PGE Polska Grupa Energetyczna S.A. Capital Group

Consolidated financial statements prepared in accordance with International Financial Reporting Standards for the year ended 31 December 2012.

SPIS TREŚCI

Consolidated financial statements for the year ended 31 December 2012 prepared in accordance with IFRS (all amounts in thousand PLN)

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Note	Period ended 31 December 2012	Period ended 31 December 2011 (restated)*
Continuing operations			
Total sales revenues	**15**	**30.556.814**	**28.111.354**
Costs of goods sold	**15**	(22.345.193)	(20.674.161)
Gross profit on sales		**8.211.621**	**7.437.193**
Other operating revenues	**15**	782.721	623.984
Distribution and selling expenses	**15**	(1.495.512)	(1.638.285)
General and administrative expenses	**15**	(764.903)	(819.903)
Other operating expenses	**15**	(2.863.411)	(1.512.695)
Operating profit		**3.870.516**	**4.090.294**
Financial revenues	**15**	612.886	2.304.397
Financial expenses	**15**	(367.295)	(457.856)
Share of profit of associates	**25**	(13.570)	174.373
Profit before tax		**4.102.537**	**6.111.208**
Corporate income tax	**17**	(869.703)	(1.184.189)
Net profit from continuing operations		**3.232.834**	**4.927.019**
Discontinued operations			
Profit for the period on discontinued operations	**19**	278	1.704
Net profit for the operating period		**3.233.112**	**4.928.723**
OTHER COMPREHENSIVE INCOME:			
Valuation of available-for-sale financial assets		777	304
Foreign exchange differences from translation of foreign entities		(2.550)	5.347
Actuarial gains and losses		(163.765)	51.215
Other comprehensive income for the period, net		**(165.538)**	**56.866**
TOTAL COMPREHENSIVE INCOME		**3.067.574**	**4.985.589**
Net profit attributable to:			
- equity holders of the parent company		3.211.070	4.892.695
- non-controlling interest		22.042	36.028
Total comprehensive income attributable to:			
- equity holders of the parent company		3.046.414	4.949.020
- non-controlling interest		21.160	36.569
Earnings per share (in PLN)			
– basic earnings per share for the period	**32**	1,72	2,62
– basic earnings from the continuing operations	**32**	1,72	2,62

* For details on 2011 data restatement please refer to Note 13 of these financial statements.

Consolidated financial statements for the year ended 31 December 2012 prepared in accordance with IFRS (all amounts in thousand PLN)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Note	As at 31 December 2012	As at 31 December 2011
ASSETS			
Non-current assets			
Property, plant and equipment	**21**	43.189.196	42.974.819
Investment property	**22**	28.283	33.286
Intangible assets	**23**	462.422	216.921
Loans and receivables	**42**	329.395	323.473
Available-for-sale financial assets	**42**	33.256	100.751
Shares in associates accounted for under the equity method	**25**	40.454	55.062
Other long-term assets	**29**	407.221	440.157
Deferred tax assets	**17**	367.079	296.387
Non-current assets related to discontinued operations	**19**	-	4.077
Total non-current assets		**44.857.306**	**44.444.933**
Currents assets			
Inventories	**27**	2.213.180	1.305.327
Emission rights	**28**	2.890.584	3.366.988
Income tax receivables		8.918	31.920
Short-term financial assets at fair value through profit or loss	**42**	5.526	-
Trade receivables	**42**	1.894.733	1.767.739
Other loans and financial assets	**42**	768.200	2.784.000
Available-for-sale short-term financial assets	**42**	4.377	8.432
Other current assets	**29**	806.233	947.056
Cash and cash equivalents	**30**	4.795.493	4.052.238
Assets classified as held-for-sale	**18**	9.385	33.067
Currents assets related to discontinued operations	**19**	-	20.931
Total currents assets		**13.396.629**	**14.317.698**
TOTAL ASSETS		**58.253.935**	**58.762.631**

Consolidated financial statements for the year ended 31 December 2012 prepared in accordance with IFRS (all amounts in thousand PLN)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Note	As at 31 December 2012	As at 31 December 2011 *(restated)**
LIABILITIES AND EQUITY			
Equity (attributable to equity holders of the parent)			
Share capital	31	18.697.608	18.697.837
Revaluation reserve		-	(777)
Treasury shares	31	-	(229)
Foreign exchange differences from translation of foreign entities		3.742	6.292
Reserve capital	31	9.687.596	8.553.143
Other capital reserves		49.779	49.779
Retained earnings	31	11.943.593	13.393.571
Non-controlling interest	31	289.493	413.994
Total equity		**40.671.811**	**41.113.610**
Long-term liabilities			
Interest-bearing loans and borrowings, bonds and lease	42	1.085.244	1.341.351
Other liabilities	42	22.038	17.864
Provisions	35	4.695.414	3.289.921
Deferred tax liabilities	17	1.467.801	1.370.515
Deferred income and government grants	37	1.124.754	1.255.298
Long-term liabilities related to discontinued operations	19	-	667
Total long-term liabilities		**8.395.251**	**7.275.616**
Short-term liabilities			
Trade liabilities	42	1.201.870	1.117.172
Financial liabilities at fair value through profit or loss	42	36.513	48.093
Interest-bearing loans, borrowings, bonds and lease	42	811.447	697.661
Other short-term financial liabilities	42	1.546.320	1.826.613
Other short-term non-financial liabilities	36	1.557.993	1.499.755
Income tax liabilities		231.234	414.618
Deferred income and government grants	37	123.401	117.117
Short-term provisions	35	3.678.095	4.634.462
Short-term liabilities related to discontinued operations	19	-	17.914
Total short-term liabilities		**9.186.873**	**10.373.405**
Total liabilities		**17.582.124**	**17.649.021**
TOTAL LIABILITIES AND EQUITY		**58.253.935**	**58.762.631**

* For information regarding comparative figures please refer to Note 13 of these financial statements.

Consolidated financial statements for the year ended 31 December 2012 prepared in accordance with IFRS (all amounts in thousand PLN)

STATEMENT OF CHANGES IN CONSOLIDATED EQUITY

for the period ended 31 December 2012

	Share capital	Revaluation reserve	Treasury shares	Foreign exchange differences from translation	Reserve capital	Other capital reserves	Retained earnings	Total	Non-controlling interest	Total equity
As at 1 January 2012	**18.697.837**	**(777)**	**(229)**	**6.292**	**8.553.143**	**49.779**	**13.393.571**	**40.699.616**	**413.994**	**41.113.610**
Total comprehensive income for the period	***-***	***777***	***-***	***(2.550)***	***-***	***-***	***3.048.187***	***3.046.414***	***21.160***	***3.067.574***
Retained earnings distribution	**-**	-	-	-	1.134.453	-	(1.134.453)	**-**	**-**	**-**
Dividend	-	-	-	-	-	-	(3.421.472)	**(3.421.472)**	(1.011)	**(3.422.483)**
Purchase of new companies	-	-	-	-	-	-	-	**-**	19.723	**19.723**
Redemption of shares	(229)	-	229	-	-	-	-	**-**	-	**-**
Adjustment of acquisition of shares cost in subsidiaries	-	-	-	-	-	-	(1.885)	**(1.885)**	-	**(1.885)**
Settlement of purchase of additional shares in subsidiaries:	-	-	-	-	-	-	22.313	**22.313**	(127.041)	**(104.728)**
Value of the purchased non-controlling interest	-	-	-	-	-	-	_127.041_	_**127.041**_	_(127.041)_	**-**
The acquisition cost of shares and stocks in subsidiaries	-	-	-	-	-	-	_(104.728)_	_**(104.728)**_	-	_**(104.728)**_
Change in equity as a result of a merger of entities within Capital Group	-	-	-	-	-	-	37.332	**37.332**	(37.332)	**-**
As at 31 December 2012	**18.697.608**	**-**	**-**	**3.742**	**9.687.596**	**49.779**	**11.943.593**	**40.382.318**	**289.493**	**40.671.811**

Consolidated financial statements for the year ended 31 December 2012 prepared in accordance with IFRS (all amounts in thousand PLN)

