PGE Polska Grupa Energetyczna S.A. Capital Group

Condensed interim consolidated financial statements prepared in accordance with IFRS for the 3-month period ended March 31, 2012

TABLE OF CONTENTS

Interim condensed consolidated financial statements in accordance with IFRS for the 3-month period ended March 31, 2012 (in PLN thousand)

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Period ended March 31, 2012 (not audited)	Period ended March 31, 2011 (not audited) *data restated**
Continuing operations		
Total sales revenues	**7,908,227**	**7,268,792**
Costs of goods sold	(5,645,888)	(5,174,543)
Gross profit on sales	**2,262,339**	**2,094,249**
Other operating revenues	255,053	50,159
Distribution and selling expenses	(448,126)	(425,782)
General and administrative expenses	(178,719)	(183,638)
Other operating expenses	(66,761)	(58,320)
Profit on operating activities	**1,823,786**	**1,476,668**
Financial revenues	228,585	74,523
Financial expenses	(113,094)	(83,800)
Share of profit of associates	55	60,774
Profit before tax	**1,939,332**	**1,528,165**
Corporate income tax	(388,998)	(302,110)
Net profit from continuing operations	**1,550,334**	**1,226,055**
Discontinued operations		
Net profit from discontinued operations	(2,012)	627
Net profit for the operating period	**1,548,322**	**1,226,682**
OTHER COMPREHENSIVE INCOME		
Valuation of available-for-sale financial assets	473	737
Foreign exchange differences from translation of foreign entities	(2,600)	655
Other comprehensive income for the period, net	**(2,127)**	**1,392**
TOTAL COMPREHENSIVE INCOME	**1,546,195**	**1,228,074**
Net profit attributable to:		
- equity holders of the parent company	1,529,870	1,205,924
- non-controlling interest	18,452	20,758
Total comprehensive income attributable to:		
- equity holders of the parent company	1,527,743	1,207,316
- non controlling interest	18,452	20,758
Earnings per share (in PLN)		
– basic earnings per share for the period	0.82	0.64
– basic earnings from the continuing operations	0.82	0.64

* For information regarding comparative figures please refer to note 6 of these financial statements.

Interim condensed consolidated financial statements in accordance with IFRS for the 3-month period ended March 31, 2012 (in PLN thousand)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	As at March 31, 2012 (not audited)	As at December 31, 2011 (audited)	As at March 31, 2011 (not audited) (*data restated*)*
ASSETS			
Non-current assets			
Property, plant and equipment	42,671,404	42,974,819	41,388,660
Investment property	29,513	33,286	27,664
Intangible assets	246,026	216,921	192,212
Loans and receivables	315,843	323,473	408,027
Available-for-sale financial assets	100,706	100,751	99,765
Shares in associates accounted for under the equity method	53,632	55,062	1,470,938
Other long-term assets	628,963	440,157	311,421
Deferred tax assets	228,564	296,387	259,179
Non-current assets related to discontinued operations	175,739	4,077	4,673
Total non-current assets	**44,450,390**	**44,444,933**	**44,162,539**
Currents assets			
Inventories	1,352,647	1,305,327	1,034,219
Emission rights	5,128,508	3,366,988	5,797,077
Income tax receivables	29,588	31,920	28,759
Trade receivables	1,866,465	1,767,739	1,659,282
Other loans and financial assets	2,670,873	2,784,000	981,016
Available-for-sale short-term financial assets	697	8,432	74,471
Other current assets	1,031,177	947,056	971,744
Cash and cash equivalents	5,266,750	4,052,238	2,693,649
Assets classified as held-for-sale	32,683	33,067	-
Currents assets related to discontinued operations	62,304	20,931	23,311
Total currents assets	**17,441,692**	**14,317,698**	**13,263,528**
TOTAL ASSETS	**61,892,082**	**58,762,631**	**57,426,067**

* For information regarding comparative figures please refer to note 6 of these financial statements.

Interim condensed consolidated financial statements in accordance with IFRS for the 3-month period ended March 31, 2012 (in PLN thousand)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

LIABILITIES AND EQUITY	As at March 31, 2012 (not audited)	As at December 31, 2011 (audited)	As at March 31, 2011 (not audited) *(data restated)**
Equity			
Share capital	18,697,837	18,697,837	18,697,837
Revaluation reserve	(304)	(777)	(344)
Treasury shares	(229)	(229)	(229)
Foreign exchange differences from translation of foreign entities	3,692	6,292	1,600
Reserve capital	8,553,143	8,553,143	6,727,589
Other capital reserves	49,779	49,779	49,779
Retained earnings	15,017,257	13,452,823	12,689,791
Non-controlling interest	395,705	414,392	616,434
Total equity	**42,716,880**	**41,173,260**	**38,782,457**
Long-term liabilities			
Interest-bearing loans and borrowings, bonds and lease	1,236,710	1,341,351	2,157,402
Other long-term liabilities	17,158	17,864	15,397
Provisions	3,266,386	3,216,279	3,015,434
Deferred tax liabilities	1,391,542	1,384,507	1,304,784
Deferred income and government grants	1,278,403	1,255,298	1,117,255
Long-term liabilities related to discontinued operations	15,869	667	1,302
Total long-term liabilities	**7,206,068**	**7,215,966**	**7,611,574**
Short-term liabilities			
Trade liabilities	900,704	1,117,172	805,868
Financial liabilities at fair value through profit or loss	43,911	48,093	38,747
Interest-bearing loans, borrowings, bonds and lease	764,490	697,661	1,241,806
Other short-term financial liabilities	1,959,966	1,826,613	320,660
Other short-term non-financial liabilities	1,369,520	1,499,755	1,333,987
Income tax liabilities	630,460	414,618	69,257
Deferred income and government grants	1,408,217	117,117	2,306,897
Short-term provisions	4,860,305	4,634,462	4,909,036
Short-term liabilities related to discontinued operations	31,561	17,914	5,778
Total short-term liabilities	**11,969,134**	**10,373,405**	**11,032,036**
Total liabilities	**19,175,202**	**17,589,371**	**18,643,610**
TOTAL LIABILITIES AND EQUITY	**61,892,082**	**58,762,631**	**57,426,067**

* For information regarding comparative figures please refer to note 6 of these financial statements.

Interim condensed consolidated financial statements in accordance with IFRS for the 3-month period ended March 31, 2012 (in PLN thousand)

STATEMENT OF CHANGES IN CONSOLIDATED EQUITY

for the period ended March 31, 2012

(not audited)	Share capital	Revaluation reserve	Treasury shares	Foreign exchange differences from translation	Reserve capital	Other capital reserves	Retained earnings	Total	Non-controlling interest	Total equity
As at January 1, 2012	**18,697,837**	**(777)**	**(229)**	**6,292**	**8,553,143**	**49,779**	**13,452,823**	**40,758,868**	**414,392**	**41,173,260**
Total comprehensive income for the period	***-***	***473***	***-***	***(2,600)***	***-***	***-***	***1,529,870***	***1,527,743***	***18,452***	***1,546,195***
Additional payment with regard to acquisition cost of subsidiaries' shares	-	-	-	-	-	-	(1,885)	**(1,885)**	-	**(1,885)**
Purchase of own shares by the subsidiaries	-	-	-	-	-	-	(684)	**(684)**	(6)	**(690)**
Change in the share of the equity as a result of subsidiaries mergers	-	-	-	-	-	-	37,133	**37,133**	(37,133)	**-**
As at March 31, 2012	**18,697,837**	**(304)**	**(229)**	**3,692**	**8,553,143**	**49,779**	**15,017,257**	**42,321,175**	**395,705**	**42,716,880**

Interim condensed consolidated financial statements in accordance with IFRS for the 3-month period ended March 31, 2012 (in PLN thousand)

STATEMENT OF CHANGES IN CONSOLIDATED EQUITY

for the year ended December 31, 2011

(audited)	Share capital	Revaluation reserve	Treasury shares	Foreign exchange differences from translation	Reserve capital	Other capital reserves	Retained earnings	Total	Non-controlling interest	Total equity
As at January 1, 2011	**18,697,837**	**(1,081)**	**(229)**	**945**	**6,727,589**	**49,779**	**11,483,867**	**36,958,707**	**595,958**	**37,554,665**
Total comprehensive income for the period	**-**	***304***	**-**	***5,347***	**-**	**-**	***4,936,095***	***4,941,746***	***36,519***	***4,978,265***
Retained earnings distribution	-	-	-	-	1,825,554	-	(1,825,554)	**-**	**-**	**-**
Dividend	-	-	-	-	-	-	(1,215,780)	**(1,215,780)**	(26,904)	**(1,242,684)**
Purchase of new companies	-	-	-	-	-	-	-	**-**	(8,676)	**(8,676)**
Sale of subsidiaries	-	-	-	-	-	-	-	**-**	(1)	**(1)**
Settlement of purchase of additional stock in subsidiaries:	-	-	-	-	-	-	77,321	**77,321**	(182,472)	**(105,151)**
Value of the purchased non-controlling interest	-	-	-	-	-	-	182,472	**182,472**	(182,472)	**-**
The acquisition cost of shares and stocks in subsidiaries	-	-	-	-	-	-	(105,151)	**(105,151)**	-	**(105,151)**
Incorporation of new companies into the Capital Group as a result of mergers of subsidiaries	-	-	-	-	-	-	(3,126)	**(3,126)**	(32)	**(3,158)**
As at December 31, 2011	**18,697,837**	**(777)**	**(229)**	**6,292**	**8,553,143**	**49,779**	**13,452,823**	**40,758,868**	**414,392**	**41,173,260**

Interim condensed consolidated financial statements in accordance with IFRS for the 3-month period ended March 31, 2012 (in PLN thousand)

STATEMENT OF CHANGES IN CONSOLIDATED EQUITY

for the period ended March 31, 2011

(not audited) *(data restated)**	Share capital	Revaluation reserve	Treasury shares	Foreign exchange differences from translation	Reserve capital	Other capital reserves	Retained earnings	Total	Non-controlling interest	Total equity
As at January 1, 2011	**18,697,837**	**(1,081)**	**(229)**	**945**	**6,727,589**	**49,779**	**11,483,867**	**36,958,707**	**595,958**	**37,554,665**
Total comprehensive income for the period	**-**	***737***	**-**	***655***	**-**	**-**	***1,205,924***	***1,207,316***	**20,758**	***1,228,074***
Change of accounting principles	**-**	-	-	-	-	-	-	**-**	**-**	**-**
Retained earnings distribution	-	-	-	-	-	-	-	**-**	-	**-**
Dividend	-	-	-	-	-	-	-	**-**	(282)	**(282)**
As at March 31, 2011	**18,697,837**	**(344)**	**(229)**	**1,600**	**6,727,589**	**49,779**	**12,689,791**	**38,166,023**	**616,434**	**38,782,457**

