30 June 2011 prepared in accordance with IFRS (in PLN thousand)

Consolidated statement of financial position – as at 31 December 2010

Compared to data presented as at 31 December 2010, the Group changed the presentation of "estimate of electricity sales" (estimate sales of electricity not recognized with measuring devices as at balance sheet date) in assets and liabilities and made a valuation adjustment of financial instruments. Consequently, the Group transformed the data presented in comparable consolidated statement of financial position.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	As at 31 December 2010 *(published data)*	**Valuation adjustments of financial instruments**	**Change of estimates presentation**	**Change of assets classified as held for sale presentation**	**As at 31 December 2010** *(transformed data)*
Current assets					
Inventories	1,090,549	-	-	-	1,090,549
Income tax receivables	29,976	-	-	-	29,976
Trade receivables	2,094,506	-	(475,915)	-	1,618,591
Other loans and financial assets	796,663	-	-	-	796,663
Available-for-sale short-term financial assets	130,924	(50,673)	-	-	80,251
Other current assets	445,809	-	475,915	-	921,724
Cash and cash equivalents	2,730,423	-	-	-	2,730,423
Group assets classified as held for sale	-	-	-	7,572	7,572
Current assets related to discontinued operations	10,095	-	-	-	10,095
Total current assets	**7,328,945**	**(50,673)**	**-**	**7,572**	**7,285,844**
Group assets classified as held for sale	7,572	-	-	(7,572)	-

Condensed interim consolidated financial statements for the 6- month period ended 30 June 2011 prepared in accordance with IFRS (in PLN thousand)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (continued)

	As at 31 December 2010 *(published data)*	Valuation adjustments of financial instruments	Change of estimates presentation	As at 31 December 2010 *(transformed data)*
Share capital	18,697,837	-	-	18,697,837
Revaluation reserve	(1,081)	-	-	(1,081)
Treasury shares	(229)	-	-	(229)
Foreign exchange differences from translation of foreign entities	945	-	-	945
Reserve capital	6,727,589	-	-	6,727,589
Other capital reserves	49,779	-	-	49,779
Retained earnings	11.609.114	(50,673)	-	11,558,441
Non-controlling interest	598,819	-	-	598,819
Total equity	**37,682,773**	**(50,673)**	**-**	**37,632,100**
Short-term liabilities				
Trade liabilities	986,301	-	(6,077)	980,224
Financial liabilities at fair value through profit or loss	41,165	-	-	41,165
Interest-bearing loans, borrowings, bonds and lease	914,956	-	-	914,956
Other short-term financial liabilities	1,259,478	-	6,077	1,265,555
Other short-term non-financial liabilities	1,396,213	-	-	1,396,213
Income tax liabilities	218,158	-	-	218,158
Deferred income	100,157	-	-	100,157
Short-term provisions	1,668,640	-	-	1,668,640
Short-term liabilities related to discontinued operations	6,289	-	-	6,289
Total short-term liabilities	**6,591,357**	**-**	**-**	**6,591,357**

6. New standards and interpretations published, not yet effective

The following standards, changes in already effective standards and interpretations were not approved by the European Union but are not effective as of 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 the periods starting 1 January 2013;
- Amended IAS 27 *Separate financial statements* – effective for the periods starting 1 January 2013;
- Amended IAS 28 *Investments in Associates and Joint Ventures* – effective for the periods starting 1 January 2013;
- Amendments to IFRS 1 *First-time Adoption of International Financial Reporting Standards* - 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 a significant 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. Change of estimates

In the period covered by the consolidated financial statements significant changes to estimates related to provisions took place. Provisions are liabilities, whose timing or amount is not certain. During the reporting period, the Group changed its estimates regarding the validity or the amount of some provisions. Changes in estimates are presented in Note 14 of the foregoing consolidated financial statements.

8. Operating segments

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

- mining and conventional energy - includes exploration and mining of lignite and production of energy in the Group power plants and heat and power plants;
- renewable energy - includes generation of energy in pumped storage power plants and from renewable sources;
- wholesale - includes trade in electricity on the wholesale market, trading of emissions certificates and property rights related to energy origin units of ownership and fuel trading;
- distribution - includes management over local distribution networks and delivery of electricity with the use of these networks;
- retail sale - includes sale of electricity and rendering services to end users.

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

Seasonality of business segments

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

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

Sales of heat depends in particular on air temperature and is higher in winter and less in summer.

Condensed interim consolidated financial statements for the 6- month period ended 30 June 2011 prepared in accordance with IFRS (in PLN thousand)

Period ended 30 June 2011	Segment: Conventional energy	Segment: Renewable energy	Segment: Wholesale	Segment: Distribution	Segment: Retail sale	Other activities	Consolidation adjustments	Total continued operations
Revenues								
Revenues from sales to external customers	6,374,715	259,152	404,440	432,330	6,062,433	382,262		**13,915,332**
Revenues from sales between segments	343,319	12,285	4,605,949	2,196,417	164,906	467,993	(7,790,869)	
Total revenues from segments	**6,718,034**	**271,437**	**5,010,389**	**2,628,747**	**6,227,339**	**850,255**	**(7,790,869)**	**13,915,332**
Result								
EBIT *)	**2,030,759**	**40,370**	**98,049**	**404,589**	**75,880**	**20,014**	**(6,164)**	**2,663,497**
EBITDA **)	**2,775,110**	**104,473**	**110,127**	**854,127**	**80,227**	**71,063**	**(6,164)**	**3,988,963**
Net financial revenues (expenses)								(57,899)
Share of profit of associates								168,413
Profit (loss) before tax								**2,774,011**
Income tax								(513,231)
Net profit (loss) for the reporting year								**2,260,780**
Assets and liabilities								
Assets of the segment	27,462,007	1,793,208	769,634	13,520,489	1,766,675	1,097,502		46,409,515
Shares in associates	9,761					49,385		59,146
Unallocated assets								5,930,115
Total assets								**52,398,776**
Liabilities of the segment	4,521,324	96,799	535,739	2,081,979	1,297,769	276,663	(2,468)	8,807,805
Unallocated liabilities								4,939,760
Total liabilities								**13,747,565**
Other information on business segments								
Capital expenditures	1,098,148	68,053	3,654	392,792	1,885	46,174		1,610,706
Amortization, depreciation and revaluation write-offs	732,428	60,373	8,397	450,141	6,743	52,566		1,310,648
Other non-monetary expenses	203,705	4,323	10,004	89,633	597,146	6,614		911,425