STATEMENT OF CHANGES IN CONSOLIDATED EQUITY

For the period ended 31 December 2011

(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 1 January 2011	**18.697.837**	**(1.081)**	**(229)**	**945**	**6.727.589**	**49.779**	**11.417.340**	**36.892.180**	**595.510**	**37.487.690**
Total comprehensive income for the period	**-**	***304***	**-**	***5.347***	**-**	**-**	***4.943.369***	***4.949.020***	***36.569***	***4.985.589***
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 shares 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)***
Acquisition of new companies in result of mergers of subsidiaries	-	-	-	-	-	-	(3.125)	**(3.125)**	(32)	**(3.157)**
As at 31 December 2011	**18.697.837**	**(777)**	**(229)**	**6.292**	**8.553.143**	**49.779**	**13.393.571**	**40.699.616**	**413.994**	**41.113.610**

* For information regarding comparative figures please refer to Note 13 of these financial statements

Consolidated financial statements for the year ended 31 December 2012 prepared in accordance with IFRS (all amounts in thousand PLN)

CONSOLIDATED STATEMENT OF CASH FLOWS

	Year ended 31 December 2012	Year ended 31 December 2011 *(restated)**
Cash flows – operating activities		
Profit before tax related to discontinued operations	**340**	**2.159**
Profit before tax from continuing operations	**4.102.537**	**6.111.208**
Adjustments for:		
Share of profit from associates accounted for under the equity method	13.570	(174.373)
Depreciation and amortization	2.920.051	2.710.556
Interest and dividend, net	(23.077)	75.011
Profit / loss on investment activities	(32.460)	(1.984.792)
Change in receivables	(348.926)	110.823
Change in inventories	(908.576)	(214.778)
Change in liabilities, excluding loans and bank credits	(33.027)	1.140.338
Change in other non-financial assets, prepayments and emission rights	300.886	(648.806)
Change in provisions	229.166	611.668
Income tax paid	(966.728)	(796.930)
Other	1.588.978	(72)
Net cash from operating activities	**6.842.734**	**6.942.012**
Cash flow from investing activities		
Disposal of property, plant and equipment and intangible assets	34.273	37.354
Purchase of property, plant and equipment and intangible assets	(4.399.349)	(4.518.973)
Purchase/ disposal of investment property	1.436	2.798
Disposal of financial assets	2.188.380	3.334.150
Purchase of financial assets and increase in share capital in Group companies	(65.839)	(2.438.657)
Purchase/ disposal of subsidiaries after deduction of acquired cash	703.509	26.037
Dividends received	3.867	229.423
Interest received	35.804	1.625
Loans repaid	191.593	401
Loans granted	(678.224)	(894)
Other	33.665	80
Net cash from investing activities	**(1.950.885)**	**(3.326.656)**

Consolidated financial statements for the year ended 31 December 2012 prepared in accordance with IFRS (all amounts in thousand PLN)

	Year ended 31 December 2012	Year ended 31 December 2011 *(restated)**
Cash flow from financing activities		
Proceeds from the share issue	11.000	-
Proceeds from bank credits and issue of bonds	640.491	1.460.750
Repayment of bank credits, bonds and finance lease	(1.331.472)	(2.311.732)
Dividends paid (including dividend paid to the State Treasury)	(3.506.327)	(1.410.533)
Interest paid	(63.791)	(72.663)
Return of dividends from non-controlling shareholders	146.443	-
Other	(39.185)	22.865
Net cash flow from financing activities	**(4.142.841)**	**(2.311.313)**
Net change of cash and cash equivalents	**749.008**	**1.304.043**
Effect of foreign exchange rate changes	(8.510)	15.114
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	**4.789.910**	**4.040.902**
Restricted cash	400.708	188.561
Attributed to discontinued operations	-	1.906

* For information regarding comparative figures please refer to notes 13 of these financial statements.

APPLIED ACCOUNTING PRINCIPLES (POLICIES) AND 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 2).

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

During the reporting period and as at the date of preparation of these consolidated financial statements for the period 31 December 2012 ("consolidated financial statements", "financial statements") the parent company is seated in Warsaw, 2 Mysia Street.

Core operations of the Group companies are as follows:

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

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

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

The consolidated financial statements of the Group comprise financial data for the period from 1 January 2012 to 31 December 2012.

Consolidated financial statements for the year ended 31 December 2012 prepared in accordance with IFRS (all amounts in thousand PLN)

2. Structure of the Group

2.1. 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 31 December 2012	Parent company as at 31 December 2012	Share of Group entities as at 31 December 2011	Parent company as at 31 December 2011
	Segment: wholesale				
1.	PGE Polska Grupa Energetyczna S.A. *Warszawa*	The Parent Company of the Group			
2.	PGE Trading GmbH * *Niemcy*	100,00%	PGE Polska Grupa Energetyczna S.A.	100,00%	PGE Polska Grupa Energetyczna S.A.
	Segment: mining and conventional energy				
3.	PGE Górnictwo i Energetyka Konwencjonalna S.A. *Bełchatów*	91,20%	PGE Polska Grupa Energetyczna S.A	91,04%	PGE Polska Grupa Energetyczna S.A
				7,88%	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.	Elektrownia Puławy sp. z o.o. *Puławy*	50,00%	PGE Górnictwo i Energetyka Konwencjonalna S.A.	-	-
6.	PGE Gubin sp. z o.o.** *Gubin*	100,00%	PGE Polska Grupa Energetyczna S.A.	100,00%	PGE Polska Grupa Energetyczna S.A.
	Segment: renewable energy				
7.	PGE Energia Odnawialna S.A. *Warszawa*	100,00%	PGE Polska Grupa Energetyczna S.A.	100,00%	PGE Polska Grupa Energetyczna S.A.
8.	Bio-Energia S.A. *Warszawa*	100,00%	PGE Energia Odnawialna S.A.	100,00%	PGE Energia Odnawialna S.A.
9.	Biogazownia Łapy sp. z o.o. *Warszawa*	100,00%	Bio-Energia S.A.	100,00%	PGE Energia Odnawialna S.A.
10.	Biogazownia Wożuczyn sp. z o.o. *Warszawa*	100,00%	Bio-Energia S.A.	100,00%	PGE Energia Odnawialna S.A.
	Elektrownia Wiatrowa Kamieńsk sp. z o.o. *Kamieńsk*	-	-	100,00%	PGE Energia Odnawialna S.A.
	Elektrownia Wiatrowa Resko sp. z o.o. *Czymanowo*	-	-	100,00%	PGE Energia Odnawialna S.A.
	Elektrownia Wiatrowa Turów sp. z o.o. *Warszawa*	-	-	100,00%	PGE Energia Odnawialna S.A.
	Elektrownia Wiatrowa Gniewino sp. z o.o. *Czymanowo*	-	-	100,00%	PGE Energia Odnawialna S.A.

Consolidated financial statements for the year ended 31 December 2012 prepared in accordance with IFRS (all amounts in thousand PLN)

	Entity	Share of Group entities as at 31 December 2012	Parent company as at 31 December 2012	Share of Group entities as at 31 December 2011	Parent company as at 31 December 2011
11.	Elektrownia Wiatrowa Baltica-1 sp. z o.o. *Warszawa*	100,00%	PGE Energia Odnawialna S.A.	95,00% 5,00%	Elektrownia Wiatrowa Gniewino sp. z o.o. Elektrownia Wiatrowa Resko sp. z o.o.
12.	Elektrownia Wiatrowa Baltica-2 sp. z o.o. *Warszawa*	100,00%	PGE Energia Odnawialna S.A.	95,00% 5,00%	Elektrownia Wiatrowa Gniewino sp. z o.o. Elektrownia Wiatrowa Resko sp. z o.o.
13.	Elektrownia Wiatrowa Baltica-3 sp. z o.o. *Warszawa*	100,00%	PGE Energia Odnawialna S.A.	95,00% 5,00%	Elektrownia Wiatrowa Gniewino sp. z o.o. Elektrownia Wiatrowa Resko sp. z o.o.
14.	Pelplin sp. z o.o. *Warszawa*	100,00%	PGE Energia Odnawialna S.A.	-	-
15.	Żuromin sp. z o.o. *Warszawa*	100,00%	PGE Energia Odnawialna S.A.	-	-
	Segment: distribution				
16.	PGE Dystrybucja S.A. *Lublin*	89,91% 10,07%	PGE Obrót S.A. PGE Polska Grupa Energetyczna S.A.	89,91% 10,05%	PGE Obrót S.A. PGE Polska Grupa Energetyczna S.A.
	Segment: retail sail				
17.	PGE Obrót S.A. *Rzeszów*	99,55%	PGE Polska Grupa Energetyczna S.A.	99,31%	PGE Polska Grupa Energetyczna S.A.
	Segment: other				
18.	EXATEL S.A. *Warszawa*	99,94%	PGE Polska Grupa Energetyczna S.A.	94,938% 0,537% 0,137% 0,001%	PGE Polska Grupa Energetyczna S.A. PGE Inwest sp. z o.o. PGE Obrót S.A. PGE Dystrybucja S.A.
19.	NOM sp. z o.o. *Warszawa*	100,00%	EXATEL S.A.	100,00%	EXATEL S.A.
20.	ENERGO-TEL S.A. *Warszawa*	51,10% 48,90%	EXATEL S.A. NOM sp. z o.o.	51,10% 48,90%	EXATEL S.A. NOM sp. z o.o.
21.	MEGA sp. z o.o. *Miłocin*	75,01%	PGE Energia Odnawialna S.A.	75,01%	PGE Energia Odnawialna S.A.
22.	„EnBud" sp. z o.o. w likwidacji *Czymanowo*	100,00%	PGE Energia Odnawialna S.A.	100,00%	PGE Energia Odnawialna S.A.
	Dychowskie Przedsiębiorstwo Eksploatacji Elektrowni „ELDEKS" sp. z o.o. *Dychów*	-	-	100,00%	PGE Energia Odnawialna S.A
23.	„ESP Usługi" sp. z o.o. w likwidacji *Warszawa*	100,00%	PGE Energia Odnawialna S.A.	100,00%	PGE Energia Odnawialna S.A.
24.	Budownictwo Hydro-Energetyka - Dychów sp. z o. o. *Dychów*	100,00%	PGE Energia Odnawialna S.A.	100,00%	PGE Energia Odnawialna S.A.