* For information regarding comparative figures please refer to note 6 of these financial statements

Interim condensed consolidated financial statements in accordance with IFRS for the 3-month period ended March 31, 2012 (in PLN thousand)

CONSOLIDATED STATEMENT OF CASH FLOWS

	Period ended March 31, 2012 (not audited)	**Period ended March 31, 2011 (not audited)** *data restated)**
Cash flow from operating activities		
Profit before tax related to discontinued operations	**(1,950)**	**794**
Profit before tax related to continuing operations	**1,939,332**	**1,528,165**
Adjustments for:		
Share of profit from associates accounted for under the equity method	(55)	(60,774)
Depreciation and amortization	713,013	659,075
Interest and dividend, net	(34,396)	25,859
Profit / loss on investment activities	(44,389)	(15,993)
Change in receivables	27,245	(217,172)
Change in inventories	(49,767)	56,330
Change in liabilities, excluding loans and bank credits	208,045	(426,552)
Change in prepayments, other non-financial assets and emission rights	(686,548)	(1,178,929)
Change in provisions	290,918	631,211
Income tax paid	(99,210)	(290,364)
Other	(18,410)	10,354
Net cash from operating activities	**2,243,828**	**722,004**
Cash flow from investing activities		
Disposal of property, plant and equipment and intangible assets	6,201	8,876
Purchase of property, plant and equipment and intangible assets	(1,156,384)	(1,406,642)
Purchase/ disposal of investment property	286	-
Disposal of financial assets	48,501	6,133
Purchase of financial assets and increase in share capital in Group companies	(18,408)	(16,338)
Purchase/ disposal of subsidiaries after deduction of acquired cash	-	-
Dividends received	-	-
Interest received	624	9,611
Loans repaid	2	906
Loans granted	-	-
Other	748	(3,925)
Net cash from investing activities	**(1,118,430)**	**(1,401,379)**

Interim condensed consolidated financial statements in accordance with IFRS for the 3-month period ended March 31, 2012 (in PLN thousand)

	Period ended March 31, 2012 (not audited)	Period ended March 31, 2011 (not audited – *data restated)****
Cash flow from financing activities		
Proceeds from the share issue	-	-
Proceeds from bank credits and issue of bonds	177,760	1,402,229
Repayment of bank credits, bonds and finance lease	(144,321)	(720,755)
Dividends paid (including dividend paid to the State Treasury)	(56,680)	(17,523)
Interest paid	(11,558)	(25,653)
Dividends returned by non-controlling interest	148,260	-
Other	7,411	790
Net cash flow from financing activities	**120,872**	**639,088**
Net change of cash and cash equivalents	**1,246,270**	**(40,287)**
Effect of foreign exchange rate changes	8,103	4,073
Cash and cash equivalents at the beginning of the period	**4,040,902**	**2,736,859**
Cash and cash equivalents at the end of period, including	**5,287,172**	**2,696,572**
Restricted cash	423,810	110,245
Attributed to discontinued operations	30,660	3,693

* For information regarding comparative figures please refer to note 6 of these financial statements.

EXPLANATORY NOTES

1. General information

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

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

The parent company is seated in Warsaw at Mysia 2 Street.

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

Core operations of the Group companies are as follows:

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

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

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

The interim condensed consolidated financial statements of the Group comprise financial data for the period from January 1, 2012 to March 31, 2012 („financial statements").

2. The composition of the Management Board of the parent company

As at January 1, 2012 the composition of the Management Board of the parent company was as follows:

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

From January 1, 2012 until the date of preparation of the foregoing financial statements, the following changes took place in the composition of the Management:

- On March 1, 2012 the Supervisory Board adopted a resolution on appointment of Mr. Krzysztof Kilian as President of the Management Board/Chief Executive Officer as from March 5, 2012;
- On March 1, 2012 the Supervisory Board adopted a resolution on appointment of Mrs. Bogusława Matuszewska as Vice-President of the Management Board as from March 5, 2012.

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

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

Interim condensed consolidated financial statements in accordance with IFRS for the 3-month period ended March 31, 2012 (in PLN thousand)

3. Structure of the Group

3.1. Entities included in the Group

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

	Entity	Share of Group entities as at March 31. 2012	The entity holding shares as at March 31. 2012	Share of Group entities as at December 31. 2011	The entity holding shares as at December 31. 2011
	Segment: wholesale				
1.	PGE Polska Grupa Energetyczna S.A. *Warsaw*	The Parent Company of the Group			
2.	ELECTRA Deutschland GmbH *Germany*	100.00%	PGE Polska Grupa Energetyczna S.A.	100.00%	PGE Polska Grupa Energetyczna S.A.
	Segment: Conventional Generation				
3.	PGE Górnictwo i Energetyka Konwencjonalna S.A. *Bełchatów*	91.20%	PGE Polska Grupa Energetyczna S.A	91.04%	PGE Polska Grupa Energetyczna S.A
				7.88%	PGE Obrót S.A.
		7.37%	PGE Obrót S.A.	0.02%	PGE Energia Odnawialna S.A.
	PGE Elektrownia Opole S.A. *Bełchatów*	-	-	93.25%	PGE Polska Grupa Energetyczna S.A
4.	Przedsiębiorstwo Energetyki Cieplnej sp. z o.o. *Zgierz*	50.97%	PGE Górnictwo i Energetyka Konwencjonalna S.A.	50.97%	PGE Górnictwo i Energetyka Konwencjonalna S.A.
5.	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				
6.	PGE Energia Odnawialna S.A. *Warsaw*	100.00%	PGE Polska Grupa Energetyczna S.A.	100.00%	PGE Polska Grupa Energetyczna S.A.
	Elektrownia Wiatrowa Kamieńsk sp. z o.o. *Kamieńsk*	-	-	100.00%	PGE Energia Odnawialna S.A.
7.	Elektrownia Wiatrowa Resko sp. z o.o. *Czymanowo*	100.00%	PGE Energia Odnawialna S.A.	100.00%	PGE Energia Odnawialna S.A.
8.	Biogazownia Łapy sp. z o.o. *Warsaw*	100.00%	PGE Energia Odnawialna S.A.	100.00%	PGE Energia Odnawialna S.A.
9.	Biogazownia Wożuczyn sp. z o.o. *Warsaw*	100.00%	PGE Energia Odnawialna S.A.	100.00%	PGE Energia Odnawialna S.A.
10.	Elektrownia Wiatrowa Turów sp. z o.o. *Warsaw*	100.00%	PGE Energia Odnawialna S.A.	100.00%	PGE Energia Odnawialna S.A.
11.	Elektrownia Wiatrowa Gniewino sp. z o.o. *Czymanowo*	100.00%	PGE Energia Odnawialna S.A.	100.00%	PGE Energia Odnawialna S.A.
12.	Elektrownia Wiatrowa Baltica-1 sp. z o.o. *Warsaw*	95.00%	Elektrownia Wiatrowa Gniewino sp. z o.o.	95.00%	Elektrownia Wiatrowa Gniewino sp. z o.o.
		5.00%	Elektrownia Wiatrowa Resko sp. z o.o.	5.00%	Elektrownia Wiatrowa Resko sp. z o.o.

Interim condensed consolidated financial statements in accordance with IFRS for the 3-month period ended March 31, 2012 (in PLN thousand)

	Entity	Share of Group entities as at March 31. 2012	The entity holding shares as at March 31. 2012	Share of Group entities as at December 31. 2011	The entity holding shares as at December 31. 2011
13.	Elektrownia Wiatrowa Baltica-2 sp. z o.o. *Warsaw*	95.00%	Elektrownia Wiatrowa Gniewino sp. z o.o.	95.00%	Elektrownia Wiatrowa Gniewino sp. z o.o.
		5.00%	Elektrownia Wiatrowa Resko sp. z o.o.	5.00%	Elektrownia Wiatrowa Resko sp. z o.o.
14.	Elektrownia Wiatrowa Baltica-3 sp. z o.o. *Warsaw*	95.00%	Elektrownia Wiatrowa Gniewino sp. z o.o.	95.00%	Elektrownia Wiatrowa Gniewino sp. z o.o.
		5.00%	Elektrownia Wiatrowa Resko sp. z o.o.	5.00%	Elektrownia Wiatrowa Resko sp. z o.o.
15.	Bio-Energia S.A. *Warsaw*	100.00%	PGE Energia Odnawialna S.A.	100.00%	PGE Energia Odnawialna S.A.
	Segment: Distribution				
16.	PGE Dystrybucja S.A. *Lublin*	89.91%	PGE Obrót S.A.	89.91%	PGE Obrót S.A.
		10.05%	PGE Polska Grupa Energetyczna S.A.	10.05%	PGE Polska Grupa Energetyczna S.A.
	Segment: Retail Sale				
17.	PGE Obrót S.A. *Rzeszów*	99.31%	PGE Polska Grupa Energetyczna S.A.	99.31%	PGE Polska Grupa Energetyczna S.A.
	Segment: Other operations				
18.	EXATEL S.A. *Warsaw*	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.
19.	MEGA sp. z o.o. *Miłocin*	75.01%	PGE Energia Odnawialna S.A.	75.01%	PGE Energia Odnawialna S.A.
20.	ELBIS sp. z o.o. *Rogowiec*	100.00%	PGE Górnictwo i Energetyka Konwencjonalna S.A.	100.00%	PGE Górnictwo i Energetyka Konwencjonalna S.A.
21.	MEGAZEC sp. z o.o. *Bydgoszcz*	100.00%	PGE Górnictwo i Energetyka Konwencjonalna S.A.	100.00%	PGE Górnictwo i Energetyka Konwencjonalna S.A.
22.	ELBEST sp. z o.o. *Bełchatów*	91.31%	PGE Górnictwo i Energetyka Konwencjonalna S.A.	91.19%	PGE Górnictwo i Energetyka Konwencjonalna S.A.
		7.50%	PGE Dystrybucja S.A.	7.60%	PGE Dystrybucja S.A.
		1.11%	PGE Obrót S.A.	1.12%	PGE Obrót S.A.
		0.09%	PGE Energia Odnawialna S.A.	0.09%	PGE Energia Odnawialna S.A.
23.	Energoserwis - Kleszczów sp. z o.o. *Kleszczów*	51.00%	ELBIS sp. z o.o.	51.00%	ELBIS sp. z o.o.
24.	Niepubliczny Zakład Opieki Zdrowotnej MegaMed sp. z o.o. *Bełchatów*	100.00%	PGE Górnictwo i Energetyka Konwencjonalna S.A	97.40%	PGE Górnictwo i Energetyka Konwencjonalna S.A
				2.60%	PGE Elektrownia Opole S.A.
25.	ELMEN sp. z o.o. *Rogowiec*	100.00%	ELBIS sp. z o.o.	100.00%	ELBIS sp. z o.o.
26.	EnBud sp. z o.o. in liquidation *Czymanowo*	100.00%	PGE Energia Odnawialna S.A.	100.00%	PGE Energia Odnawialna S.A.