*) EBIT = profit (loss) before tax and financial revenues/expenses
**) EBITDA = EBIT + depreciation and amortization

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Period ended 30 June 2010 *(transformed data)*	Segment: Conventional energy	Segment: Renewable energy	Segment: Wholesale	Segment: Distribution	Segment: Retail sale	Other activities	Consolidation adjustments	Total continued operations
Revenues								
Revenues from sales to external customers	1,197,607	287,219	2,288,241	301,360	5,715,235	343,051		**10,132,713**
Revenues from sales between segments	4,985,789	36,309	3,719,336	2,193,385	483,443	482,959	(11,901,221)	
Total revenues from segments	**6,183,396**	**323,528**	**6,007,577**	**2,494,745**	**6,198,678**	**826,010**	**(11,901,221)**	**10,132,713**
Result								
EBIT *)	1,589,175	102,110	89,713	312,534	136,046	44,843	6,416	2,280,837
EBITDA **)	**2,336,474**	**165,046**	**102,210**	**745,551**	**140,200**	**100,596**	**4,075**	**3,594,153**
Net financial revenues (expenses)								(115,504)
Share of profit of associates								112,248
Profit (loss) before tax								**2,277,581**
Income tax								(436,021)
Net profit (loss) for the reporting year								**1,841,560**
Assets and liabilities								
Assets of the segment	25,232,442	1,697,836	580,038	13,361,230	1,613,995	1,079,935	3,470	43,568,946
Shares in associates	9,686					1,437,386		1,447,072
Unallocated assets								8,979,201
Total assets								**53,995,219**
Liabilities of the segment	4,434,170	117,040	687,142	2,069,886	1,022,364	254,031	(4,153)	8,580,480
Unallocated liabilities								6,741,274
Total liabilities								**15,321,753**
Other information on business segments								
Capital expenditures	1,359,601	51,966	13,417	342,528	3,132	87,179		1,857,823
Amortization, depreciation and revaluation write-offs	747,692	46,425	12,543	434,313	11,918	57,201		1,310,092
Other non-monetary expenses	155,980	1,646	4,508	(17,529)	110,775	20,311		275,691

*) EBIT = profit (loss) before tax and financial revenues/expenses
**) EBITDA = EBIT + depreciation and amortization

prepared in accordance with IFRS (in PLN thousand)

9. Revenues and expenses

9.1. Sales revenues

	6-month period ended 30 June 2011	6-month period ended 30 June 2010 *(transformed data)*
Sales revenues		
Sales of finished goods and merchandise with excise tax	*13,375,441*	*9,750,506*
Excise tax	*(218,676)*	*(224,157)*
Revenues from sale of finished products and merchandise	13,156,765	9,526,349
Revenues from sale of services	439,538	423,000
Revenues from lease	15,802	13,440
Revenues from LTC compensations	303,227	169,924
Total sales revenues	**13,915,332**	**10,132,713**

The significant increase of revenues from sale of finished products and merchandise in the period ended 30 June 2011 in comparison to the period ended 30 June 2010 results mainly from the change of the electricity trade model in the PGE Capital Group, which was described in Note 21.3 to the foregoing financial statements.

The issue of revenues from LTC compensations was described in Note 21.1 to the foregoing consolidated financial statements.

9.2. Costs by kind and functions

	6-month period ended 30 June 2011	6-month period ended 30 June 2010 *(transformed data)*
Costs by kind		
Depreciation/ amortization	1,325,466	1,313,316
Materials and energy	1,885,891	1,790,585
External services	1,201,456	1,229,224
Taxes and charges	1,152,129	1,128,510
Personnel expenses	1,980,236	1,865,058
Other costs by kind	117,724	100,510
Total costs by kind	**7,662,902**	**7,427,203**
Change in inventories	(30,040)	(21,184)
Cost of products and services for the entity's own needs	(383,580)	(375,105)
Selling expenses	(785,279)	(746,836)
General and administrative expenses	(352,313)	(328,261)
Cost of merchandise and materials sold	3,931,389	890,944
Cost of goods sold	**10,043,079**	**6,846,761**

The significant increase of the cost of merchandise and materials sold in the period ended 30 June 2011 in comparison to the period ended 30 June 2010 results mainly from the change of the electricity trade model in the PGE Capital Group, which was described in Note 21.3 to the foregoing consolidated financial statements.

prepared in accordance with IFRS (in PLN thousand)

9.3. Other revenues and expenses

	6-month period ended 30 June 2011	6-month period ended 30 June 2010
Other operating revenues	118,157	257,233
Distribution and selling expenses	(785,279)	(746,836)
General and administrative expenses	(352,313)	(328,261)
Other operating expenses	(189,321)	(187,251)
Financial revenues	149,202	254,496
Financial expenses	(207,101)	(370,000)
Share of profit of associates	168,413	112,248

Share of profit of associated relates mainly to the share of the parent company of the profits of Polkomtel S.A.