Consolidated financial statements for the year ended 31 December 2012 prepared in accordance with IFRS (all amounts in thousand PLN)

	Entity	Share of Group entities as at 31 December 2012	Parent company as at 31 December 2012	Share of Group entities as at 31 December 2011	Parent company as at 31 December 2011
25.	ELBIS sp. z o.o. *Rogowiec*	100,00%	PGE Górnictwo i Energetyka Konwencjonalna S.A.	100,00%	PGE Górnictwo i Energetyka Konwencjonalna S.A.
26.	MEGAZEC sp. z o.o. *Bydgoszcz*	100,00%	PGE Górnictwo i Energetyka Konwencjonalna S.A.	100,00%	PGE Górnictwo i Energetyka Konwencjonalna S.A.
27.	„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.
28.	„Energoserwis – Kleszczów" sp. z o.o. *Kleszczów*	51,00%	ELBIS sp. z o.o.	51,00%	ELBIS sp. z o.o.
	MegaMed sp. z o.o.*** *Bełchatów*	-	-	97,40%	PGE Górnictwo i Energetyka Konwencjonalna S.A
				2,60%	PGE Elektrownia Opole S.A.
29.	„ELMEN" sp. z o.o. *Rogowiec*	100,00%	ELBIS sp. z o.o.	100,00%	ELBIS sp. z o.o.
30.	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.
31.	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.
32.	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.
33.	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.
34.	RAMB sp. z o.o. *Piaski*	100,00%	PGE Górnictwo i Energetyka Konwencjonalna S.A.	100,00%	PGE Górnictwo i Energetyka Konwencjonalna S.A.
35.	Przedsiębiorstwo Transportowo Sprzętowe „BETRANS" sp. z o.o. *Bełchatów*	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.
		0,02%	PGE Energia Odnawialna S.A.	0,02%	PGE Energia Odnawialna S.A.
36.	Przedsiębiorstwo Wulkanizacji Taśm i Produkcji Wyrobów Gumowych BESTGUM POLSKA sp. z o.o.	100,00%	PGE Górnictwo i Energetyka Konwencjonalna S.A.	100,00%	PGE Górnictwo i Energetyka Konwencjonalna S.A.

Consolidated financial statements for the year ended 31 December 2012 prepared in accordance with IFRS (all amounts in thousand PLN)

	Entity	Share of Group entities as at 31 December 2012	Parent company as at 31 December 2012	Share of Group entities as at 31 December 2011	Parent company as at 31 December 2011
	Rogowiec				
37.	„EPO" sp. z o.o. *Opole*	50,00%	PGE Górnictwo i Energetyka Konwencjonalna S.A.	50,00%	PGE Elektrownia Opole S.A.
38.	Przedsiębiorstwo Transportowo-Usługowe „ETRA" sp. z o.o. *Białystok*	100,00%	PGE Dystrybucja S.A	100,00%	PGE Dystrybucja S.A
39.	Przedsiębiorstwo Produkcyjno-Handlowe EKTO sp. z o.o. *Białystok*	100,00%	PGE Dystrybucja S.A.	100,00%	PGE Dystrybucja S.A.
40.	Energetyczne Systemy Pomiarowe sp. z o.o. *Białystok*	100,00%	PGE Dystrybucja S.A.	100,00%	PGE Dystrybucja S.A.
41.	Zakład Obsługi Energetyki sp. z o.o. *Zgierz*	100,00%	PGE Dystrybucja S.A.	100,00%	PGE Dystrybucja S.A.
	PGE Serwis sp. z o.o. w likwidacji *Warszawa*	-	-	100,00%	PGE Polska Grupa Energetyczna S.A.
42.	ELECTRA Bohemia s.r.o. *(w likwidacji)* *Czechy*	100,00%	PGE Polska Grupa Energetyczna S.A.	100,00%	PGE Polska Grupa Energetyczna S.A.
43.	PGE Systemy S.A. *Warszawa*	100,00%	PGE Polska Grupa Energetyczna S.A.	100,00%	PGE Polska Grupa Energetyczna S.A.
44.	PGE Inwest sp. z o.o. *Warszawa*	100,00%	PGE Polska Grupa Energetyczna S.A.	100,00%	PGE Polska Grupa Energetyczna S.A.
45.	PGE Inwest spółka z ograniczoną odpowiedzialnością II S.K.A. w likwidacji *Warszawa*	100,00%	PGE Polska Grupa Energetyczna S.A.	100,00%	PGE Polska Grupa Energetyczna S.A.
46.	PGE Energia Jądrowa S.A. *Warszawa*	100,00%	PGE Polska Grupa Energetyczna S.A.	100,00%	PGE Polska Grupa Energetyczna S.A.
47.	PGE EJ 1 sp. z o.o. *Warszawa*	51,00%	PGE Energia Jądrowa S.A.	51,00%	PGE Energia Jądrowa S.A.
		49,00%	PGE Polska Grupa Energetyczna S.A.	49,00%	PGE Polska Grupa Energetyczna S.A.
48.	PGE Dom Maklerski S.A. *Warszawa*	100,00%	PGE Polska Grupa Energetyczna S.A.	-	-

* until July 31, 2012 under the name: ELECTRA Deutschland GmbH.
** until April 15, 2012 under the name: „PWE Gubin" sp. z o.o., seated in Sękowice.
*** until July 9,2012 under the name: Niepubliczny Zakład Opieki Zdrowotnej „MegaMed" sp. z o.o.

Changes in the structure of the PGE Group companies which are subject to full consolidation are mentioned in the table above and include inter alia following transformations:

- On 2 January 2012, a merger was registered between PGE Energia Odnawialna S.A. (the acquiring company) with "Elektrownia Wiatrowa Kamieńsk" sp. z o.o. and Dychowskie Przedsiębiorstwo Eksploatacji Elektrowni „ELDEKS" sp. z o.o. (the acquired companies).
- On 2 January 2012, a division of Przedsiębiorstwo Transportowo Sprzętowe „BETRANS" sp. z o.o. was registered, along with transfer of a certain portion of assets to "ELBEST" sp. z o.o.
- On 1 February 2012, a new company - PGE Dom Maklerski S.A. was established. On 19 April 2012, the company was registered with the National Court Register.
- On 12 March 2012, a merger of PGE Górnictwo i Energetyka Konwencjonalna S.A. with PGE Elektrownia Opole S.A. was registered.