Interim condensed consolidated financial statements in accordance with IFRS for the 3-month period ended March 31, 2012 (in PLN thousand)

	Entity	Share of Group entities as at March 31. 2012	The entity holding shares as at March 31. 2012	Share of Group entities as at December 31. 2011	The entity holding shares as at December 31. 2011
	Dychowskie Przedsiębiorstwo Eksploatacji Elektrowni ELDEKS sp. z o.o. *Dychów*	-	-	100.00%	PGE Energia Odnawialna S.A
27.	ESP Usługi sp. z o.o. in liquidation *Warsaw*	100.00%	PGE Energia Odnawialna S.A.	100.00%	PGE Energia Odnawialna S.A.
28.	Budownictwo Hydroenergetyka - Dychów sp. z o. o *Dychów*	100.00%	PGE Energia Odnawialna S.A.	100.00%	PGE Energia Odnawialna S.A.
29.	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.
30.	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.
31.	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.
32.	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.
33.	NOM sp. z o.o. *Warsaw*	100.00%	EXATEL S.A.	100.00%	EXATEL S.A.
34.	Energo-Tel S.A. *Warsaw*	51.10%	EXATEL S.A.	51.10%	EXATEL S.A.
		48.90%	NOM sp. z o.o.	48.90%	NOM sp. z o.o.
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*	98.65%	PGE Górnictwo i Energetyka Konwencjonalna S.A.	98.65%	PGE Górnictwo i Energetyka Konwencjonalna S.A.
		1.16%	PGE Dystrybucja S.A.	1.16%	PGE Dystrybucja S.A.
		0.17%	PGE Obrót S.A.	0.17%	PGE Obrót S.A.
		0.01%	PGE Energia Odnawialna S.A.	0.01%	PGE Energia Odnawialna 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.	Przedsiębiorstwo Transportowo-Usługowe ETRA sp. z o.o. *Białystok*	100.00%	PGE Dystrybucja S.A	100.00%	PGE Dystrybucja S.A
40.	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.	EPO sp. z o.o. *Opole*	50.00%	PGE Górnictwo i Energetyka Konwencjonalna S.A.	50.00%	PGE Elektrownia Opole S.A.

Interim condensed consolidated financial statements in accordance with IFRS for the 3-month period ended March 31, 2012 (in PLN thousand)

	Entity	Share of Group entities as at March 31. 2012	The entity holding shares as at March 31. 2012	Share of Group entities as at December 31. 2011	The entity holding shares as at December 31. 2011
43.	Zakład Obsługi Energetyki sp. z o.o. *Zgierz*	100.00%	PGE Dystrybucja S.A.	100.00%	PGE Dystrybucja S.A.
44.	PGE Serwis sp. z o.o. in liquidation *Warsaw*	100.00%	PGE Polska Grupa Energetyczna S.A.	100.00%	PGE Polska Grupa Energetyczna S.A.
45.	PGE Systemy S.A. *Warsaw*	100.00%	PGE Polska Grupa Energetyczna S.A.	100.00%	PGE Polska Grupa Energetyczna S.A.
46.	PGE Inwest sp. z o.o. *Warsaw*	100.00%	PGE Polska Grupa Energetyczna S.A.	100.00%	PGE Polska Grupa Energetyczna S.A.
47.	PGE Inwest spółka z ograniczoną odpowiedzialnością II S.K.A. in liquidation *Warsaw*	100.00%	PGE Polska Grupa Energetyczna S.A.	100.00%	PGE Polska Grupa Energetyczna S.A.
48.	PGE Energia Jądrowa S.A. *Warsaw*	100.00%	PGE Polska Grupa Energetyczna S.A.	100.00%	PGE Polska Grupa Energetyczna S.A.
49.	PGE EJ 1 sp. z o.o. *Warsaw*	51.00%	PGE Energia Jądrowa S.A.	51.00%	PGE Energia Jądrowa S.A.
		49.00%	PGE Polska Grupa Energetyczna S.A.	49.00%	PGE Polska Grupa Energetyczna S.A.

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

Changes in the structure of the PGE Group companies, which are subject to full consolidation, that took place during the period ended March 31, 2012 are included in the table above and include inter alia following transformations:

- on January 2, 2012 the merger of PGE Energia Odnawialna S.A. (acquiring company) with Elektrownia Wiatrowa Kamieńsk sp. z o.o. and Dychowskie Przedsiębiorstwo Eksploatacji Elektrowni „ELDEKS" sp. z o.o. (acquired companies) was registered.
- on January 2, 2012 the division of Przedsiębiorstwo Transportowo Sprzętowe BETRANS sp. z o.o. and transfer of part of the assets to Elbest sp. z o.o. was registered.
- on March 12, 2012 the merger of PGE Górnictwo i Energetyka Konwencjonalna S.A. with PGE Elektrownia Opole S.A. was registered. The issue is described in detail in Note 24.2 to these financial statements.

Additionally, the following took place during the previous and current reporting periods:

- on May 25, 2011 PGE Energia Odnawialna S.A. entered into a conditional purchase agreement with Spanish Gamesa Energia S.A.U. to purchase 100% shares in the company Pelplin sp. z o.o. According to the terms of the agreement PGE Energia Odnawialna S.A. will become a 100%-shareholder of the company after the investment is commissioned, which is planned for the first half of year 2012.
- on September 28, 2011 PGE Energia Odnawialna S.A. concluded another conditional purchase agreement with Spanish company Gamesa Energia S.A.U. concerning purchase of 100% shares in Żuromin sp. z o.o. According to the terms of the agreement PGE Energia Odnawialna S.A. will become a 100%-shareholder after the investment is commissioned, which is planned for the second quarter of year 2012.
- On February 1, 2012 PGE Polska Grupa Energetyczna S.A. established PGE Dom Maklerski S.A. (a brokerage house). Until the date of this report, the company has not been registered in the National Court Register.

4. 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 February 19, 2009 on current and periodic information provided by issuers of securities and the conditions for recognition as equivalent information required by the law of a non-Member State (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 December 31, 2011.

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 December 31, 2007.

The bookkeeping of key companies od PGE Group 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 run their books in accordance with the accounting policies (principles) specified in the Accounting Act dated September 29, 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.

5. Presentation currency

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

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

	March 31, 2012	December 31, 2011	March 31, 2011
USD	3.1191	3.4174	2.8229
EURO	4.1616	4.4168	4.0119

6. Changes in applied accounting policies and data presentation

When preparing the consolidated financial statements for the year ended December 31, 2011 PGE Group changed selected accounting policies relating to recognition of greenhouse gas emission allowances and presentation of selected positions of assets, liabilities, revenues and expenses. The purpose of these changes is a more reliable and accurate presentation of particular economic events and assets and liabilities of the Group. Changes were intended to present particular economic transactions as well as assets and liabilities of the Group in more reliable and proper way.

Changes in applied accounting principles relating to presentation of greenhouse gas emission allowances and provisions for liabilities relating to greenhouse gas emissions

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

In accordance with the updated accounting Policy the received free of charge EUA within the NAAP are evidenced at the beginning of the period, for which they were allocated, in the fair value as at first recognition. The EUA received free of charge are recognized in correspondence with deferred income. During the reporting period EUA are settled in equal installments from the position of deferred income in correspondence with adequate positions of statement of comprehensive income. In turn the provision for liabilities relating to the CO_2 emission is recorded in relation to total CO_2 emission. The cost of the provision in line with the settlement of EUA from the position of deferred income is presented in the statement of comprehensive income after compensation.

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

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

Therefore, the Group restated data presented in the consolidated statement of financial position, consolidated statement of comprehensive income, statement of changes in consolidated equity and consolidated statement of cash flows for the comparative period as at March 31, 2012 and for the period ended March 31, 2012**.**

The restatement is presented in tables below. The information in explanatory notes to these financial statements was also changed.

Interim condensed consolidated financial statements in accordance with IFRS for the 3-month period ended March 31, 2012 (in PLN thousand)

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Period ended March 31, 2011 *(data published)*	**Change in presenting revenues, expenses and adjustment of CO_2**	**Period ended March 31, 2011** *(data restated)*
Operating activities			
Sales of finished foods and merchandise with excise tax	*7,019,227*	*(21,135)*	*6,998,092*
Excise tax	*(106,974)*	*-*	*(106,974)*
Revenues from sale of products and merchandise	6,912,253	(21,135)	6,891,118
Revenues from services rendered	203,853	(4,263)	199,590
Revenues from lease	7,263	-	7,263
Revenues from LTC compensations	170,821	-	170,821
Total sales revenue	**7,294,190**	**(25,398)**	**7,268,792**
Costs of goods sold	(5,156,745)	(17,798)	(5,174,543)
Gross profit on sales	**2,137,445**	**(43,196)**	**2,094,249**
Other operating revenues	50,159		50,159
Distribution and selling expenses	(426,050)	268	(425,782)
General and administrative expenses	(183,638)		(183,638)
Other operating expenses	(58,320)		(58,320)
Profit on operating activities	**1,519,596**	**(42,928)**	**1,476,668**
Financial revenues	91,970	(17,447)	74,523
Financial expenses	(101,247)	17,447	(83,800)
Share of profit of associates	60,774		60,774
Profit before tax	**1,571,093**	**(42,928)**	**1,528,165**
Corporate income tax	(310,266)	8,156	(302,110)
Net profit from continuing operations	**1,260,827**	**(34,772)**	**1,226,055**
Discontinued operations			
Net profit from discontinued operations	627	-	627
Net profit for the operating period	**1,261,454**	**(34,772)**	**1,226,682**
Other comprehensive income for the period, net	**1,392**	-	**1,392**
TOTAL COMPREHENSIVE INCOME	**1,262,846**	**(34,772)**	**1,228,074**
Net profit attributable to:			
- equity holders of the parent company	1,239,818	(33,894)	1,205,924
- non-controlling interest	21,636	(878)	20,758
Total comprehensive income attributable to:			
- equity holders of the parent company	1,241,210	(33,894)	1,207,316
- non-controlling interest	21,636	(878)	20,758
Earnings per share (in PLN)			
- basic earnings per share for the period	0.66	(0.02)	0.64
- basic earnings from the continuing operations	0.66	(0.02)	0.64