9.4. Other operating revenues

	6-month period ended 30 June 2011	6-month period ended 30 June 2010
Profit on disposal of property, plant and equipment	6,353	5,334
Reversal of revaluation write offs on receivables	14,499	12,584
Reversal of revaluation write offs on other assets	577	17,520
Provisions reversed	16,952	112,234
Compensations, penalties and fines received	52,520	75,941
Donations received	5,812	4,222
Taxes refunded	1,640	2,025
Court fees refunded	1,222	1,069
Assets acquired free of charge	1,712	791
Redemption of liabilities	28	326
Re-invoiced revenues	6	23
Surpluses / disclosures of assets	117	-
Other	16,719	25,164
Total other operating revenues	**118,157**	**257,233**

prepared in accordance with IFRS (in PLN thousand)

9.5. Other operating expenses

	6-month period ended 30 June 2011	6-month period ended 30 June 2010
Creation of revaluation write offs on receivables	17,803	37,327
Creation of revaluation write offs on other assets	4,959	2,948
Loss on disposal of property, plant and equipment and intangible assets	1,083	8,106
Provisions created	90,066	60,505
Donations granted	635	2,051
Compensations	1,574	7,805
Court fees paid	2,768	2,370
Liquidation of damages/ removal of failures	34,385	25,159
Liquidation of non-current assets	9,994	15,644
Redemption of receivables	3,619	1,575
Costs of social activities	3,056	2,922
Other	19,379	20,839
Total other operating expenses	**189,321**	**187,251**

9.6. Financial revenues

	6-month period ended 30 June 2011	6-month period ended 30 June 2010
Financial revenues from financial instruments	**146,355**	**235,980**
Dividends	1,729	6,593
Interest revenue	84,797	159,515
Revaluation/ reversal of revaluation write offs	6,825	8,013
Profit on disposal of investments	3,895	17,846
Foreign exchange gains	49,109	44,013
Other financial revenues	**2,847**	**18,516**
Provisions reversed	1,272	12,347
Interest on state receivables	43	4,381
Other	1,532	1,788
Total financial revenues	**149,202**	**254,496**

prepared in accordance with IFRS (in PLN thousand)

9.7. Financial expenses

	6-month period ended 30 June 2011	6-month period ended 30 June 2010
Financial expenses from financial instruments	**111,990**	**271,093**
Interest expenses	71,822	119,687
Revaluation	1,676	18,234
Impairment losses	4,098	8,192
Loss on disposal of investments	169	505
Foreign exchange losses	34,225	124,475
Other financial expenses	**95,111**	**98,907**
Discount reversal	82,771	83,673
Interest paid relating to state liabilities	494	729
Provisions created (interest)	9,621	6,263
Other	2,225	8,242
Total financial expenses	**207,101**	**370,000**

prepared in accordance with IFRS (in PLN thousand)

10. Creation and reversal of revaluation write-offs

	6-month period ended 30 June 2011	6-month period ended 30 June 2010
Revaluation write-offs on property, plant and equipment		
- creation	2,446	950
- reversal	1,943	19,413
Revaluation write-offs on inventory		
- creation	14,576	8,340
- reversal	2,697	4,661

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 consolidated 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.

11. Income tax

	6-month period ended 30 June 2011	6-month period ended 30 June 2010
Income tax presented in the comprehensive income		
Current tax	296,433	383,474
Deferred tax	216,798	52,547
Total	**513,231**	**436,021**

Moreover the Group recognized deferred tax liabilities of PLN 303 thousand in other comprehensive income in the period ended 30 June 2011 and deferred tax liabilities of PLN 26 thousand in other comprehensive income in the period ended 30 June 2010.

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12. 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 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. 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 entity discloses an adjustment regarding the obligatory payment from profit for previous periods of PLN 435 thousand.

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14. Provisions

	Post-employment benefits	Provisions for jubilee benefits	Provisions for third parties claims	Provisions for legal disputes	Provisions for purchase of CO_2 emission rights	Provisions for employee claims	Provisions for recultivation	Provisions for liquidation of property, plant and equipment	Provisions for certificates of origin held for redemption	Other provisions	Total
As at 1 January 2011	**1,236,661**	**781,541**	**350,293**	**91,529**	**322,734**	**18,932**	**930,166**	**95,441**	**563,336**	**350,302**	**4,740,935**
Costs of present employment	11,963	20,994	-	-	-	-	-	-	-	-	**32,957**
Actuarial gains and losses excluding discount rate adjustment	(40,499)	(37,732)	-	-	-	-	-	-	-	-	**(78,231)**
Costs of past employment	5,421	-	-	-	-	-	-	-	-	-	**5,421**
Revaluation of provision/ discount rate adjustments	-	-	-	-	-	-	-	-	-	-	**-**
Interest costs	34,456	20,465	8,249	-	-	-	25,766	2,081	-	-	**91,017**
Benefits paid / Provisions used	(29,202)	(24,384)	-	(161)	(372,051)	(793)	(2,901)	(9,903)	(668,664)	(110,734)	**(1,218,793)**
Created during the year	-	-	2,356	19,660	121,160	652	11,029	-	580,228	275,566	**1,010,651**
Reversed	-	-	-	(15,666)	-	(4,711)	-	-	(3,867)	(13,843)	**(38,087)**
Other changes	(18,954)	(6,625)	130	3,271	-	891	408	-	2,004	(2,411)	**(21,286)**
As at 30 June 2011	**1,199,846**	**754,259**	**361,028**	**98,633**	**71,843**	**14,971**	**964,468**	**87,619**	**473,037**	**498,880**	**4,524,584**
Short-term	**90,195**	**88,279**	**360,898**	**65,582**	**40,676**	**3,677**	**1,755**	**7,841**	**473,037**	**349,030**	**1,480,970**
Long-term	**1,109,651**	**665,980**	**130**	**33,051**	**31,167**	**11,294**	**962,713**	**79,778**	**-**	**149,850**	**3,043,614**

According to the current recultivation of excavation plans, lignite mines of the Capital Group estimate that relevant costs will be incurred in the years 2032-2081 (for Lignite Mine Bełchatów) and in the years 2041-2090 (for Lignite Mine Turów).