- On 18 June 2012, a share purchase agreement was signed concerning shares of Elektrownia Puławy sp. z o.o., whereunder PGE Górnictwo i Energetyka Konwencjonalna S.A. acquired 11,074 shares, corresponding to 50% issued capital of that company.
- On 20 June 2012, the Management Board of Przedsiębiorstwo Produkcyjno-Handlowe EKTO sp. z o.o. with its registered seat in Białystok filed a petition for bankruptcy with a composition option to the District Court in Białystok. Through a decision of 6 July 2012, the District Court dismissed the proceedings on the case. Therefore, on 9 July 2012 the Management Board of the Company filed a statement at the District Court in Białystok of commencement of recovery proceedings. On 30 August 2012, pursuant to a decision of the District Court in Białystok, the company's recovery proceedings were dismissed.
- On 6 July 2012, the liquidation process of ELECTRA Bohemia s.r.o. duly incorporated in the Czech Republic commenced.
- On 2 August 2012, PGE Energia Odnawialna S.A. acquired 100% shares in Pelplin sp. z o.o. from Gamesa Energia S.A.U., a Spanish company, in accordance with the conditional purchase agreement of 25 May 2011.
- On 9 August 2012, increase of the share capitals of Elektrownia Wiatrowa Baltica-1 sp. z o.o., Elektrownia Wiatrowa Baltica-2 sp. z o.o. and Elektrownia Wiatrowa Baltica-3 sp. z o.o. was registered. As a consequence of the above, PGE Energia Odnawialna S.A. became the immediate parent of these companies. The restructuring did not have any impact on equity attributable to PGE Polska Grupa Energetyczna S.A. shareholders.
- On 15 August 2012, PGE Energia Odnawialna S.A. acquired 100% shares in Żuromin sp. z o.o. from Gamesa Energia S.A.U., a Spanish company, in accordance with the conditional purchase agreement of 28 September 2011.
- On 22 October 2012, as a result of completed liquidation process, PGE Serwis sp. z o.o. in liquidation was deleted from the National Court Register (KRS).
- On 31 October 2012, a merger of Elektrownia Wiatrowa Gniewino Sp. z o.o., Elektrownia Wiatrowa Turów Sp. z o.o. and Elektrownia Wiatrowa Resko Sp. z o.o. with PGE Energia Odnawialna S.A. was registered.
- On 5 December 2012, MegaMed sp. z o.o. was sold.

Moreover, on 21 December 2012 MegaSerwis sp. z o.o. was established. This company is a 100% subsidiary of PGE Górnictwo i Energetyka Konwencjonalna S.A. As at the balance date, the company was in the process of organization and has not been included in these financial statements.

Apart from the above mentioned transformations, after the balance sheet date following events occurred:

- On 10 January 2013, a conditional agreement of sale of Budownictwo Hydro-Energetyka Dychów sp. z o.o. was concluded. This company's shares constitute 0.01% of PGE Group's total assets before consolidation eliminations.
- On 19 February 2013, PGE Polska Grupa Energetyczna S.A. and Energa Hydro Sp. z o.o. (a subsidiary Energa S.A.) signed an agreement with DONG Energy Wind Power A/S, whereunder they shall take over the portfolio of DONG wind farms in Poland from the Danish company. The value of the entire transaction shall be approximately 1 billion PLN and the transaction itself is expected to close during the upcoming months of 2013. The transaction requires approval of the Office for Competition and Consumer Protection for the merger (concentration).
- On 26 February 2013, PGE Polska Grupa Energetyczna S.A. and Energa Hydro Sp. z o.o. signed an agreement with Renovables Energía, S.A.U., whereunder they shall take over 75% shares in Iberdrola Renewables Polska Sp. z o.o., manager of the Polish wind farms portfolio, from the Spanish company. It is PGE's and Energa's intention to take up a further 25% stake in Iberdrola Renewables Polska Sp. z o.o., held by the European Bank for Reconstruction and Development (EBRD). The value of the transaction, comprising acquisition of 75% shares in Iberdrola Renewables Polska Sp. z o.o., shall be approximately PLN 840 million, which corresponds to

transaction value at ca. PLN 1.1 billion for 100% shares. The transaction is expected to be closed during the upcoming months of 2013. The transaction requires approval of the Office for Competition and Consumer Protection for the merger (concentration).

2.2. Settlement of the acquisition of new subsidiaries.

As at the effective date of acquiring control, net assets of Pelplin sp. z o.o. amounted to PLN 6 million and the acquisition price was PLN 116 million. The difference of PLN 110 million between the acquisition price and the value of identified net assets was recognized by PGE Group as goodwill under intangible assets.

As at the effective date of acquiring control, net assets of Żuromin sp. z o.o. amounted to minus PLN 6 million and the acquisition price was PLN 62 million. The difference of PLN 68 million between the acquisition price and the value of identified net assets was recognized by PGE Group as goodwill under intangible assets.

As at the date of preparing these financial statements, accounting for the above transactions has not been completed. Capital Group should complete the accounting within a year of the date of acquisition.

The acquisition price of shares in Elektrownia Puławy sp. z o.o. was PLN 20 million. PGE Group did not recognize goodwill on settlement of this acquisition.

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

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

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

In the period from 1 January 2012 to 31 December 2012 following changes in composition of the Management Board took place:

- on 1 March 2012 the Supervisory Board adopted a resolution for the appointment of President of the Management Board – Mr. Krzysztof Kilian, effective 5 March 2012,
- on 1 March 2012 the Supervisory Board adopted a resolution for the appointment of Vice-President of the Management Board - Mrs. Bogusława Matuszewska, effective 5 March 2012,
- on 3 July 2012 the Supervisory Board adopted a resolution to dismiss the member of the Management Board - Mr. Paweł Skowroński,
- on 14 August 2012 the Supervisory Board adopted a resolution for the appointment of Vice-President of the Management Board – Mr. Paweł Smoleń, effective 1 October 2012.

As at 31 December 2012, the composition of the Management Board was as follows:

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

4. Approval of financial statements

These consolidated financial statements were authorized for issue by the Management Board on 13 March 2013.

5. Going concern

These consolidated 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 date of the approval of these consolidated financial statements, there is no evidence indicating that the significant Group companies will not be able to continue its business activities as a going concern. Subsidiaries that are put into liquidation are described in Note 2 of these financial statements. Before consolidation adjustments, the total value of assets, revenues and profit of those companies represent approx. 0,01% of the respective value of other Group companies, before the consolidation eliminations.

6. Presentation currency

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

7. Statement of compliance with International Financial Reporting Standards

These consolidated financial statements were prepared in accordance with the International Financial Reporting Standards ("IFRS") and IFRS approved by the European Union ("EU"). As at the day of the approval of these consolidated financial statements for publication, with regards to the ongoing implementation of IFRS in EU and the business activities of the Group, there are no differences between Applied Accounting Principles (Policy) of the Group and IFRS which are effective and those adopted by EU.

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

8. The basis for the preparation of the consolidated financial statements

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

The bookkeeping in the PGE Group entities is maintained in accordance with the accounting policies (rules) specified in the Accounting Act dated 29 September 1994 ("the Accounting Act") and related bylaws, and other applicable regulations ("Polish Accounting Standards"), except from: PGE Trading GmbH and ELECTRA Bohemia s.r.o., seated in Germany and Czech Republic, which run their books in compliance with German and Czech reporting regulations.

Since the consolidated financial statements comprise data derived from financial statements of companies that maintain their books in accordance with accounting standards other than IFRS, it includes adjustments which were not included in the books of Group entities. The purpose of these adjustments was to make the financial statements of these entities compliant with IFRS approved by the EU.

9. Significant values based on estimates and professional judgment

In the process of applying accounting rules with regards to the below issues, the most significant, apart from estimates, was the professional judgment of the management, which influenced the values presented in the consolidated financial statements and in the supplementary information and explanations. The estimates were based on the best knowledge of the Management Boards relating to current and future operations and events in particular accounting areas. Detailed information on the applied estimates was presented below or in relevant explanatory notes to the consolidated financial statements.

Depreciation period of non-current assets

Depreciation rates are calculated on the basis of the estimated economic useful life of an item of property, plant and equipment and intangible assets as well as estimates of its residual value. Capitalized costs of major inspections and overhauls are depreciated throughout the period until the beginning of the next planned overhaul/ inspection. Estimated economic useful life of assets is subject to verification at least once a year.

Recoverable amount of property, plant and equipment

The electric energy market, which is the basic field of business activities of PGE Group entities, is in the process of significant transformations. These changes can have a significant influence on the recoverable amount of production property, plant and equipment of particular PGE Group entities. If impairment indications exist as specified in IAS 36 *Impairment of Assets*, the Group estimates the recoverable amount of an item of property, plant and equipment owned.

The Group's impairment analysis of cash generating units is based on a number of significant assumptions, some of which are outside the control of the Group. Any significant change in these assumptions will impact the result of future impairment tests and as a consequence may lead to significant changes to the financial position and results of the PGE Group.