Interim condensed consolidated financial statements in accordance with IFRS for the 3-month period ended March 31, 2012 (in PLN thousand)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	As at March 31, 2011 *(data published)*	**Adjustment of valuation of financial instruments**	**Change in presenting upward adjustment**	**Adjustment of CO_2**	**As at March 31, 2011** *(data restated)*
Current assets					
Inventories	1,034,219	-	-	-	1,034,219
Emission rights	-	-	-	5,797,077	5,797,077
Income tax receivables	28,759	-	-	-	28,759
Trade receivables	2,164,618	-	(505,336)	-	1,659,282
Other loans and financial assets	981,016	-	-	-	981,016
Available-for-sale short-term financial assets	125,144	(50,673)	-	-	74,471
Other current assets	871,734	-	505,336	(405,326)	971,744
Cash and cash equivalents	2,693,649	-	-	-	2,693,649
Assets classified as held for-sale	-	-	-	-	-
Current assets related to discontinued operations	23,311				23,311
Total current assets	**7,922,450**	**(50,673)**	**-**	**5,391,751**	**13,263,528**

Interim condensed consolidated financial statements in accordance with IFRS for the 3-month period ended March 31, 2012 (in PLN thousand)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (continued)

	As at March 31, 2011 *(data published)*	Adjustment of valuation of financial instruments	Change in presenting upward adjustment	Adjustment of CO_2	As at March 31, 2011 *(data restated)*
Equity (attributable to equity holders of the parent)					
Share capital	18,697,837	-	-	-	18,697,837
Revaluation reserve	(344)	-	-	-	(344)
Treasury shares	(229)	-	-	-	(229)
Foreign exchange differences from translation of foreign entities	1,600	-	-	-	1,600
Reserve capital	6,727,589	-	-	-	6,727,589
Other capital reserves	49,779	-	-	-	49,779
Retained earnings	12,848,932	(50,673)	-	(108,468)	12,689,791
Non-controlling interest	620,173	-	-	(3,739)	616,434
Total equity	**38,945,337**	**(50,673)**		**(112,207)**	**38,782,457**
Long-term liabilities					
Interest-bearing bank credits, loans, bonds and lease	2,157,402	-	-	-	2,157,402
Other liabilities	15,397	-	-	-	15,397
Provisions	3,083,560	-	-	(68,126)	3,015,434
Deferred tax liabilities	1,331,104	-	-	(26,320)	1,304,784
Deferred income and government grants	1,117,255	-	-	-	1,117,255
Long-term liabilities related to discontinued operations	1,302	-	-	-	1,302
Total long-term liabilities	**7,706,020**	**-**	**-**	**(94,446)**	**7,611,574**

Interim condensed consolidated financial statements in accordance with IFRS for the 3-month period ended March 31, 2012 (in PLN thousand)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (continued)

	As at March 31, 2011 *(data published)*	Adjustment of valuation of financial instruments	Change in presenting upward adjustment	Adjustment of CO_2	As at March 31, 2011 *(data restated)*
Short-term liabilities					
Trade liabilities	814,593	-	(8,725)	-	805,868
Financial liabilities at fair value through profit or loss	38,747	-	-	-	38,747
Interest-bearing loans and borrowings	1,241,806	-	-	-	1,241,806
Other short-term financial liabilities	311,935	-	8,725	-	320,660
Other short-term non-financial liabilities	1,333,987	-	-	-	1,333,987
Income tax liabilities	69,257	-	-	-	69,257
Deferred income	103,072	-	-	2,203,825	2,306,897
Short-term provisions	1,514,457	-		3,394,579	4,909,036
Short-term liabilities related to discontinued operations	5,778	-	-	-	5,778
Total short-term liabilities	**5,433,632**	**-**	**-**	**5,598,404**	**11,032,036**

Interim condensed consolidated financial statements in accordance with IFRS for the 3-month period ended March 31, 2012 (in PLN thousand)

CONSOLIDATED STATEMENT OF CASH FLOWS

	Year ended March 31, 2011 *(data published)*	**Change in presenting upward adjustment and adjustment of CO_2**	**Year ended March 31, 2011** *(data restated)*
Cash flows from operating activities			
Profit before tax related to discontinued operations	794	-	794
Profit before tax related to continuing operations	1,571,093	(42,928)	1,528,165
Adjustments for:			
Share of profit from associates accounted for under the equity method	(60,774)	-	(60,774)
Depreciation and amortization	659,075	-	659,075
Interest and dividend, net	25,859	-	25,859
Profit / (loss) on investment activities	(15,993)	-	(15,993)
Change in receivables	(246,593)	29,421	(217,172)
Change in inventories	56,330	-	56,330
Change in liabilities excluding loans and bank credits	(426,552)	-	(426,552)
Change in prepayments and accruals	(418,308)	(760,621)	(1,178,929)
Change in provisions	(142,917)	774,128	631,211
Income tax paid	(290,364)	-	(290,364)
Other	10,354	-	10,354
Net cash from operating activities	**722,004**	**-**	**722,004**

7. New standards and interpretations, published, not effective yet

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

- IFRS 9 *Financial Instruments* – effective for the periods starting January 1, 2015;
- IFRS 10 *Consolidated Financial Statements* – effective for the periods starting January 1, 2013;
- IFRS 11 *Joint Agreements* – effective for the periods starting January 1, 2013;
- IFRS 12 *Disclosure of interests in other entities* – effective for the periods starting January 1, 2013;
- IFRS 13 *Fair value measurement* – effective for the periods starting January 1, 2013;
- IFRIC 20 *Stripping costs in the production phase of a surface mine* – effective for the periods starting January 1, 2013;
- Amended IAS 19 *Employee benefits* – effective for the periods starting January 1, 2013;
- Amended IAS 27 *Separate financial statements* – effective for the periods starting January 1, 2013;
- Amended IAS 28 *Investments in associates and joint ventures* – effective for the periods starting January 1, 2013.
- Amendments to IFRS 1 *First-time Adoption of International Financial Reporting Standards* - effective for the periods starting July 1, 2011.
- Amendments to IFRS 1 *First-time Adoption of International Financial Reporting Standards* - effective for the periods starting January 1, 2013.
- Amendments to IFRS 7 *Financial Instruments: Disclosures* – effective for the periods starting January 1, 2013.
- Amendments to IAS 1 *Presentation of financial statements*– effective for the periods starting July 1, 2012;
- Amendments to IAS 12 Income Taxes – effective for the periods starting January 1, 2012;
- Amendments to IAS 32 *Financial instruments: presentation* – effective for the periods starting July 1, 2014.

The influence of new regulations on future consolidated financial statements of the 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 Group. At the date of preparation of these consolidated financial statements IFRS 9 is not yet approved and as a result its impact on the future financial statements of the PGE Group is not yet determined.

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

New interpretation of IFRIC 20 unifies the method of recognizing stripping costs in the production phase of a surface mine. According to the currently applied accounting policy the Group recognizes such costs in the statement of comprehensive income at the moment when they are incurred. If the Group would change criteria indicated in IFRIC 20 part of the above mentioned costs would be recognized as asset and amortized. As at the date of preparation of these financial statements Company is evaluating the influence of the interpretation on future financial statements.

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

8. Change of estimates

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

- Provisions are liabilities of uncertain timing or amount. During the reporting period, the Group changed estimations regarding the basis and amounts of some provisions. Changes of estimations are presented in Note 16 of these consolidated statements.
- During the reporting period the Group updated the value of impairment allowances on financial and other assets. The changes are presented in Notes 10 and 11 of these financial statements.

9. Operating segments

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

- Conventional Energy includes exploration and mining of lignite and production of energy in the Group power plants and heat and power plants;
- 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;
- Retail sale includes sale of electricity and rendering services to end users;
- Distribution includes management over local distribution networks and delivery of electricity with the use of these networks;
- Renewable Energy includes generation of energy in pumped storage power plants and from renewable sources.

Organization and management over the Group is based on the division into segments, taking into account the nature of the products and services. Each segment represents a strategic business unit, offering different products and serving different markets. Assignment of particular entities to operating segments is described in Note 3 of these financial statements.

Transactions between segments are settled within the Group as if they were concluded with third parties – under market conditions.

Seasonality of business segments

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

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

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

Changes in presenting business segments

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

Interim condensed consolidated financial statements in accordance with IFRS for the 3-month period ended March 31, 2012 (in PLN thousand)

Information on business segments

Period ended March 31, 2012	Segment: Conventional Generation	Segment: Renewable Energy	Segment: Wholesale	Segment: Distribution	Segment: Retail sale	Other activities	Consolidation adjustments	Total continued operations
Revenues								
Revenues from sales to external customers	3 654 564	135 787	272 085	280 403	3 360 699	196 656	8 033	7 908 227
Revenues from sales between segments	264 080	5 566	2 559 160	1 162 475	61 171	197 947	(4 250 399)	-
Total revenues from segments	**3 918 644**	**141 353**	**2 831 245**	**1 442 878**	**3 421 870**	**394 603**	**(4 242 366)**	**7 908 227**
Financial result								
EBIT *)	**1 358 761**	**40 998**	**73 353**	**277 150**	**56 474**	**1 301**	**15 749**	**1 823 786**
EBITDA **)	**1 781 179**	**73 684**	**78 334**	**509 128**	**58 663**	**27 593**	**8 218**	**2 536 799**
Net financial revenues (expenses)								115 491
Share of profit of associates								55
Profit (loss) before tax								**1 939 332**
Income tax								(388 998)
Net profit (loss) for the period								**1 550 334**
Assets and liabilities								
Assets of the segment excluding trade receivables	33 735 477	1 917 198	418 160	14 178 790	700 282	1 176 996	(1 038 665)	51 088 238
Trade receivables	336 627	46 918	546 868	432 607	1 301 879	229 014	(1 027 448)	1 866 465
Shares in associates								53 632
Unallocated assets								8 883 747
Total assets								**61 892 082**
Liabilities of the segment excluding trade liabilities	10 527 422	102 415	511 651	1 379 121	1 371 920	391 832	(80 495)	14 203 866
Trade liabilities	560 299	11 214	440 336	191 410	550 480	136 429	(989 464)	900 704
Unallocated liabilities								4 070 632
Total liabilities								**19 175 202**
Other information on business segments								
Capital expenditures	391 586	7 183	237	190 710	1 299	38 546	(24 718)	604 843
Revaluation write-offs on financial and non-financial assets	(7 967)	(2 892)	20 038	119	7 769	(187)	(3)	16 877
Amortisation and depreciation	422 418	32 686	4 981	231 978	2 189	26 292	(7 531)	713 013
Other non-monetary expenses***)	583 630	5 160	(18 238)	40 921	336 793	8 474	(4 293)	952 447