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

14.1. Provisions for post employments benefits

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

14.2. Provisions for jubilee benefits

According to the corporate system of remuneration the employees of the Group entities are entitled to jubilee awards. These awards are paid after an employee has worked a specified period of time. The amount of awards paid depends on the period of employment and the average remuneration of the employee. The entity recognizes a provision for future obligations relevant to jubilee awards in order to assign costs to the periods they refer to. The value of these provisions comes from a valuation estimates prepared by the independent actuary.

14.3. Provisions for third-party claims

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

14.4. Provision for legal disputes

Provisions for the use of land

Entities of the PGE Group create provisions related to a non-agreed usage of property. This issue mainly relates to distribution companies, which own distribution grids As of the reporting date the provision amounted to ca. PLN 61 million. The provision is created to cover claims under court proceedings.

Claim of Tajfun Real Sp. z o.o.

In 2005, EXATEL S.A. filed a statement on termination of the Lease Agreement of Tajfun building in Warsaw, effective 1 August. Tajfun Real Sp. z o.o. filed to the Court of Arbitration at National Chamber of Commerce, a claim to establish that the Lease Agreement is binding for both parties until 31 July 2010 and related to the payment of the rent for August 2005. On 24 January 2006, Tajfun Real Sp. z o.o. terminated to lease agreement without the period of notice. By the verdict of 11 May 2007, the Supreme Court dismissed the further appeal of EXATEL S.A. related to the verdict of the Appeal Court in Warsaw of 8 November 2006 which confirmed that the Agreement on lease of the Tajfun building was binding until 31 July 2010. On 11 September 2007, Tajfun Real Sp. z o.o. filed to the Court of Arbitration at National Chamber of Commerce a claim for payment the rent for the period from September to January 2006. As at the balance sheet date the related provision amounted to PLN 12.047 thousand. The Management Board of EXATEL S.A. commenced actions aimed at conciliatory finishing of the dispute, in the form of an amicable settlement on the subject issue between EXATEL S.A. and Tajfun Real Sp. z o.o.

14.5. Provision for liabilities of carbon dioxide emission

A provision for liabilities for gas emissions under the system of emission rights is created only when the actual emission and production plans indicate shortage of emission rights in the reporting period. The provision is created in the value of the most probable estimation of expenses essential to fulfil the obligation as at balance sheet date, in particular related to the emission rights acquired by the entity to cover the obligation and the possibility to cover part of the shortage with CER (Certified Emission Reductions).

The Group settles the shortage of emission rights on the basis of allocation of rights in the whole reporting period, in accordance with planned production and emissions.

When created, the provision is recognized in operating expenses.

14.6. Provisions for costs of recultivation

Provision for recultivation of mine storage

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

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

Provision for recultivation of ash storages

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

14.7. Liquidation of property, plant and equipment

The provision for liquidation of property, plant and equipment relates to assets of Elektrownia [Power Plant] Turów, which are going to be excluded from the production until 2013. The obligation of liquidation and recultivation of the area results from „The integrated permission for running electric energy and heat energy producing installation" in which the restitution of the area was specified. The amount of created provision was established on the basis of expected liquidation expenses and was recognized on the debit side in initial value of property, plant and equipment. Depreciation of activated liquidation expenses which is calculated on the basis of the estimated economic useful life of an appropriate item of property, plant and equipment as well as the change in provision value resulting from the reversal of the discount as at the balance sheet date both influence the financial result of the Group. As at the balance sheet date the value of the provision amounts to PLN 88 million.

14.8. Provision for energy origin units held for redemption

The companies from the Group create provision for the amount of certificates of origin related to sales in the current or previous reporting periods, in amount of certificates not redeemed till the balance sheet date. The provision as at balance sheet date amounted to PLN 473 million.

prepared in accordance with IFRS (in PLN thousand)

14.9. Other provisions

Dispute concerning the scope of taxation with real estate tax

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

Dispute concerning the redemption of energy origin units of ownership

Energy companies included in the Group are parties to proceedings against the Energy Regulatory Office, related to an obligation of redemption of energy units of origin – so called green and red certificates. As at balance sheet date the provision created to cover possible penalties amounted to PLN 39 million. The final value of possible penalties will depend on the results of the court proceedings and may be subject to change.

Annual bonus

Employees of PGE Capital Group are entitled to the "annual bonus" paid on the basis of the corporate collective labor agreement or regulations applicable to individual entities. As at balance sheet date created provisions amounted to PLN 135 million.

Provision for unused annual leave

The Group creates provision for employee benefits related to unused annual leave. As at balance sheet date the provision amounted to PLN 81 million.

Provision related to the Voluntary Leave Program

In the current reporting period, in four companies of the PGE Capital Group, a Voluntary Leave Program (VLP) was launched. The program is currently in progress and the final number of people, who will benefit from it, is not yet known. In the consolidated financial statements as at 30 June 2011, the provision was created based on preliminary data on people, intending to use the VLP. The provision was created in the total amount of PLN 64,363 thousand.