Valuation of provisions for retirement benefits

Provisions for employee benefits (provision for retirement and pension awards, energy tariff, additional allowances for the Social Fund ("ZFŚS") for the former employees of the Group entities, medical benefits and coal allowances) were estimated on the basis of actuarial methods.

Post-mining land recultivation provisions

On the basis of Geological and Mining Law, lignite mines, which are the part of the Group, are obliged to perform land recultivation after the land exploitation is finished. The proper provision is created as a proportion of lignite excavated to the planned total lignite excavation from the layer in the expected excavation period. Estimates of expected recultivation costs are updated every 5 years at least. The value of the provision is verified each year according to the actual assumptions regarding inflation rate, discount rate and excavation volume.

Provision for liability due to carbon dioxide emission rights

Provisions for liabilities relating to CO_2 emission rights are created in relation to total CO_2 emission. The provision is established in the most appropriate estimation of expenses necessary to fulfill the existing obligations as at the balance sheet date, including the registered value of EUA obtained free of charge and purchased, and possibly to cover any shortage with CER or ERU.

Other provisions and contingent liabilities

In accordance with IAS 37 with respect to on recognition and measurement of provisions and contingent liabilities, the Group estimates the probability of occurrence of potential liabilities. If the occurrence of unfavorable future event is probable, the Group recognizes a provision in the appropriate amount. If the occurrence of unfavorable future event is estimated by the Group as not probable but possible, the contingent liability is recognized.

Deferred tax assets

The deferred tax assets if measured at the tax rates that are expected to be applied at the moment of realization of the asset, based on tax regulations in force as at the balance sheet date. The deferred tax asset is recognized to the extent that it is probable that taxable profit will be available against which the asset can be realized. A deterioration in taxable results in the future would make the above assumption inappropriate.

Recognition of financial instruments

Regarding regulations of IAS 39 on classification of non-derivative financial instruments with settled payment dates or expected maturity they are classified as held-to-maturity assets. Under such judgment, the intention and possibility of holding these assets to maturity are evaluated.

Revenues from sale of electric energy estimates

Reading numbers from meters regarding the volume of electric energy sold in retail including distribution services as well as its invoicing is performed mainly in periods different than reporting periods. Taking into account the above, retail sale company (PGE Obrót S.A.) and distribution company (PGE Dystrybucja S.A.) within the Group perform certain revenues estimates at each balance sheet date for the period not covered with a reading.

Compensations resulting from termination of long-term agreements for the sales of electric power and energy (LTC)

Producers of electric energy, who joined the program of early termination of long-term contracts for the sales of electric power and energy, are entitled to receive compensations to cover stranded costs. The compensations are paid in the form of annual advances as four quarterly installments which are adjusted on yearly basis. At the end of the adjustment period, the final amount of stranded costs will be determined. Due to the above, the producers of electric energy of PGE Group estimate and recognize the revenue from LTC compensations in the amount in which it will be finally approved for the given period, i.e. after final and annual adjustments expected as at the date of the preparation of the consolidated financial statements. For more details on estimation of the above mentioned revenues please refer to note 45.1 of these consolidated financial statements.

The Group's estimations of compensation related to early termination of long-term contracts for the sales of electric power and energy and recognition of related revenues and receivables prepared by the Group were based on the Group's interpretation of regulations dated 29 June 2007, the Act on rules of covering producer's costs related to early termination of long-term agreements for the sales of electric power and energy (Official Journal, No. 130, item 905, year 2007) (" the LTC Act"), predictions as to resolve disputes with the President of the Energy Regulatory Office and on a number of significant assumptions, some of which are outside the control of the Group.

An unfavorable outcome for the PGE Group of the dispute, described in the Note 45.1, with the President of the Energy Regulation Office with respect to the interpretation of the LTC Act and changes in assumptions used, including those resulting from planned legal mergers within the PGE Group, may impact the estimates and as a consequence may lead to significant changes to the financial position and results of the PGE Group. The final outcome of the dispute with the President of the Energy Regulation Office cannot be determined as at the date of preparation of these financial statements.

Impairment allowances on receivables

As at the balance sheet date the PGE Group entities assess whether there is an objective evidence of impairment of receivables or a group of receivables. If the recoverable amount of assets is lower than its carrying amount, the entity recognizes an impairment allowances to the amount of the present value of planned cash flows.

10. 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:

- During the reporting period the Group updated the estimates of compensations of the LTC. Details are described in note 45.1 of these financial statements.
- Change of discount rate used to calculate the current value of provisions, particularly recultivation provisions and actuarial provisions. This matter is discussed in Note 35.1 to these financial statements.
- 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 35 of these consolidated statements.
- During the reporting period, the Group updated estimations on the recoverable amount of some items of property, plant and equipment, especially production assets of Elektrownia Dolna Odra. The influence of the change of estimations is presented in Note 21 of these consolidated financial statements.
- During the reporting period the Group updated the value of impairment allowances on financial assets. The changes are described in Note 43.11 of these financial statements.

11. New standards and interpretations published, not yet effective

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

- IFRS 9 *Financial Instruments* – effective for the periods starting 1 January 2015.
- Amendments to IFRS 1 *First-time Adoption of International Financial Reporting Standards* (issues relating to government loans) – effective for the periods starting 1 January 2013.
- Other amendments to International Financial Reporting Standards (2009 - 2011) including 7 amendments to 5 standards, and resulting changes to other standards and interpretations – effective for the periods starting 1 January 2013.
- Amendments to IFRS 10 *Consolidated Financial Statements*, IFRS 12 *Disclosure of interests in other entities* and IAS 27 *Separate financial statements* (issues related to investments in entities) – effective for the periods starting 1 January 2014.
- Amendments to (transitional arrangements) IFRS 10 *Consolidated Financial Statements*, IFRS 11 *Joint arrangements* and IFRS 12 *Disclosure of interests in other entities* – effective for the periods starting 1 January 2013.

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

- Amendments to IFRS 1 *First-time Adoption of International Financial Reporting Standards* (issues related to hyperinflation and the dates) – effective for the periods starting 1 January 2013.
- Amendments to IFRS 7 Financial Instruments: Disclosures – effective for the periods starting 1 January 2013.
- Amendments to IAS 1 *Presentation of Financial Statements* – effective for the periods starting 1 July 2012.
- Amendments to IAS 12 Income taxes – Deferred Tax: Recovery of Underlying Assets – effective for the periods starting 1 January 2013.
- Amendments to IAS 32 *Financial Instruments: Presentation* – effective for the periods starting 1 January 2014.

- IFRS 10 *Consolidated Financial Statements* – effective for the periods starting 1 January 2014.
- IFRS 11 *Joint Agreements* – effective for the periods starting 1 January 2014.
- IFRS 12 *Disclosure of Interests in Other Entities* – effective for the periods starting 1 January 2014.
- IFRS 13 *Fair Value Measurement* – effective for the periods starting 1 January 2013
- Amended IAS 19 *Employee Benefits* – effective for the periods starting 1 January 2013.
- Amended IAS 27 *Separate Financial Statements* – effective for the periods starting 1 January 2014.
- Amended IAS 28 *Investments in Associates and Joint Venture* – effective for the periods starting 1 January 2014.
- IFRIC 20 *Stripping Costs in the Production Phase of a Surface Mine* – effective for the periods starting 1 January 2013.

The Group decided on the early application of the amended IAS 19. The impact of changes in accounting principles are presented in Note 13.

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 material influence on future financial statements of the Group. At the date of preparation of these financial statements IFRS 9 is not yet approved by the European Union and as a result its impact on the future financial statements of the Group is not yet determined.

New IFRIC 20 deals with accounting for stripping costs in the production phase of a surface mines. Under current accounting policy, the Group expenses such costs when incurred. As at the date of these financial statements, the Group assumes that the mines incorporated in it will meet the criteria specified in IFRIC 20 and therefore some of the costs specified above would be recognized as assets and depreciated accordingly. Had the Group applied the provisions of IFRIC 20 as of 1 January 2012, its costs presented in the statements for the year ended 31 December 2012 would have been lower and gross profit would be higher by approximately PLN 500 million.

The remaining standards, interpretations and amendments thereof should not have a significant impact on the future consolidated financial statements of PGE Group.

12. Accounting principles applied

The most significant accounting principles applied are presented below.