*) EBIT = profit (loss) before tax and financial revenues / expenses
**) EBITDA = EBIT + amortization (without write-offs)
***) changes in provisions of non-monetary character, inter alia for gratuities, recultivation, CO2 emission rights, jubilee awards, employees' tariff

Interim condensed consolidated financial statements in accordance with IFRS for the 3-month period ended March 31, 2012 (in PLN thousand)

Period ended March 31, 2011 *(data restated)*	Segment: Conventional Generation	Segment: Renewable Energy	Segment: Wholesale	Segment: Distribution	Segment: Retail sale	Other activities	Consolidation adjustments	Total continued operations
Revenues								
Revenues from sales to external customers	3 331 518	104 311	269 459	196 506	3 171 155	187 529	8 314	**7 268 792**
Revenues from sales between segments	201 992	35 367	2 632 425	1 154 688	135 372	215 140	(4 374 984)	**-**
Total revenues from segments	**3 533 510**	**139 678**	**2 901 884**	**1 351 194**	**3 306 527**	**402 669**	**(4 366 670)**	**7 268 792**
Financial result								
EBIT *)	**1 085 919**	**27 734**	**55 034**	**244 214**	**57 708**	**7 165**	**(1 106)**	**1 476 668**
EBITDA **)	**1 457 236**	**60 302**	**61 244**	**466 895**	**59 854**	**35 182**	**(4 971)**	**2 135 742**
Net financial revenues (expenses)								(9 277)
Share of profit of associates								60 774
Profit (loss) before tax								**1 528 165**
Income tax								(302 110)
Net profit (loss) for the period								**1 226 055**
Assets and liabilities								
Assets of the segment excluding trade receivables	32 669 706	1 719 035	969 584	13 408 242	180 795	1 039 747	(264 112)	49 722 997
Trade receivables	291 801	41 371	544 319	569 285	1 671 233	222 710	(1 681 437)	1 659 282
Shares in associates								1 470 938
Unallocated assets								4 572 850
Total assets								**57 426 067**
Liabilities of the segment excluding trade liabilities	10 142 646	103 679	444 045	1 301 478	855 929	264 404	(54 768)	13 057 413
Trade liabilities	516 095	18 981	365 086	179 418	758 802	98 939	(1 131 453)	805 868
Unallocated liabilities								4 780 329
Total liabilities								**18 643 610**
Other information on business segments								
Capital expenditures	455 433	34 349	1 770	136 016	839	18 298	(26 355)	620 350
Revaluation write-offs on financial and non-financial assets	415	219	(162)	568		(158)		882
Amortisation and depreciation	371 317	32 568	6 210	222 680	2 146	28 017	(3 864)	659 074
Other non-monetary expenses***)	880 126	1 129	7 420	20 968	320 047	(2 591)		1 227 099

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

**) EBITDA = EBIT + amortization (without write-offs)

***) changes in provisions of non-monetary character, inter alia for gratuities, recultivation, CO2 emission rights, jubilee awards, employees' tariff

Interim condensed consolidated financial statements in accordance with IFRS for the 3-month period ended March 31, 2012 (in PLN thousand)

10. Revenues and expenses

10.1. Sales revenues

	3-month period ended March 31, 2012	3-month period ended March 31, 2011 *(data restated)*
Revenues from operating activities		
Sales of finished goods and merchandise with excise tax	*7,785,833*	*6,998,092*
Excise tax	*(114,140)*	*(106,974)*
Revenues from sale of finished goods and merchandise	7,671,693	6,891,118
Revenues from sale of services	171,511	199,590
Revenues from lease	8,794	7,263
Revenues from LTC compensations	56,229	170,821
Total sales revenues	**7,908,227**	**7,268,792**

The issue of revenues from LTC compensations is described in Note 24.1 of these financial statements.

10.2. Costs by kind and functions

Costs by kind	3-month period ended March 31, 2012	3-month period ended March 31, 2011 *(data restated)*
Depreciation/ amortization	713,013	659,074
Materials and energy	1,129,029	1,001,743
External services	609,190	583,996
Taxes and charges	680,033	685,258
Personnel expenses	1,109,930	976,326
Other costs by kind	81,151	64,627
Total costs by kind	**4,322,346**	**3,971,024**
Change in inventories	(27,027)	(35,777)
Cost of products and services for the entity's own needs	(174,385)	(172,586)
Distribution and selling expenses	(448,126)	(425,782)
General and administrative expenses	(178,719)	(183,638)
Cost of merchandise and materials sold	2,151,799	2,021,302
Cost of goods sold	**5,645,888**	**5,174,543**

As described in Note 6 to these financial statements, when preparing the financial statements for the year ended December 31, 2011, the Company changed selected accounting policies relating to recognition of greenhouse gas emission allowances and presentation of selected positions of revenues and expenses. The purpose of these changes is a more reliable and accurate presentation of particular economic events and assets and liabilities of the Group. In order to retain the comparability, particular captions of costs by kind for the period ended March 31, 2011 were appropriately restated.

Interim condensed consolidated financial statements in accordance with IFRS for the 3-month period ended March 31, 2012 (in PLN thousand)

10.3. Other operating revenues and expenses

Other operating revenues	3-month period ended March 31, 2012	3-month period ended March 31, 2011
Adjustment of revenues from LTC compensations	130,318	-
Profit on disposal of property, plant and equipment	5,314	331
Reversal of revaluation write offs on receivables	6,554	6,695
Reversal of revaluation write offs on other assets	140	236
Provisions reversed	30,500	9,368
Compensations, penalties and fines received	64,729	19,989
Grants received	3,725	3,122
Taxes refunded	272	412
Court fees refunded	824	619
Redemption of liabilities	9	20
Property, plant and equipment received free of charge	765	403
Re-invoiced revenues	13	8
Surpluses / disclosures of assets	932	109
Revenues from illegal energy consumption	1,765	2,187
Other	9,193	6,660
Total other operating revenues	**255,053**	**50,159**

The issue of an adjustment of settlement related to LTC compensation presented in the table above was described in note 24.1 of these financial statements.

Other operating expenses	3-month period ended March 31, 2012	3-month period ended March 31, 2011
Creation of revaluation write offs on receivables	30,522	9,013
Creation of revaluation write offs on other assets	766	1,555
Loss on disposal of property, plant and equipment and intangible assets	61	365
Provisions created	16,744	15,786
Donations granted	1,178	320
Compensation paid	852	1,092
Court fees paid	1,964	1,421
Liquidation of damages/ removal of failures	5,145	14,664
Liquidation of property, plant and equipment	3,355	2,998
Redemption of receivables	930	582
Costs of social activities	1,105	1,513
Other	4,139	9,011
Total other operating expenses	**66,761**	**58,320**

Interim condensed consolidated financial statements in accordance with IFRS for the 3-month period ended March 31, 2012 (in PLN thousand)

10.4. Financial revenues and expenses

Financial revenues	3-month period ended March 31, 2012	3-month period ended March 31, 2011 *(data restated)*
Financial revenues from financial instruments	**223,099**	**71,514**
Dividends	-	-
Interest revenue	101,167	31,499
Revaluation/ reversal of revaluation write offs	4,394	4,615
Profit on disposal of investments	41,688	8,479
Foreign exchange gains	75,850	26,921
Other financial revenues	**5,486**	**3,009**
Provisions reversed	352	-
Interest on state receivables	398	35
Provisions reversed	4,164	1,073
Other	572	1,901
Total financial revenues	**228,585**	**74,523**

Profit on disposal of investment mainly relates to sale of the minority shares package of Towarowa Giełda Energii S.A.

Financial expenses	3-month period ended March 31, 2012	3-month period ended March 31, 2011 *(data restated)*
Financial revenues from financial instruments	**62,125**	**36,945**
Interest revenue	23,752	34,845
Revaluation	47	5
Impairment losses	472	2,073
Loss on disposal of investments	-	-
Foreign exchange losses	37,854	22
Other financial expenses	**50,969**	**46,855**
Interest expenses (effect of discount unwinding)	50,102	45,569
Interest paid relating to state liabilities	628	199
Other	239	1,087
Total financial expenses	**113,094**	**83,800**

Interim condensed consolidated financial statements in accordance with IFRS for the 3-month period ended March 31, 2012 (in PLN thousand)

11. Creation and reversal of revaluation write-offs

	3-month period ended March 31, 2012	3-month period ended March 31, 2011
Revaluation write-offs on property, plant and equipment		
- creation	-	842
- reversal	64	167
Revaluation write-offs on inventory		
- creation	7,019	3,272
- reversal	13,304	3,064

Additionally, creation and reversal of revaluation write-offs on financial assets is presented in Note 10 to these financial statements.

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.

12. Income tax

	3-month period ended March 31, 2012	3-month period ended March 31, 2011 *(data restated)*
Income tax presented in the comprehensive income		
Current tax	317,480	146,841
Deferred tax	71,518	155,269
Total	**388,998**	**302,110**

Moreover the Group recognized deferred tax liabilities of PLN 111 thousand in other comprehensive income in the period ended March 31, 2012 and deferred tax liabilities of PLN 173 thousand in other comprehensive income in the period ended March 31, 2011.

Interim condensed consolidated financial statements in accordance with IFRS for the 3-month period ended March 31, 2012 (in PLN thousand)

13. CO_2 emission rights

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

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

	EUA		CER/ERU		Total
	Amount	**Value**	**Amount**	**Value**	**value**
As at January 1, 2012	**56,405**	**3,038,286**	**8,238**	**328,702**	**3,366,988**
Purchase	-	-	1,318	23,103	23,103
Allocation within NAP	57,042	1,738,417	-	-	1,738,417
Redemption	-	-	-	-	-
Reclassification to/from inventories	-	-	-	-	-
As at March 31, 2012	**113,447**	**4,776,703**	**9,556**	**351,805**	**5,128,508**

14. Share capital of the parent company

	As at March 31, 2012	As at December 31, 2011
Number of Series A ordinary shares with a nominal value of PLN 10 each	1,470,576,500	1,470,576,500
Number of Series B ordinary shares with a nominal value of PLN 10 each	259,513,500	259,513,500
Number of Series C ordinary shares with a nominal value of PLN 10 each	73,241,482	73,241,482
Number of Series D ordinary shares with a nominal value of PLN 10 each	66,452,245	66,452,245
Total number of shares	**1,869,783,727**	**1,869,783,727**

During the reporting period the share capital of the Company did not change.

All shares of the Company, except for the shares purchased for redemption, have been paid.