15. Legal claims and contingent liabilities and receivables

Contingent liabilities	As at 30 June 2011	As at 31 December 2010
Legal claims	4,954	8,598
Contractual fines and penalties	12,481	12,481
Employee claims	73	-
Damages related to non-agreed usage of property	4,473	-
Real estate property buyout	164	-
Other contingent liabilities	343,688	180,338
Total contingent liabilities	**365,833**	**201,417**

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

15.1. Contractual fines and penalties

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

15.2. Other contingent liabilities

Other contingent liabilities mainly (PLN 292 million) comprise mainly of possible refund of means that were received by PGE Group entities from environmental funds for chosen investments. The amount includes PLN 166 million, which are funds received from the European Commission under the agreement regarding the financing of a demonstration project entitled "Construction of a carbon dioxide capture and storage" in PGE Górnictwo i Energetyka S.A.

If an investment does not bring expected environmental effect, a relevant financing will have to be reimbursed. Furthermore, in this position are presented, among others, values of environmental disputes and contractors claims related to allowing excise tax in the price of electricity.

Contractual liabilities related to the purchase of gas from PGNiG

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

15.3. Other legal and court issues

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

Since 2009 PGE Polska Grupa Energetyczna S.A. 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.

Non-agreed usage of property

Due to the nature of its activities the companies of the Capital Group use many properties, on which the buildings and structures or devices used to the transmission of the electricity are based. In respect of many properties there are doubts as to the title of usage. In the case of property, for which the Group companies have no legal title or the title is doubtful, there is a risk of claims by their owners, the alleged owner or other person for compensation in respect of non-agreed usage of these properties. As described in Note 14.4 to the foregoing consolidated financial statements the relevant provision is created to cover claims under court proceedings. Moreover, there are disputes at an early stage in the Group as well as there is a possibility of increased number of disputes in the future.

Legal issues related to the Consolidation Programme

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

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

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

In most cases under consideration, the Regional Courts ruled to repeal the claim. Currently, as a result of an appeal by some minority shareholders, the Capital Group is waiting for decisions of Courts of Appeal regarding these cases.

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

On 11 February 2011 the Regional Court in Łódź, pursuant to an appeal against the decision of District Court for Łódź-Śródmieście in Łódź, 20th Commercial Department of the National Court Register ("District Court") to register consolidation of 12 merged companies with PGE Elektrownia Bełchatów S.A. (with omission of PGE Elektrownia Opole S.A. - with respect to which registration proceedings were suspended) ruled to repeal the disputed decision and to forward the matter for reconsideration to the District Court. The judgment was passed pursuant to consideration of appeals lodged by three non-controlling shareholders. As a result of the reconsideration of the case, the District Court issued a decision to register consolidation of 12 merged companies with PGE Elektrownia Bełchatów S.A. (now PGE Górnictwo I Energetyka Konwencjonalna S.A.) with omission of PGE Elektrownia Opole S.A on 11 May 2011. The minority shareholders appealed against the above decision of registration. The verdict is not legally binding.

15.4. Contingent receivables

As at balance sheet date, the Group has ca. PLN 52 million of contingent receivables related to a reimbursement of VAT and financing received from the National Fund for Environmental Protection and Water Management to realize a project of purification of mining water in PGE Górnictwo i Energetyka Konwencjonalna S.A. oddział KWB Turów.

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

prepared in accordance with IFRS (in PLN thousand)

16. Financial liabilities

Financial liabilities at amortized cost (as at 30 June 2011)	Long-term	Short-term	Total
Interest-bearing loans and borrowings	1,500,522	639,358	**2,139,880**
Bonds issued	-	49,582	**49,582**
Lease	5,302	3,323	**8,625**
Trade liabilities	-	818,548	**818,548**
Other financial liabilities	9,194	760,402	**769,596**
Total	**1,515,018**	**2,271,213**	**3,786,231**

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

- investment credit drawn by PGE Elektrownia Opole S.A. in Bank PEKAO S.A. The purpose of the credit is to finance the "block 1-4" construction with a carrying amount of PLN 619,511 thousand as at 30 June 2011;
- investment credit drawn by PGE Górnictwo i Energetyka Konwencjonalna S.A. Oddział Elektrownia Bełchatów in Nordic Investment Bank in order to finance an 858 MW block's construction of a carrying value of PLN 590,118 thousand as at 30 June 2011.

In addition, in the first half of 2011 PGE Polska Grupa Energetyczna S.A. held a possibility to issue bonds within two programmes of issuing bonds: a program targeted to external customers in the amount of PLN 10 billion and a program targeted to entities within the Group of PGE in 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.

prepared in accordance with IFRS (in PLN thousand)

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 any bonds issued under this Programme.

17. Investment liabilities

As at 30 June 2011, the Group was obliged to incur capital expenditures on property, plant and equipment in the amount of PLN 5,004 million. These amounts relate to modernization of Group's assets and a purchase of machinery and equipment. The major investment currently realized in the Group is the construction of an 858 MW block together with a transmission line realized by PGE Górnictwo i Energetyka Konwencjonalna S.A. Oddział Elektrownia Bełchatów. Other significant investment liabilities concern:

- The modernization of blocks no. 7-12 in PGE Górnictwo i Energetyka Konwencjonalna S.A. Oddział Elektrownia Bełchatów in the total amount of ca. PLN 3,319 million;
- The modernization of blocks no. 5 and 6 in PGE Górnictwo i Energetyka S.A. Konwencjonalna Oddział Elektrownia Bełchatów in the total amount of ca. PLN 170 million;
- The construction of installation for desulfurization of fumes and construction of biomass cauldron in PGE Górnictwo i Energetyka Konwencjonalna S.A. Oddział Zespół Elektrowni Dolna Odra in a total amount of ca. PLN 158 million;
- Investment liabilities of the distribution entity in the total amount of ca. PLN 470 million.