12.1. Principles of merger accounting

The consolidated financial statements comprise the financial statements of PGE Polska Grupa Energetyczna S.A. and financial data of its subsidiaries. Financial statements of subsidiaries are prepared for the same reporting period as the parent company's, with the use of consistent accounting principles, based on unified accounting principles related to classes of transactions and events of similar characteristics.

All significant Intra-Group balances and transactions, including unrealized gains from Intra-Group transactions, were fully eliminated. Unrealized losses are eliminated, unless they prove the impairment of assets.

The consolidation of subsidiaries begins on the day of taking over the control and is finished when the control ceases. Control is normally evidenced when the Group holds directly or indirectly more than 50% of the voting rights in a company or it is possible to prove that a certain number of voting rights represents control. Control is also evidenced when the Group is able to govern the financial and operating policies of a company so as to benefit from the results of its activity.

IFRS 3 Business Combinations does not apply to entities or businesses under common control both before and after business combinations. A business combination involving entities or businesses under common control is a business combination in which all of the combining entities or businesses are ultimately controlled by the same party or parties both before and after the business combination, and that control is not transitory. In such cases, the Group should apply IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors, paragraph 10-12, and choose a relevant accounting policy. In making the above judgment, the management may also consider the most recent pronouncements of other standard-setting bodies that use a similar conceptual framework as IASB

With regards to the fact that both standards and IASB conceptual framework do not contain either requirements or insights on business combinations under common control, PGE Polska Grupa Energetyczna S.A. chooses an accounting principle according to which such transactions are settled under the pooling of interest method. The pooling of interest method is a method of accounting in which financial information of associates, including the aggregated amounts of assets, liabilities, revenues and expenses are summarized after initial implementation of a unified method of measurement and relevant eliminations. Share capitals of entities are eliminated if their shares were contributed to PGE Polska Grupa Energetyczna S.A. Specified positions in equity are adjusted with a difference between the aggregated amounts of assets and liabilities. All Intra-Group balances and transactions, including unrealized gains from Intra-Group transactions, are fully eliminated. Unrealized losses are eliminated, unless they prove to be impaired. The consolidated financial statements of the Group, which include entities under common control, prepared for the reporting year in which the business combination took place, comprise comparative financial data for the previous reporting year measured as if the business combination took place at the beginning of the previous financial year.

Establishment of PGE Group

As a consequence of the Programme for Electric Power Engineering dated 28 March 2006 the Polska Grupa Energetyczna Group was based on:

- Polskich Sieci Elektroenergetycznych S.A. (currently under the business name PGE Polska Grupa Energetyczna S.A.),
- the former BOT Group: BOT Górnictwo i Energetyka S.A. („BOT GiE S.A."), BOT Elektrownia Bełchatów S.A., BOT Kopalnia Węgla Brunatnego Bełchatów S.A., BOT Elektrownia Opole S.A., BOT Elektrownia Turów S.A. and BOT Kopalnia Węgla Brunatnego Turów S.A.

- Zespół Elektrowni Dolna Odra S.A. („ZEDO").
- eight energy companies: Zamojska Korporacja Energetyczna S.A., Rzeszowski Zakład Energetyczny S.A., Lubelskie Zakłady Energetyczne S.A., Zakłady Energetyczne Okręgu Radomsko-Kieleckiego S.A., Łódzki Zakład Energetyczny S.A., Zakład Energetyczny Łódź-Teren S.A., Zakład Energetyczny Warszawa-Teren S.A. and Zakład Energetyczny Białystok S.A.

In accordance with the Programme for Electric Power Engineering a consolidation model was elaborated under which shares of all of the above mentioned entities were contributed to Polskie Sieci Elektroenergetyczne S.A.

The consolidation took place in two stages. At first, in December 2006, the State Treasury contributed 85% of shares of ZEDO S.A. and eight energy companies to share capital of PGE Energia S.A. In the second stage, on 9 May 2007, an increase of share capital of parent company was made as a result of a contribution of 85% of shares of PGE Energia S.A. and BOT GiE S.A.

Settlement of PGE Group foundation in the consolidated financial statement

Regulations on mergers and acquisitions are specified in IFRS 3 *Business combinations*. However, this standard excludes transactions between entities under common control. Entities contributed to the Company in May 2007 were under control of the State Treasury together with the hitherto existing PSE Group, which means that both the Company and the contributed entities were under common control of the State Treasury. Regarding the above, the transaction fulfilled the definition of a business combination under common control as assessed by the Company, and therefore is excluded from application of IFRS 3.

According to the above described accounting policy the mentioned mergers of entities under common control are preferred to be accounted for using the pooling of interest method. Therefore the consolidated financial statements reflect the continuity of common control and does not reflect a change in net assets to fair value (or recognition of new assets) or goodwill.

Further significant transformations of the PGE Group

In years 2009 - 2012 further significant transformations of the PGE Group took place, which include also:

- purchase of additional shares in subsidiaries,
- mergers of subsidiaries,
- merger of the Parent Company with subsidiaries.

All the above mentioned transformations were recorded as transactions of entities under common control. Therefore transformations were settled within equity of the Group with no influence on goodwill.

Purchase of companies from unrelated entities is accounted for under acquisition method.

Consolidated financial statements for the year ended 31 December 2012 prepared in accordance with IFRS (all amounts in thousand PLN)

12.2. Investments in associates

Investments in associates are recognized using the equity method. An associate is an entity over which the Parent Company directly, or through dependent entities, has a significant influence and that associate is neither a subsidiary nor an interest in a joint venture. Financial statements of associates are the basis for measurement of parent-owned shares using the equity method. The associates and the parent company have the same financial year.

Upon initial recognition, investments in associates are designated at cost, and the carrying amount is increased or decreased to recognize the investor's share of the profit or loss of the investee after the date of acquisition less impairment losses if applicable. The investor's share of the profit or loss of the investee is recognized in the investor's profit or loss. Adjustments recognized directly in the equity of associates, are recognized in the share owned by the parent company and disclosed in statement of changes in equity if such disclosure is justified.

12.3. Joint ventures

Investments in joint ventures where the Group exercises joint control are accounted for using the equity method. Before measuring the share in net assets, adjustments are made by such entities in order to comply with accounting policy applied in the Group.

Assessment of the value of joint ventures is performed when there are indications that the asset has been impaired or the impairment losses recognized in prior years are no longer required.

12.4. Methods applied to translation of data denominated in foreign currencies

Transactions denominated in currencies other than Polish zloty were translated into Polish zlotys at the rate on the transaction date. As at the balance sheet date:

- Monetary items were translated at the closing rate on the balance sheet date (the closing rate is the average exchange rate established by the National Bank of Poland for this day),
- Non-monetary items were valued at historical cost in foreign currency at an exchange rate on the day of the first transaction (exchange rate of the bank of the company), and
- Non-monetary items measured at fair value in foreign currency are translated at an exchange rate on the day of fair value measurement.

Foreign exchange differences resulting from translation are recognized in the profit or loss or, in cases specified in the accounting principles (policies) applied, recorded in the value of assets.

Foreign exchange differences resulting from translation of non-monetary items, such as equity instruments measured at fair value through the profit or loss, are recognized as a change in fair value.

Foreign exchange differences resulting from translation of non-monetary items, such as equity instruments classified as financial assets available for sale, are recognized in revaluation reserve.

Foreign exchange differences resulting from translation of assets and liabilities of foreign entities are recognized in equity.

The following exchange rates were used for the valuation of monetary items denominated in foreign currencies at the respective period end:

	31 December 2012	31 December 2011
USD	3,0996	3,4174
EUR	4,0882	4,4168

12.5. Property, plant and equipment

Property, plant and equipment are assets:

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

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

After recognition as an asset, an item of property, plant and equipment is measured at its net value, i.e. initial value (or at deemed cost for items of property, plant and equipment used before the transition to IFRS) less any accumulated depreciation and any impairment losses. Initial value comprises of purchase price including all costs directly attributable to the purchase and making capable of operating. The cost of an item of property, plant and equipment comprises an estimate of the costs of dismantling and removing the item and restoring the site on which it is located, the obligation for which an entity incurs either when the item is acquired or as a consequence of having used the item during a particular period for purposes other than to produce inventories during that period. Capitalization of costs ends when the item is brought to the location and conditions necessary for it to be capable of operating in the manner intended by the management.

As at the day of acquiring of the item of property, plant and equipment or as at the day of transition to IFRS, in case of existing items of property, plant and equipment, all significant elements being part of an item of property, plant and equipment with various economic useful lives (components) are identified and separated. Components of property, plants and equipment also include costs of major inspection and overhaul if they are significant and costs of recurring replacement of major components.