Ownership structure of the Company at the beginning and at the end of the reporting period is presented below.

	State Treasury	Other shareholders	Total
As at January 1, 2012	**69.29%**	**30.71%**	**100.00%**
As at March 31, 2012	**61.89%**	**38.11%**	**100.00%**

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

Interim condensed consolidated financial statements in accordance with IFRS for the 3-month period ended March 31, 2012 (in PLN thousand)

After the balance sheet date until the date of preparation of these financial statements the value of the share capital did not change.

Treasury shares

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

14.1. Earnings per share

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

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

15. Dividends paid and dividends declared

	Dividends paid from the profit for the period/year ended		
	March 31, 2012	**December 31, 2011**	**December 31, 2010**
Cash dividends from ordinary Shares			
Dividend paid from retained earnings	-	-	1,215,345
Dividend paid from other reserve capital	-	-	-
Total cash dividends from ordinary shares	**-**	**-**	**1,215,345**
Cash dividends per share (in PLN)	-	**-**	**0.65**

Dividend from the profit for 2011

These financial statements were prepared before profit distribution for the year ended December 31, 2011 and approval of the amount of the dividend.

The Management Board of the Company recommends a dividend at a level of 50% of the net profit attributable to the equity holders of the parent, reported in the consolidated financial statements for the year ended December 31, 2011. After deduction of treasury shares, the dividend would amount to PLN 2,468,084 thousand (PLN 1.32 per share).

Dividend from the profit for the period ended March 31,2012

During the reporting period and until the date of preparation of these financial statements, the Company did not make any interim dividend payments.

Interim condensed consolidated financial statements in accordance with IFRS for the 3-month period ended March 31, 2012 (in PLN thousand)

16. Provisions

	Post-employment benefits	Provisions for jubilee benefits	Provisions for third parties claims	Provisions for legal disputes	Obligation of CO_2 emission rights redemption	Provisions for employee claims	Provisions for recultivation costs	Provisions for liquidation of property, plant and equipment	Provisions for certificates of origin held for redemption	Other provisions	Total
As at January 1, 2012	**1,226,670**	**762,532**	**408,333**	**127,679**	**3,099,855**	**13,926**	**1,102,039**	**84,649**	**633,290**	**391,768**	**7,850,741**
Costs of present employment /benefits paid	(24,920)	(20,531)	-	-	-	-	-	-	-	-	**(45,451)**
Actuarial gains and losses	-	-	-	-	-	-	-	-	-	-	**-**
Costs of past employment	3,257	-	-	-	-	-	-	-	-	-	**3,257**
Interest costs	17,680	10,363	4,365	-	-	-	14,709	1,108	-	-	**48,225**
Provisions used	-	-	-	(496)	-	(285)	(355)	(3,192)	(590,775)	(101,095)	**(696,198)**
Created during the year	-	-	-	11,074	497,793	1,003	9,346	-	335,758	171,883	**1,026,857**
Reversed	-	-	(23,609)	(5,485)	-	(906)	-	-	(1,664)	(16,425)	**(48,089)**
Transfer to discontinued operations	(4,582)	(8,401)	-	-	-	(2)	-	-	-	(2,591)	**(15,576)**
Other changes	50	174	-	-	-	(879)	967	-	922	1,691	**2,925**
As at March 31, 2012	**1,218,155**	**744,137**	**389,089**	**132,772**	**3,597,648**	**12,857**	**1,126,706**	**82,565**	**377,531**	**445,231**	**8,126,691**
Short-term	**88,406**	**83,320**	**389,089**	**62,847**	**3,579,577**	**2,556**	**479**	**1,782**	**377,531**	**274,718**	**4,860,305**
Long-term	**1,129,749**	**660,817**	**-**	**69,925**	**18,071**	**10,301**	**1,126,227**	**80,783**	**-**	**170,513**	**3,266,386**

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).

Interim condensed consolidated financial statements in accordance with IFRS for the 3-month period ended March 31, 2012 (in PLN thousand)

	Post-employment benefits	Provisions for jubilee benefits	Provisions for third parties claims	Provisions for legal disputes	Obligation of CO_2 emission rights redemption	Provisions for employee claims	Provisions for recultivation costs	Provisions for liquidation of property, plant and equipment	Provisions for certificates of origin held for redemption	Other provisions	Total
As at January 1, 2011	**1,236,661**	**781,541**	**350,293**	**91,529**	**2,875,058**	**18,932**	**930,166**	**95,441**	**563,336**	**350,302**	**7,293,259**
Costs of present employment	26,443	35,534	-	-	-	-	-	-	-	-	**61,977**
Actuarial gains and losses excluding discount rate adjustment	(25,114)	4,585	-	-	-	-	-	-	-	-	**(20,529)**
Costs of past employment	9,895	-	-	-	-	-	-	-	-	-	**9,895**
Revaluation of provision/ discount rate adjustments	(38,113)	(12,567)	-	-	-	-	79,500	-	-	-	**28,820**
Interest costs	70,407	39,477	17,361	-	-	-	53,875	1,977	-	-	**183,097**
Benefits paid/ provisions used	(53,784)	(89,353)	(763)	(4,037)	(2,908,512)	(4,802)	(4,028)	(12,769)	(1,100,390)	(253,461)	**(4,431,899)**
Created during the year	-	-	41,442	57,268	3,133,309	6,551	38,952	-	1,174,704	352,502	**4,804,728**
Reversed	-	-	-	(20,419)	-	(6,853)	-	-	(3,995)	(54,790)	**(86,057)**
Other changes	275	3,315	-	3,338	-	98	3,574	-	(365)	(2,785)	**7,450**
As at December 31, 2011	**1,226,670**	**762,532**	**408,333**	**127,679**	**3,099,855**	**13,926**	**1,102,039**	**84,649**	**633,290**	**391,768**	**7,850,741**
Short-term	**100,595**	**95,421**	**408,333**	**59,373**	**3,099,855**	**3,073**	**585**	**4,974**	**633,290**	**228,963**	**4,634,462**
Long-term	**1,126,075**	**667,111**	**-**	**68,306**	**-**	**10,853**	**1,101,454**	**79,675**	**-**	**162,805**	**3,216,279**

16.1. Provisions for post-employment benefits

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

16.2. 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 current value of these obligations is measured by an independent actuary at each balance sheet date.

16.3. Provision for liabilities of carbon dioxide emission

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

16.4. Provisions for third-party claims

Provisions presented in this position relate to dispute of the parent company with Alpiq Holding AG. The issue was described in note 18.4 to these consolidated financial statements.

16.5. Provision for legal disputes

Provisions for the use of land

Entities of the PGE Group raise provisions for damages related to a non-agreed usage of property. This issue mainly relates to distribution companies, which own distribution networks. As of the reporting date the provision amounted to ca. PLN 99 million. The provision is created to cover claims under court proceedings.

16.6. Provisions for costs of recultivation

Provision for recultivation of mine excavation

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

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

Provision for recultivation of ash storages

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

16.7. Liquidation of property, plant and equipment

The provision for liquidation of property, plant and equipment relates to assets of PGE Górnictwo i Energetyka Konwencjonalna S.A. Oddział Elektrownia Turów, which are going to be excluded from the production until year 2013. The obligation of scrapping and recultivation of the area results from „The integrated permission for running electric energy and heat energy producing installation" in which the restitution of the area was specified. The amount of created provision was established on the basis of expected scrapping expenses and was recognized on the debit side in initial value of property, plant and equipment. Depreciation of activated scrapping expenses which is calculated on the basis of the estimated economic useful life of an appropriate item of property, plant and equipment as well as change in provision value resulting from reversal of the discount as at the balance sheet date influence on financial result of the Group. As at the balance sheet date, the value of provision amounts to PLN 82,6 million.

16.8. Provision for energy origin units held for redemption

The companies from the Group raise provision for the amount of certificates of origin related to sales in the current or previous reporting periods, in amount of certificates not redeemed till the balance sheet date. The provision as at March 31, 2012 amounted to PLN 377.5 million.

16.9. 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 22 of these financial statements.

Dispute concerning the redemption of energy origin units of ownership

PGE Obrót S.A included in the Group is a party to proceedings against the Energy Regulatory Office, related to an obligation of redemption of energy units of origin – so called green and red certificates. As at March 31, 2012 the provision created to cover possible penalties amounted to PLN 28.5 million. The final value of possible penalties will depend on the results of the court proceedings and may be subject to change.

Annual bonus

Employees of PGE Group are entitled to the "annual bonus" paid on the basis of the corporate collective labour agreement or regulations applicable to individual entities. As at March 31, 2012 created provisions amounted to PLN 80.5 million.

Provision for unused annual leave

The Group creates provision for employee benefits related to unused annual leave. As at 31 December 2011 the provision amounted to PLN 88,8 million.

Provision related to the Voluntary Redundancy Program

In the current reporting period, four PGE Group companies were carrying out Voluntary Redundancy Programs (PDO). The total value expenses (including provisions raised) reported in the consolidated statement of comprehensive income for the period ended March 31, 2012 amounted to PLN 91,747 thousand. Due to the fact that during the reporting period companies started to pay compensations related to PDO, the created provision was partially used and as at March 31, 2012 amounted to PLN 39,766 thousand. Additionally as at March 31, 2012 a liability on this account was recognized in amount of PLN 22,166 thousand.

Interim condensed consolidated financial statements in accordance with IFRS for the 3-month period ended March 31, 2012 (in PLN thousand)

17. Deferred income and government grants

Deferred income and government grants	As at March 31, 2012	As at December 31, 2011
Long-term:		
Government grants	387,080	361,114
Other deferred income	891,323	894,184
Deferred income and government grants – long-term	**1,278,403**	**1,255,298**
Short-term:		
Government grants	9,199	4,666
Other deferred income	1,399,018	112,451
Deferred income and government grants – short-term	**1,408,217**	**117,117**

The analysis of the positions included in the government grants and other deferred income is presented below.

Government grants	As at March 31, 2012	As at December 31, 2011
Redemption of environmental loans	54,266	54,594
Grants received from NFOŚiGW	75,005	66,951
EU grant for CCS	243,045	219,307
Other settlements of government grants	23,963	24,928
Total government grants, including:	**396,279**	**365,780**
Long-term	387,080	361,114
Short-term	9,199	4,666

Other deferred income	As at March 31, 2012	As at December 31, 2011
Greenhouse gases emission rights	1,303,813	-
Property, plant and equipment received free of charge	129,712	130,410
Grants received and connection fees	788,640	799,515
Lease revenues	2,178	2,987
Other deferred income	65,998	73,723
Total deferred income, including:	**2,290,341**	**1,006,635**
Long-term	891,323	894,184
Short-term	1,399,018	112,451

In May 2010, PGE Elektrownia Bełchatów S.A. (current name: PGE Górnictwo i Energetyka Konwencjonalna S.A.) entered into an agreement with the European Commission for co-financing of a demonstration project entitled "Construction of a Carbon Capture and Storage System", with a value of EUR 180 million. The funds obtained by Bełchatów Power Plant for co-financing the project will be allocated to one of the key components of the CCS system, i.e. the CO_2 capture component.