18. Information on related entities

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

18.1. Associates

	Sales to associates	Purchase from associates	Trade receivables from associates	Trade liabilities due to associates
01.01.-30.06.2011	21,581	16,063	3,592	3,473
01.01.-30.06.2010	22,392	12,894	3,540	22

Condensed interim consolidated financial statements for the 6- month period ended 30 June 2011 prepared in accordance with IFRS (in PLN thousand)

18.2. State Treasury entities

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

	Sales to State Treasury entities	Purchase from State Treasury entities	Trade receivables from State Treasury entities	Trade liabilities due to State Treasury entities
01.01.-30.06.2011	1,034,816	2,682,868	186,596	467,005
01.01.-30.06.2010	2,307,028	2,371,859	315,117	386,188

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 21.3 of the foregoing financial statement.

Furthermore, the Company made significant transactions on the energy market through the Towarowa Giełda Energii S.A. (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.

18.3. Key management personnel remuneration

The key management comprises of the Management Board and Supervisory Board of the parent company, companies of the main business lines, PGE Elektrownia Opole S.A., Elektrownia Wiatrowa Kamieńsk Sp. z o.o. and Exatel 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)	8,022	26,897
Jubilee and retirement benefits	-	330
Post-employment benefits	268	419
Termination benefits	41	396
Total remuneration paid to key management	**8,331**	**28,042**

	6- month period ended 30 June 2011	6- month period ended 30 June 2010
Management Board – Parent Company	815	1,725
The Supervisory Board – Parent Company	187	358
Management Boards – subsidiaries	6,647	21,125
Supervisory Boards – subsidiaries	682	4,834
Total	**8,331**	**28,042**

Amounts given for the Management Board and the Supervisory Boards of the Parent Company for the six months ended 30 June 2010 include also remuneration of entities merged with PGE Polska Grupa Energetyczna S.A. during 2010, namely: PGE Górnictwo i Energetyka S.A., PGE Energia S.A. and PGE Electra S.A.

On 31 August 2010 36 entities of the core business were merged into 4 concerns. The decrease of the number of members of the Management Boards and Supervisory Boards of these companies reduced the remuneration of key management personnel presented in the tables above.

The remuneration of Management Boards and Supervisory Boards of entities of other business amounted to PLN 13,887 thousand in the reporting period and to PLN 10,630 thousand in the comparable period.

Among the above remuneration of Management Boards and Supervisory Boards of subsidiaries included the remuneration of the Management Board of the Parent Company due to sit on the bodies of those companies.

19. Tax settlements

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

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

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

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

19.1. Excise tax

As a result of non-compliance of Polish legal regulations on excise tax on electricity with the Community law on 11 February 2009 PGE Group power plants and heat and power stations filed adjusted excise tax declarations together with motions stating surplus payments of excise tax in the years 2006 – 2008 and the months January and February 2009. The total value of the surplus declared (without the cost of interest) in the subject motions amounted to ca. PLN 3,4 billion.

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

On 15 October 2009, the Supreme Administrative Court addressed the Constitutional Tribunal with a legal inquiry whether the provisions of the Tax Ordinance Act which are basis for the Group production companies to apply for an excise tax excess payment refund are complicate with the Constitution of the Republic of Poland. On November 29, 2010 the Constitutional Tribunal decided to discontinue the proceedings on assessing non-compliance with the Constitution of the legal regulation concerning overpayment. According to the Constitutional Tribunal the Tax Ordinance Act assumes a certain model of proceeding with overpaid tax and reasons substantiating reimbursement of such tax, and the fact of incurring the economic burden of tax is not recognized by the Act as a reason substantiating return of overpaid tax. On the other hand, the Supreme Administrative Court (SAC) in a decision of February 3, 2011 presented a legal issue for resolving by the entire Economic Chamber of the Supreme Administrative Court on whether an amount of excise tax paid for sale of electricity qualifies as overpaid tax if the payer did not suffer a financial disadvantage for reason of making that payment. The SAC stated in a resolution of 22 June 2011, that in the meaning of art. 72 § 1 item 1 of the Tax Ordinance Act, the amount of excise tax paid for sale of electricity does not qualify as overpaid tax if the payer did not suffer a financial disadvantage for reason of making that payment. However, in its resolution the SAC indicated, that as far as the taxpayer did not move the amount of excise tax in the electricity price on electricity purchasers, the payer has the right to claim back overpaid tax and, simultaneously, claim compensation from the treasury through a civil action.

In light of the above, chances of receiving a refund of excise duty paid in breach of EU law are uncertain. Therefore, the excise tax recovery process may take a very long time, at the moment it is difficult to predict the final outcome. The Group does not recognize any effects arising from the possible repayment of overpaid excise tax in the financial statements.

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

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

19.2. Real estate tax

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

Pressures in this area are trying to broaden the scope of the organizations of local government units. One was the amendment to the building law to which the definition of the subject of taxation refers to the law on local taxes and charges. As a result of this amendment, the act of 23 April 2009 on the change to building law act and other acts (including the act on taxes and local fees) changed the definition of a building According to the new definition, the notion of a building also comprises installations and technical machinery used for exploitation of a particular building. The mentioned change in building law regulations has not come into force yet due to the submission the request by the President of Poland to the Constitutional Court to examine the compatibility of some regulations with the Constitution– but not those related to changing the definition of building. The Constitutional Court concluded that the removal of the obligation to obtain a building permit is not compatible with the Constitution, and since the regulations relating to the building permit are inseparable from the entire amendment, the whole act on the change to building law act does not come into force.

prepared in accordance with IFRS (in PLN thousand)

Taking into consideration changes mentioned above and proceedings carried out in the Group entities as at 30 June 2011, the Group discloses appropriate provisions. No further details are disclosed due to the professional secret, which is compliant with IAS 37.92.