Major special spare parts and stand-by equipment of significant value qualify as property, plant and equipment when an entity expects to use them during more than one year. Other spare parts and servicing equipment are usually carried as inventories and recognized in the profit or loss as consumed, except for costs of replacement of parts during an overhaul of an item of property, plant and equipment. The assessment of significant value is subject to verification at least once a year

The depreciable amount is the cost of an asset less its residual value. Depreciation commences when the component of the plant, property and equipment is available for use. Depreciation is based on a depreciation plan reflecting the future useful life of the asset. The depreciation method used shall reflect the pattern in which the item of plant, property and equipment future economic benefits are expected to be consumed by the entity.

Major inspection and overhauls recognized as a component of property, plant and equipment are depreciated starting the next day after finishing the inspection/overhaul until the beginning of the next overhaul/inspection.

Major spare parts and stand-by equipment of significant value qualified as property, plant and equipment are depreciated during the remaining economic useful life of the related item (i.e. from the purchase date of the component till the end of the usage of the property, plant and equipment).

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

Group	Average remaining depreciation period in years	Average depreciation period in years
Buildings and structures	17	20 – 40
Machinery and equipment	13	5 – 15
Vehicles	5	5 – 7
Other	4	3 – 10

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

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

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

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

12.5.1 The cost of making lignite layers available for exploitation

As at the date of transition to IFRS, the technical services of PGE KWB Bełchatów S.A. (current name: PGE Górnictwo i Energetyka Konwencjonalna S.A. Oddział Kopalnia Węgla Brunatnego Bełchatów) performed a revaluation of initial excavation dig into the lignite layer in Bełchatów, previously performed by actuary reviewers as at 1 January 1995, by adjusting it with a construction and assembly production prices index. In case of PGE KWB Turów S.A. (current name: PGE Górnictwo i Energetyka Konwencjonalna S.A. Oddział Kopalnia Węgla Brunatnego Turów), due to a different geological situation and very shallow layers of lignite, the costs of making the layers available for excavation were insignificant and therefore were not subject to valuation.

The cost of making lignite layers available for exploitation is depreciated with the use of the depletion method calculated as the ratio of lignite excavated in the year to the total volume of lignite to be excavated from the layer in the time of mine exploitation. The costs of making the layers available for excavation are recognized as the costs of the current period.

12.6. Investment property

The Group recognizes property as investment property when it is held to earn rentals, for capital appreciation, or both, instead of being for:

- use in the production or supply of goods or services or for administrative purposes; or
- sale in the ordinary course of business.

Some properties comprise a portion that is held to earn rentals or for capital appreciation and another portion that is held for use in the production or supply of goods or services or for administrative purposes. If these portions can be sold separately (or leased out separately under a finance lease), the respective portions are classified separately. If the portions could not be sold separately, the property is investment property only if an insignificant portion is held for use in the production or supply of goods or services or for administrative purposes.

An investment property is measured initially at its cost (cost of acquisition or cost of manufacturing). The cost of a purchased investment property comprises its purchase price and any directly attributable expenditure. The directly attributable expenditure includes, for example, professional fees for legal services, property transfer taxes and other transaction costs. The cost of a self-constructed investment property is its cost at the date when the construction or development is complete, until then it is recognized as construction in progress.

An investment property is recognized at acquisition price or cost of manufacturing including transaction costs. After recognition as an asset, an item of investment property is carried at its cost less any accumulated depreciation and any accumulated impairment losses.

An investment property is derecognized from the statement of financial position on disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from its disposal. Gains or losses arising from the derecognition of investment property is determined as the difference between the net disposal revenues and the carrying amount of the asset and shall be recognized in the profit or loss in the period of the derecognition.

Transfers to investment property is made when, and only when, there is a change in use, evidenced by end-of-owner-occupation, commencement of an operating lease or end of construction or development of an investment property.

Transfers between investment property, owner-occupied property and inventories do not change the carrying amount of the property transferred and they do not change the cost of that property for measurement or disclosure purposes.

12.7. Intangible assets

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

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

- goodwill excluding internally generated goodwill.

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

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

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

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

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

The amortizable amount of an intangible asset with a definite useful life is determined after deducting its residual value. The Group adopted a policy according to which the residual value of an intangible asset with a definite useful life shall be assumed to be zero unless:

- there is a commitment by a third party to purchase the asset at the end of its useful life – the residual value is based on the amount recoverable from disposal; or
- there is an active market for the asset and residual value can be determined by reference to that market and it is probable that such a market will exist at the end of the asset's useful life.

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

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

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

The following useful lives are adopted for intangible assets:

Group	**Average remaining amortization period in years**	**Average amortization period in years**
Acquired patents and licenses	3	3 - 5
Costs of finished developed works	2	3 - 5
Other	17	3 - 25

12.8. Research and development costs

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

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

Development works include:

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

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

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

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

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

12.9. Borrowing costs

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

12.10. Financial assets

Financial assets are classified in the following categories:

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

12.10.1 Held-to-maturity investments

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

12.10.2 Financial assets at fair value through profit or loss

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

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

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

12.10.3 Loans granted and receivables

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

12.10.4 Available-for-sale financial assets

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

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

- impairment losses,
- exchange gains and losses arising on monetary assets,
- interest recognized using the effective interest rate method.

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

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

12.11 Impairment of non-financial non-current assets

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

Recoverable amount is defined as the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use. Recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. If the carrying value is higher than the recoverable value, an impairment loss is recorded.

When estimating the value in use of an asset, future cash flows are discounted to the present value using a discount rate before tax, which represents current market estimate of time and risk relevant to an asset. Impairment losses relevant to assets used in continuing operations are reflected in costs relating to the function of impaired assets.

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

12.12 Embedded derivatives

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

In case conditions are fulfilled, the Group recognizes embedded derivatives.

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

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

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

According to IAS 39, the principle that economic characteristics and risk of an embedded derivative denominated in foreign currency are closely related to economic characteristics and risk of a host contract also includes the situation when the currency of the host contract is a customary currency for the purchase or sale contracts for non-financial positions on the respective market.

A separated embedded derivative is recognized in the statement of financial position at fair value, and changes in fair value are recognized in profit or loss.

The Group assesses at initial recognition whether the embedded derivative is to be a stand-alone recognized as a separate instrument.

12.13 Derivatives and hedging instruments

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

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

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

Hedge accounting recognizes three types of hedging relationships:

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

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

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

12.14 Inventories

Inventories are assets:

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

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

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

At initial recognition, inventories are measured as follows:

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

Cost of usage of inventories is determined as follows:

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

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

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

12.15 Carbon dioxide emission rights

A separate item in the statement of financial position is used for presentation of European Union Allowances (EUA) for carbon emissions, designed for the company's own purposes, and other units redeemed pursuant to greenhouse gas emissions (CER, ERU) - received gratuitously under the National Allocation 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 gratuitously are recognized as accruals in equity and liabilities. Purchased units are presented at acquisition price.

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

12.16 Trade receivables

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

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

An allowance on a receivable is recognized as other operating expenses or financial expenses, depending on the nature of receivable.

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

12.17 Cash and cash equivalents

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

12.18 Other assets and prepayments

The Group recognizes an asset as a prepayment under the following conditions:

- an expense was incurred in the past in relation to the Group's operating activity,
- it can be reliably measured,
- it refers to future reporting periods.

Prepayments are recognized at reliably measured amounts, relate to future periods and will generate future economic benefits for the Group.

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

At each reporting date the Group reviews whether it is probable that future economic benefits related to a prepayment will flow to the Group, so that the prepayment can be recognized as an asset.

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

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

Other assets also comprise receivables from the state.

12.19 Equity

Equity is stated at nominal value, classified by nature, in accordance with legal regulations and the Company's Articles of Association.

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

12.20 Provisions

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

Provisions are recognized in profit or loss as operating expenses, other operating expenses or financial expenses, depending on the nature of the future obligations.

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

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

The following provisions are expected to be raised in particular:

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

The value of liabilities in relation to former employees is estimated on the basis of conditions of Corporate Collective Labor Agreements (Zakładowe Układy Zbiorowe Pracy) or other legal regulations. These liabilities result from employees' rights acquired during the employment period. The provision raised is recognized as an operating expense in the amount corresponding with accrued future employees' benefits.