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

Allowances for emission of greenhouse gases disclosed in the above table represent value of allowance received free of charge within the National Allocation Plan for 2012. This position is settled into the statement of comprehensive income during the reporting year.

Interim condensed consolidated financial statements in accordance with IFRS for the 3-month period ended March 31, 2012 (in PLN thousand)

18. Contingent liabilities and receivables. Legal claims

18.1. Contingent liabilities

Contingent liabilities	As at March 31, 2012	As at December 31, 2011
Guarantee for repayment of grants from environmental funds	252,825	220,891
Legal claims	12,045	12,184
Contractual fines and penalties	14,190	13,858
Employee claims	52,131	52,009
Compensations related to non-agreed usage of property	8,497	7,296
Other contingent liabilities	173,399	197,524
Total contingent liabilities	**513,087**	**503,762**

Guarantee for repayment of grants from environmental funds

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

Liabilities related to legal claims

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

Claims related to contractual fines and penalties

The contingent liability comprises mainly accrued contractual fines relating to delay in realization of the investment issued by the Mayor of the City and Municipality of Gryfino to Zespół Elektrowni Dolna Odra S.A. (currently PGE Górnictwo i Energetyka Konwencjonalna S.A.). In February 2012 the company committed to the Municipality of Gryfino to accomplish two investments of total value not less than PLN 7,733 thousand until the end of year 2015. Failure to realize investments included in the agreement will result in claims relating to contractual fines and penalties by the Municipality of Gryfino.

Employee claims

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

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

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

Other contingent liabilities

The other contingent liabilities comprise mainly the unsettled value of funds received by PGE Górnictwo i Energetyka Konwencjonalna S.A. on the basis of a signed agreement on financing of the demonstrative project under the name: “Construction of a Carbon Capture and Storage System” in the amount of PLN 165 million and the value of potential cash fines in the amount of almost PLN 13 million resulting from proceeding relating to environmental protection (breach of the conditions of disposal of sewage and deforestation in some PGE Group companies).

18.2. Other significant issues related to contingent liabilities

Bezumowne korzystanie z nieruchomości

Non-agreed usage of property

Due to the nature of its activities the companies of the Group use many properties, on which the buildings and structures or devices used to the transmission of the electricity are based. In respect of many properties there are doubts as to the title of usage. In the case of property, for which the Group companies have no legal title or the title is doubtful, there is a risk of claims by their owners, the alleged owner or other person for compensation in respect of non-agreed usage of these properties. As described in note 16.9 to these 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.

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.

Fulfilment of the so-called stock exchange commitment in 2010

Amendment of the Energy Law came into force on August 9, 2010, imposing an obligation on power companies engaged in production of electricity to sell the energy they produce on commodity exchanges. Some doubts are raised over the interpretation of art. 49a of the amended Law and interpretaion of art. 19 of the act on change of Energy Law, within the scope of definition of electricity not sold until the date of effectiveness of updated regulations.

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

In 2012 the President of the Energy Regulatory Office started a formal proceeding in this case. PGE Górnictwo i Energetyka Konwencjonalna S.A. (and PGE Elektrownia Opole S.A. until the merger date) presented appropriate explanations and documents. As at the date of preparation of these financial statements, the proceeding was not finished and the estimation of the results is not possible.

18.3. Contingent receivables

As at balance sheet date, the Group has ca. PLN 52 million of contingent receivables related to financing received from the National Fund for Environmental Protection and Water Management to realize the project of building cogeneration unit, reimbursement of VAT and registered claims for compensations from insurers relating to fortuitous events.

Additionally, the matter of a possible excise tax refund for the years 2006-2008 and issue of dispute concerning certificates of origin of energy were described in detail in Note 24 of these financial statements.

18.4. Other legal claims 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 October 28, 1997. Claims submitted by Atel in a supplemented (rephrased) lawsuit from October 4, 2010 amounted to EUR 155 million. The arbitration proceeding was held in writing and involved 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 summarized the outcomes of proceedings in writing was held from September 12, 2011 till September 16, 2011 in Vienna. During the hearing witnesses from both parties and experts were heard. After the hearing, the Court of Arbitration did not issue any verdict. The arbiters determined the dates for submitting the post hearing briefs for November 16, 2011 (first round, which was postponed to November 22, 2011 at the request of both parties) and January 17, 2012 (second round). Each party submitted required letters in due time. The amount of the new claim submitted by Alpiq is approx. EUR 168 million. Despite the fact that an additional date of a final hearing was set for February 18, 2012, it did not take place.

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 93 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.

Interim condensed consolidated financial statements in accordance with IFRS for the 3-month period ended March 31, 2012 (in PLN thousand)

19. Financial liabilities

Financial liabilities at amortized cost (As at March 31, 2012)	Long-term	Short-term	Total
Interest bearing loans and credits	1,231,620	760,781	**1,992,401**
Bonds issued	-	-	**-**
Leasing	5,090	3,709	**8,799**
Trade liabilities	-	900,704	**900,704**
LTC compensations	-	1,244,434	**1,244,434**
Other financial liabilities	17,158	715,532	**732,690**
Total	**1,253,868**	**3,625,160**	**4,879,028**

Among the borrowing items presented above, the Group presents the following facilities:

- investment credit facility taken out by PGE Elektrownia Opole S.A. from Bank PEKAO S.A. for financing of construction of power units 1 to 4, with a carrying value of PLN 305,146 thousand as at March 31, 2012.
- investment credit facility taken out by PGE Górnictwo i Energetyka Konwencjonalna S.A. Branch Elektrownia Bełchatów from Nordic Investment Bank to finance construction of 858 MW unit - with a carrying value of PLN 619,765 thousand as at March 31, 2012.

Additionally, in the first quarter of 2012 PGE Polska Grupa Energetyczna S.A. held a possibility to issue bonds within three programmes: the programme for outside purchasers in the maximum amount of PLN 10 billion, programme for the investors on the Polish capital market in the amount of PLN 5 billion and the programme for entities in the PGE Capital Group in the amount of PLN 5 billion.

20. Future investment commitment

As at the balance sheet date, the Group was committed to incur capital expenditures on property, plant and equipment in the amount of PLN 13,511,175 thousand. These amounts relate to construction of new units, modernization of Group's assets and a purchase of machinery and equipment. Significant investment liabilities concern:

- the construction of new units in PGE Górnictwo i Energetyka Konwencjonalna S.A. Branch Elektrownia Opole for the total amount of ca. PLN 9,209 million;
- the modernization of blocks no 7-12 in PGE Górnictwo i Energetyka Konwencjonalna S.A. Branch Elektrownia Bełchatów for the total amount of ca. PLN 2,975 million;
- investment liabilities of PGE Dystrybucja S.A. of the total value of approx. PLN 580 million.

Interim condensed consolidated financial statements in accordance with IFRS for the 3-month period ended March 31, 2012 (in PLN thousand)

21. Information on related entities

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

21.1. Associates

	Sales to associates	Purchase from associates	Trade receivables from associates	Trade liabilities towards associates
Jan 1-Mar 31, 2012	2,292	56	788	34
Jan 1-Mar 31, 2011	11,542	6,842	3,579	1,784

21.2. Transactions with State Treasury entities

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

	Sale to State Treasury entities	Purchase from State Treasury entities	Trade receivables from State Treasury entities	Trade liabilities towards State Treasury entities
Jan 1-Mar 31, 2012	538,367	1,283,909	171,000	483,236
Jan 1-Mar 31, 2011	510,653	1,283,971	170,936	486,620

The largest transactions with State Treasury entities refer to transactions with PSE Operator S.A., utility power plants, electricity traders, retail sale companies and purchase of coal from Polish mines.

Furthermore, the Capital Group makes significant transactions on the energy market through the Polish Power Exchange (TGE). Due to the fact that this entity only deals with the organization of trading, purchases and sales through exchange are not treated as transactions with related parties.

Interim condensed consolidated financial statements in accordance with IFRS for the 3-month period ended March 31, 2012 (in PLN thousand)

21.3. Key management personnel remuneration

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

	Period ended March 31, 2012	Period ended March 31, 2011
Short-term employee benefits (salaries and salary related costs)	4,294	4,066
Post-employment and termination benefits	2,920	130
Total remuneration of key management personnel	**7,214**	**4,196**

	Period ended March 31, 2012	Period ended March 31, 2011
The Management Board of the Parent	1,264	358
The Supervisory Board of the Parent	93	93
The Management Boards – subsidiaries	5,592	3,393
The Supervisory Boards – subsidiaries	265	352
Total	**7,214**	**4,196**

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

Data in the above tables present key management personnel remuneration recognised in the given period by the companies of PGE Group. The appropriate part of provisions raised for the rewards, to which the members of the Management Board are entitled pursuant to the contracts, was also included in the remuneration for the period ended March 31, 2012. The final amount of the bonuses or rewards will depend on, inter alia, results achieved by the particular entities and the PGE Capital Group.

The remuneration of Management Boards and Supervisory Boards of other PGE Group companies amounted to PLN 5,028 thousand in the reporting period and to PLN 6,682 thousand in the comparable period.

22. 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.

In 2011 and 2012 following tax rates are applicable: 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.

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

22.1. Excise tax

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

The issue of the excise tax reimbursement for this period is currently under dispute between generators and tax authorities. Taking into account a significant uncertainty related to final court decision on the above described matter, the Group does not disclose any financial results related to possible return of the excise tax surplus payment in the consolidated financial statements

Moreover, there is a risk that if the production entities of the PGE Group receive the refund of the excise tax excess payment, civil and legal claims might be filed against these entities by electric energy buyers, which have been actually economically burdened with the excise tax in the past (i.e. based on unjustified enrichment accusation). Currently, the estimation of the value of possible claims is not possible, however this matter may have a significant and unfavorable impact on the future activities, financial results or financial situation of the Group.

Interim condensed consolidated financial statements in accordance with IFRS for the 3-month period ended March 31, 2012 (in PLN thousand)

22.2. Real estate tax

There are tax proceedings carried out to determine the scope subject to real estate tax in PGE Group power plants. 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 represent an essential solution. The verdicts of Provincial Administrative Courts relate to the above matter were different, however the most recent verdicts (including the verdict of the Supreme Administrative Court of February 2, 2010 sign. II FSK 1292/08) indicate that the machinery located in buildings might be a subject of taxation as autonomous constructions

Taking into consideration proceedings, the Group raised appropriate provision for the potentially higher tax. No further details are disclosed due to the professional secret, which is compliant with IAS 37.92.