20. Discontinued operations and non-current assets classified as held for sale

20.1. Discontinued operations

Since 2009, a "Non-core" Programme is being implemented at PGE Group, which purpose is to transparently separate core business activities from other activities and disposal and reorganization of so called non-energetic assets. As at the day of preparation of the foregoing financial statements the Group has recognized two subsidiaries which meet the definition of discontinued operations under IFRS 5: Pracownia Projektowa ENSPRO Sp. z o.o. and Budownictwo-Hydroenergetyka Dychów Sp. z o.o. Revenues and expenses of those companies are presented separately from other entities of the Capital Group in the financial statements as at 30 June 2011.

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

	Revenues	Expenses	Gross profit	Income tax	Net profit
BH Dychów Sp. z o.o.	38,267	37,100	1,167	238	929
PP ENSPRO Sp. z o.o.	691	589	102	19	83
TOTAL	**38,958**	**37,689**	**1,269**	**257**	**1,012**

The participation of shareholders of the parent company in the net result attributable to discontinued operations amounted to PLN 1.010 thousand, in first half 2011. In a comparable period of 2010 the net profit of the above mentioned entities amounted to PLN 394 thousand. As at 31 December 2010, their total assets amounted to PLN 35,717 thousand, and total liabilities amounted to PLN 28,215 thousand.

In the statement of comprehensive income for the period ended 30 June 2010, Towarzystwo Gospodarcze BEWA Sp. z o.o. and Przedsiębiorstwo Wielobranżowe Agtel Sp. z o.o. were presented as discontinued operations. The companies were sold in 2010.

20.2. Non-current assets classified as held for sale

As at 30 June 2011, the PGE Capital Group discloses its shares of Polkomtel S.A. in this position. Until it has met the definitions of assets classified as held for sale as defined in IFRS 5, the Group accounted Polkomtel S.A. in accordance with IAS 28 using the equity method.

The process of sales of Polkomtel S.A. assets is described in Note 21.2 to the foregoing financial statements.

21. Significant events during the reporting period and subsequent events

21.1. Compensation for long term sales contacts for power and electricity ("LTC")

Pursuant to the Act of June 29, 2007 on the Rules of Coverage of Costs Occurring at Production Plants as a Consequence of Early Termination of Long-Term Power and Electricity Sales Contracts (Journal of Laws No. 130, item 905, of 2007) (the "Long-Term Contracts Act"), some PGE Group companies became entitled to receive funds to cover stranded costs (so-called "compensation"). The maximum value of stranded costs including stranded costs relating to 2007 and additional costs (according to 44 article of the LTC Act), according to an appendix 2 amounted to:

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

Under the Long-Term Contracts Act, PGE Group companies will receive compensation to cover stranded cost in the form of quarterly advances. Yearly adjustments are made after the end of each year, followed by a final adjustment upon the lapse of the entire term of Long-Term Contract.

The revenue for the period comprises cash received in the form of advances, adjusted by an annual adjustment and an appropriate portion of the final adjustment planned. Allocation of the final adjustment to the given reporting period is made with the use of fixed prices, based on planned revenues from the sale of electric energy and system services in the adjustment period with final adjustment taken into account. The discount rate is based on a risk-free weighed average term rate.

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

Decisions related to the annual adjustments of stranded costs and annual adjustments of costs incurred in natural gas-fired units in 2008

On 31 July 2009, the President of ERO issued against the PGE Group production entities, entitled to receive means to cover stranded costs on the basis of LTC Act, decisions on annual adjustment of stranded costs and annual adjustments of costs related to natural gas-fired entities for the year 2008 for the total amount of PLN (-) 58.1 million. These decisions were unfavorable for particular PGE Group entities and according to the Group these have been issued with a breach of the LTC Act.

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

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

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

Decisions related to the annual adjustments of stranded costs and annual adjustments of costs incurred in natural gas-fired units in 2009

On 29 and 30 July 2010, the President of ERO issued against the PGE Group production entities decisions on annual adjustment of stranded costs and annual adjustments of costs related to natural gas-fired entities for the year 2009 for the total amount of PLN (-) 566.2 million.

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

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

Adoption of suspended proceedings

In February and March 2011, the Court for Competition and Consumer protection suspended most of the appeal proceedings regarding annual adjustments of stranded costs and annual adjustments of costs incurred in natural gas-fired units for the years 2008 and 2009 for PGE Group production entities. The reason for the suspension was the lack of filling of the position of President of the ERO. The appointment of a President of the ERO on 1 June 2011 stopped the reasons for suspension and the Court will gradually proceed.