23. Discontinued operations and assets classified as held for sale

23.1. 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 (non-core assets). As at the day of preparation of the foregoing financial statements the Group has recognized three subsidiaries which meet the definition of discontinued operations under IFRS 5: Budownictwo-Hydroenergetyka Dychów sp. z o.o., Niepubliczny Zakład Opieki Zdrowotnej MegaMed sp. z o.o. and Elbest sp. z o.o. Revenues and expenses of those companies are presented separately from other entities of the Capital Group in the financial statements as at March 31, 2012.

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

	Revenues	Expenses	Gross profit/(loss)	Income tax	Net profit/(loss)
BH Dychów sp. z o.o.	2,802	(3,100)	(298)	(187)	(485)
Niepubliczny Zakład Opieki Zdrowotnej MegaMed sp. z o.o.	10,306	(10,176)	130	(26)	104
Elbest sp. z o.o.	31,772	(33,554)	(1,782)	(19)	(1,801)
TOTAL	**44,880**	**(46,830)**	**(1,950)**	**(232)**	**(2,182)**

The share of the equity holders of the parent company in the net loss related to the discontinued operations in the 3-month period ended March 31, 2012 amounted to PLN 2,158 thousand. In a comparable period of 2011 the net profit of the above mentioned entities amounted to PLN 2,365 thousand. As at December 31, 2011, their total assets amounted to PLN 257,434 thousand, and total liabilities amounted to PLN 64,285 thousand.

23.2. Assets classified as held for sale

Assets classified as held for sale comprise mainly power generating assets of PGE Energia Odnawialna S.A. with value of approximately PLN 20 million and social holiday resorts of PGE Dystrybucja S.A. with value of approximately PLN 7.5 million. Stock and shares classified as held for sale comprise packages of stock and shares in companies excluded from the consolidated financial statements of PGE Group.

24. Significant events during the reporting period and subsequent events

24.1. 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 generators from PGE Górnictwo i Energetyka Konwencjonalna S.A. became entitled to receive funds to cover stranded costs (so-called "compensation"). The maximum value of stranded costs including stranded costs relating to 2007 and additional costs (according to 44 article of the LTC Act), according to an appendix 2 amounted to PLN 6,317 million.

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

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

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

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

Until the date of preparing these financial statements, entitled producers from PGE Group received decisions on annual adjustments of stranded costs and costs related to natural gas fired entities for 2008, 2009 and 2010. No decision has yet been issued for 2011. The majority of these decisions were disadvantageous for the particular entities and the Group believes that they were issued in violation of the Long-Term Contracts Act.

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

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

The CPP Court issued several judgments in the past years, taking account of the companies' appeals. These verdicts were not valid and the President of the Energy Regulatory Office filed appeals.

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

In period February-April 2012 the Court of Appeal issued five verdicts in the analogical cases concerning the adjustment of stranded costs for 2008 for PGE Górnictwo i Energetyka Konwencjonalna S.A.:

- On February 2, 2012, in case of Elektrociepłownia Rzeszów for 2008, the Court of Appeal dismissed the appeal of the President of the Energy Regulatory Office against the verdict of the CCP Court, which was considered unsubstantiated, and amended the decision of the President of the Energy Regulatory Office according to the company's demand. The claim value of dispute was PLN 14.6 million. The verdict is valid; however, the President of the Energy Regulatory Office is still entitled to file a cassation complaint against this verdict to the Supreme Court.
- On March 7, 2012 in case of Elektrociepłownia Lublin-Wrotków for 2008 the Court of Appeal changed the verdict of the CCP Court through dismissing the producer's appeal. The claim

value of dispute was PLN 26.7 million. The verdict is valid; however PGE GiEK S.A. is still entitled to file a cassation complaint against this verdict to the Supreme Court.

- On March 12, 2012 in case of Zespół Elektrowni Dolna Odra for 2008 the Court of Appeal repealed the ruling of the CCP Court and referred it for reconsideration by the CCP Court. The claim value of dispute was PLN 42.4 million.
- On March 27 and April 24, 2012 in cases of Elektrociepłownia Gorzów and Elektrownia Turów, the Court of Appeal dismissed the appeals of the President of the Energy Regulatory Office against the verdicts of the CCP Court, which were considered unsubstantiated, and amended the decisions of the President of the Energy Regulatory Office according to the companies' demands. The claim value of dispute in Gorzów case was PLN 7.7 million and in Turów case was PLN 164.5 million. The verdicts are valid; however, the President of the Energy Regulatory Office is still entitled to file a cassation complaints against these verdict to the Supreme Court.

Summary and recognition in the financial statements

The Management Boards of PGE S.A. and of PGE Górnictwo i Energetyka Konwencjonalna S.A. do not comply with the ruling concerning the Elektrociepłownia Lublin-Wrotków, which is even more the case considering that, as discussed above, the Court of Appeals in Warsaw gave a different verdict in a similar case concerning the Elektrociepłownia Rzeszów, Elektrociepłownia Gorzów and Elektrownia Turów, where the appeals of the President of the Energy Regulatory Office were dismissed as unsubstantiated. Thus, the Court upheld the verdicts given by the CCP Court on these case, accepting the producer's appeals and amending the decisions of the President of the Energy Regulatory Office according to the company's demand.

PGE S.A. and PGE Górnictwo i Energetyka Konwencjonalna S.A. intend to take all measures prescribed by the law in order to obtain an advantageous resolution of the dispute, including filing of a cassation appeal to the Supreme Court.

Due to the fact that the verdict in Elektrociepłownia Lublin-Wrotków case was issued before the preparation of the financial year ended December 31, 2011, the Group adjusted the estimated revenues from compensation for Long-Term Contracts for 2008-2010 to the value of received advances adjusted through yearly adjustments set in decisions of the President of the Energy Regulatory Office and appropriate part of planned final adjustment. Such adjustment was not made for the revenues for 2008 recognised for Elektrociepłownia Rzeszów, where a successful verdict was reached in front of the Court of Appeal. In connection with the above an amount of PLN 1,037.6 million was recognized in the other operating expenses of 2011.

Positive verdicts in cases of Elektrociepłownia Gorzów and Elektrownia Turów resulted in adjustments of LTC compensation settlements by an amount of PLN 130.3 million in the financial statements for the period ended March 31, 2012. The value of the adjustment was recognized in other operating revenues in the consolidated statement of the comprehensive income.

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

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

As a result of this event, the stake of the parent company in the sahre capital of PGE Górnictwo i Energetyka Konwencjonalna S.A. was changed as well as stake in the share capital of the subsidiaries of PGE GiEK S.A. In connection with the above PLN 37 million was relocated from share capital attributable to non-controlling interest to retained earnings attributable to the equity holders of the parent company in statement of the consolidated equity.

24.3. Letter of intent with PGNiG

In the first quarter of 2012 PGE Polska Grupa Energetyczna S.A. signed a letter of intent with Polskie Górnictwo Naftowe i Gazownictwo S.A. on joint research and extraction of shale gas. The terms of the cooperation and its legal form shall be agreed during further negotiations.

24.4. Voluntary Redundancy Programs

Voluntary Redundancy Programs („PDO" are intended for optimisation of the employment in the Capital Group and are directed to the employees, who are subject to employment guarantees on the basis of social agreements. The programs were described in Note 16.9 to these financial statements.

24.5. Dispute concerning certificates of energy origin

During the reporting period, explanation investigations were run before the Energy Regulatory Office regarding issuance of certificates of energy origin produced in 2011 from biomass at Branch Elektrownia Bełchatów and Branch Zespół Elektrowni Dolna Odra (being parts of PGE Górnictwo i Energetyka Konwencjonalna S.A.). The President of the Energy Regulatory Office questions fulfillment of biodegradability requirements by post-hydrolysis lignocellulose and shea pulp and as a result the President of the Energy Regulatory Office withholds the decision to issue the certificates despite that it would issue certificates of origin for energy produced of these types of biomass in the preceding years.

In response to subsequent calls for clarification, the branches presented all the results of additional tests required by the ERO, as well as explanations and opinions of accredited laboratory testing authorities, confirming that the requirements had been met. Until the balance sheet date the Energy Regulatory Office has issued the outstanding Certificates of Energy Origin for 2011 with the amount of approximately PLN 44 million, that were recognized in the revenues for 2012. Because the rest of dispute has not been resolved, the Group did not recognize energy certificates of energy origin for 2011 with a value of approximately PLN 57 million.

24.6. Verdict in case of purchase of Energa S.A.

On September 29, 2010, the Management Board of PGE Polska Grupa Energetyczna S.A. concluded with the State Treasury, represented by the Minister of the State Treasury, agreement on sales of shares of Energa S.A., seated in Gdańsk ("Agreement"). The subject of the agreement is to acquire 4,183,285,486 shares of the Company, representing 84.19% of its share capital. The purchase price of all shares representing 84.19% of share capital of the Company is PLN 7,529,913 thousand.

To become effective, the transaction needed the consent to a concentration of capital by PGE S.A. from the President of the Office of Competition and Consumer ("the President of the Office") (condition precedent). On January 13, 2011, the President of the Office for Competition and Consumer Protection issued a Decision preventing PGE S.A. from buying shares of Energa S.A.

Therefore, on January 18, 2011 PGE S.A. entered into an annex to the Agreement of sale of Energa S.A. shares, with the seller. Under that Annex, the term of Agreement was set as 12 months of the effective date, whereby the State Treasury and PGE S.A. decided to withhold the term of Agreement until a valid and binding closing of court proceedings concerning appeal against the Decision.

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

According to the information held by PGE S.A., in mid-February 2011, the President of the Office forwarded the Company's appeal to the Competition and Consumer Protection Court in Warsaw, thus waiving its right to self-assess the decision.

On May 14, 2012 the Regional Court in Warsaw – the Court of Competition and Consumer Protection, passed a judgement that dismissed the appeal made by PGE Polska Grupa Energetyczna S.A. against the decision of the President of the Office of Competition and Consumer Protection of January 13, 2011, prohibiting the execution of the concentration involving the taking control over Energa S.A. by PGE Polska Grupa Energetyczna S.A. claiming that there are no grounds to acknowledge the said appeal. The judgement is not final and binding.

Warsaw, May 14, 2012

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

Bogusława Matuszewska	*Wojciech Ostrowski*
Vice-President of the Management Board	*Vice-President of the Management Board*