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

In August 2010, PGE Elektrownia Opole S.A., PGE Elektrownia Turów S.A., PGE Elektrociepłownia Rzeszów S.A. and PGE Elektrociepłownia Lublin-Wrotków S.A. entered into agreements with Zarządca Rozliczeń S.A. to defer repayment of the entire amount of stranded costs. In addition, the agreement obliged the companies to pay interest to Zarządca Rozliczeń S.A. on the deferred adjustments, where Zarządca Rozliczeń S.A. is entitled to charge interest for any delay by either company in repayment of the adjustment amounts at the statutory rate of penalty interest. The companies authorized Zarządca Rozliczeń S.A. to offset the entire amount outstanding as at the due date stipulated in the agreements, including any interest charged according to the agreements, with any amounts receivable by these companies as advances for covering stranded costs falling due at the earliest date. The agreement foresees an option of entering into separate annexes. Until the date of these financial statements, the companies exercised this option twice. PGE Elektrownia Opole S.A. had its payments postponed until 16 December 2011 (amounting to PLN 241.7 million), and the following production plants: Elektrownia Turów, Elektrociepłownia Rzeszów, and Elektrociepłownia Lublin-Wrotków had their payments postponed until 17 February 2011 (in an aggregate amount of PLN 323.1 million).

Adjustment of stranded costs concerning Elektrociepłownia Gorzów

On 17 September 2010 PGE Górnictwo i Energetyka Konwencjonalna S.A. Oddział Elektrociepłownia Gorzów filed a notice to the President of the Energy Regulatory Authority concerning inactivity in respect of initiating a procedure to determine final adjustment amount. President of the Energy Regulatory Authority responded to the above notice on 12 October 2010, stating that issuance of a final adjustment decision was unfeasible. On 19 November 2010 Elektrociepłownia Gorzów lodged a complaint with the Provincial Administrative Court ("PAC") concerning inactivity of the President of the Energy Regulatory Authority, whereto the President of the Energy Regulatory Authority responded in its notice of 20 December 2010. On 24 January 2011 Gorzów Heat & Power Generating Plant Branch filed a reply to the Energy Regulatory Authority President's response to the complaint with the Provincial Administrative Court. By an order of 18 March 2011, the PAC dismissed the complaint finding, that it is not the competent authority to hear this case. On 27 April 2011 Elektrociepłownia Gorzów submitted an annulment to the Supreme Administrative Court, to which the President of the ERO referred on 31 May 2011.

Decisions related to the annual adjustments of stranded costs and annual adjustments of gas costs in 2010

Between 29 and 31 July 2011, the President of ERO issued against the PGE Group production entities decisions on annual adjustment of stranded costs and annual adjustments of costs related to natural gas-fired entities for the year 2010 for the total amount of PLN (-) 316.79 million. The Boards of Directors of PGE S.A., PGE Górnictwo i Energetyka Konwencjonalna S.A. and PGE Elektrownia Opole S.A. do not agree with the decisions of the President of ERO.

Therefore, between 16 and 18 August 2011, the entities filed appeals to the District Court in Warsaw, Competition and Consumer Protection Court. The entities raise mostly:

- calculation of revenues from sales of energy on the basis of hypothetical price, disregarding revenues from production capacity;
- issues of interest charged by the President of the Energy Regulatory Authority;
- as regards the adjustment of costs incurred in natural gas-fired units regarding Elektrociepłownia Lublin Wrotków and Elektrociepłownia Rzeszów - calculation of annual adjustment on the basis of the quantity of electricity produced from gas fuel acquired in course of exercising the obligation to pay for a certain amount of gas, regardless of the amount of gas collected, instead of the quantity of electricity produced from gas fuel acquired in aggregate during the given year; and calculation of the President of the Energy Regulatory Authority related to production cost of 1 MWh of electricity, disregarding overheads related to electricity production.

On 18 August 2011, PGE Elektrownia Opole S.A. entered into agreements with Zarządca Rozliczeń S.A. to defer repayment of the entire amount of stranded costs until 16 December 2011. Under the agreement, the company will pay interests to Zarządca Rozliczeń S.A. on the amount with deferred payment. PGE Górnictwo i Energetyka Konwencjonalna S.A. part of the amounts arising from the decision of the President of ERO paid on 17 and 19 August 2011 and the remaining part is going to be paid by the 30 September 2011.

Summary

The total amount of stranded costs incurred in natural gas-fired units resulting from decisions of the President of ERO for PGE Group production entities for the years 2008-2010 amounts to PLN (-) 941.1 million.

The Management Board of the Group is convinced that the appeal shall be settled in favour of the particular entities subject to compensations, therefore the PGE Group recognizes the revenues from LTC compensations in accordance with the LTC Act interpretation adopted by the Group. Due to the above, the present consolidated financial statements do not comprise the adjustments resulting from unfavourable interpretations included in the ERO decisions both in relation to revenues for the years 2008-2010 as well as to assess revenues for the period ended 30 June 2011. However, we draw attention to the uncertainty of final interpretation of the President of ERO in this scope.

21.2. 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.

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

On 9 August 2010 an amendment to the Act - 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.

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

21.4. Voluntary Leave Program

In the period ended 30 June 2011, the Voluntary Leave Program was launched in the PGE Group. The Programme was described in Note 14.9 to the foregoing financial statements.

21.5. Change of collateral regarding the investment loan

On 9 August 2011 PGE Górnictwo i Energetyka Konwencjonalna S.A. wrote a mortgage to the amount of EUR 195.000.000 for the Nordic Investment Bank seated in Helsinki on the right of perpetual usufruct of real estate and on connected with that perpetual usufruct ownership of buildings and any parts thereof in order to secure the debt of Nordic Investment Bank regarding the repayment of the investment loan granted by Nordic Investment Bank to PGE GiEK S.A. The mortgage was established on the property, on which the new constructed 858 MW block is currently located. The value of assets in the statement of financial position, on which the mortgage was created, amounts to PLN 4.4 billion.

At the same time, writing the mortgage will result in the release of higher value securities, previously existing on the mentioned property. Changes in securities are aimed to simplify the securities structure and conform them to the existing level of debt towards the Nordic Investment Bank.

21.6. 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 Company.

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