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

Based on the Inter-Corporate Collective Labor Agreement (Ponadzakładowy Układ Zbiorowy Pracy) amended in 2005, the Group entities are obliged to pay a so called "energy tariff", to former employees of the energy industry. Due to the above, since December 2005 the PGE Group entities raise appropriate provision. The provision is estimated by an actuary. The provision is recognized as operating expenses.

12.20.3 Retirement and pension benefits and jubilee awards

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

12.20.4 Actuarial gains and losses arising from the change of assumptions and variation of discount rate:

Actuarial gains and losses arising from the change of actuarial assumptions and ex post actuarial adjustments are presented as follows:

- for post-employment benefits - as other comprehensive income,
- for jubilee benefits and other short- and long-term benefits - as operating costs of the current period.

Actuarial gains and losses arising from variation of discount rates are presented as follows:

- for post-employment benefits - as other comprehensive income,
- for jubilee benefits and other short- and long-term benefits - as operating costs of the current period.

12.20.5 Provision for recultivation of post-exploitation grounds, including recultivation and development of final excavations and recultivation of ash storages

The mining companies which belong to the Group raise provisions for recultivation costs of post-exploitation grounds. The value of the provision is based on the estimated cost of recultivation and development works related to final excavations. In case of mining excavations, the provision is created based on the proportion of the lignite excavated to the total planned volume of excavation over the period of exploitation. The estimates of planned recultivation costs are updated at least once every 5 years; however at each year-end the amount of the recultivation provision is verified with regards to inflation rate, discount rate and the volume of excavation. The portion of the provision used in the given period is recognized in operating expenses, the difference resulting from discount of provision from previous years is reflected as financial income or expenses.

The cost of creating a provision for recultivation of ash storages (electricity post-production waste) is recognized in operating costs proportionally as the storage is filled, and the discount is recognized in financial expenses.

12.20.6 Provision for liabilities relating to greenhouse gas emissions

The provision is established in the amount relating to the total CO_2 emission by the companies of the Group. That provision is presented in the short- and/or long-term part, depending on the anticipated time of utilization. The provision is established in the amount corresponding to the most appropriate estimation of expenses necessary to fulfill the existing obligations as at the balance sheet date, particularly in regard to the EUA purchased and EUA received free of charge, and possibly to cover any shortage with CER or ERU.

Companies update the value of provision as at every consecutive balance date, taking into consideration the current prices of emission allowances and foreign exchange rate fluctuations if the price of emission allowances is presented in any other currency than PLN. Average rates of exchange of the National Bank of Poland as at the balance date apply to revaluation of the provision.

To meet the statutory requirements, company offset at the date of redemption the purchased and received free of charge EUA and/or CER, ERU reported in assets and provisions for mandatory redemption of rights.

12.21 Share-based payments

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

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

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

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

For cash-settled share-based payment transactions, the entity shall measure the goods or services acquired and the liability incurred at the fair value of the liability and not as share capital. Until the liability is settled, the entity shall remeasure the fair value of the liability at each balance sheet date and at the date of settlement, with any changes in fair value recognized in profit or loss for the period.

12.22 Profit-based payments for employees benefits and special funds

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

12.23 Liabilities

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

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

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

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

All other liabilities are classified as non-current.

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

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

12.24 The Social Fund

The Group off-sets liabilities and assets of the Social Fund, the Efficiency Improvement Fund and other employee benefit funds. Such an arrangement reflects the relationship between the entity and the Funds, in which the entity is a trustee. This means, that the entity has legal title to the Funds' assets, however the Funds are the beneficiaries.

12.25 Deferred income

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

- Amounts received or due from business partners to be realized in subsequent reporting periods.
- Grants obtained to finance acquisition or production of fixed assets, fixed assets under construction and development works, recognized through other operating income in an amount equivalent to the depreciation charges on non-current assets financed from this source. This applies in particular to forgiven loans and credits and grants to acquire an item of property, plant and equipment and to finance development works. Deferred income from connection payments, that were received before 01 June 2009 are recorded evenly in the position of revenues from sale of products.
- Property, plant and equipment and intangible assets acquired free of charge. Deferred income is amortized to other operating income in line with the depreciation charges on these fixed assets.
- Gains relevant to sale and leaseback of property, plant and equipment and intangible assets. Deferred income is amortized to other operating income over the period of the lease. If there is a high probability of the buy-back of the leased asset after the lease period and the lease period is significantly different from the economic useful life of the asset, then allowances on deferred income are recognized is in proportion to depreciation of the property, plant and equipment.
- EUA received free of charge under the National Allocation Plan. EUA is recognized at the beginning of the period for which they were granted, at fair value at the date of the initial recognition. EUA are charged in equal installments during the reported period in correspondence with respective positions in the statement of comprehensive income.

12.26 Lease

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

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

12.27 Taxes

Corporate income tax in the statement of comprehensive income comprises actual fiscal charges for the reporting period calculated by the Group entities in accordance with regulations of the Corporate Income Tax Act and the change in deferred tax assets and deferred tax liabilities other than that charged or credited directly to equity.

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

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

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

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

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

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

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

The Group entities recognize deferred tax liabilities in the amount of income tax to be paid in the future due to positive temporary differences, i.e. differences which will result in an increase of the tax base in the future.

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

12.28 Revenues

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

12.28.1 Revenues from sale of goods and merchandise

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

Revenues from sale of goods and merchandise include:

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

12.28.2 Revenues from services rendered

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

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

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

12.28.3 Revenues from LTC compensations

In accordance with the Act on rules of covering producers' costs related to early termination of long-term contracts for the sales of electric power and energy (LTC) dated 29 June 2007, the entities of the PGE Group receive compensations in the form of quarter advances to cover stranded costs. The annual adjustment is made after the end of each year and the final adjustment is made after the termination of LTC.

The Group entities as revenue of the period recognize, received as advances, cash, corrected by annual adjustment and adequately part of planned final adjustment.

The allocation of final adjustment to the particular period is conducted, based on the planned revenues from sales of electric power and energy and sales of system services in the period of adjustment and taking into consideration the final adjustment. The discount is calculated on the basis of intermediate risk-free rate.

12.29 Cost of goods sold

Cost of goods sold includes:

- production costs incurred in the reporting period adjusted for related changes in inventories (finished goods, semi-finished products and production in progress) and costs related to production of goods for the Group's own use,
- value of electricity sold and materials at purchase prices.

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

12.30 Other operating revenues and expenses

Other operating expenses and revenues include in particular:

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

12.31 Financial revenues and expenses

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

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

Interest income and expenses are recognized over the respective period using the effective interest method relating to the carrying amount of a given financial instrument. Dividends are recognized when the shareholders' right to receive payments is established.

12.32 Earnings per share

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

12.33 Statement of cash flows

Statement of cash flows is prepared using the indirect method.

13 Changes in applied accounting policies and data presentation

During the reporting period the Group changed selected accounting principles relating to classification and valuation of shares and stocks in subsidiaries and implementation of revised IAS 19 *Employee Benefits.* Change related to valuation of shares and stocks had no impact on consolidated financial statements. Whereas, the most significant changes implemented by the revised IAS 19 for the Group include:

- liquidation of the so-called past-service costs,
- recognition of actuarial gains and losses for post-employment benefits as other comprehensive income.

Therefore, the Group restated the data presented in the comparable consolidated financial statements for 2011 and opening balance as at 1 January 2012. The Group recognized provisions for so-called energy equivalent without amortization of past-service costs and presented appropriate actuarial gains and losses in other comprehensive income.

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CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Period ended 31 December 2011 *(published data)*	Implementation of revised IAS19	Period ended 31 December2011 *(restated data)*
Total sales revenue	**28.111.354**		**28.111.354**
Costs of goods sold	(20.620.787)	(53.374)	(20.674.161)
Gross profit on sales	**7.490.567**	**(53.374)**	**7.437.193**
Other operating revenues	623.984	-	623.984
Distribution and selling expenses	(1.638.068)	(217)	(1.638.285)
General and administrative expenses	(819.308)	(595)	(819.903)
Other operating expenses	(1.512.695)	-	(1.512.695)
Operating profit	**4.144.480**	**(54.186)**	**4.090.294**
Financial revenues	2.304.397	-	2.304.397
Financial expenses	(457.856)	-	(457.856)
Share of profit of associates	174.373	-	174.373
Profit before tax	**6.165.394**	**(54.186)**	**6.111.208**
Corporate income tax	(1.194.484)	10.295	(1.184.189)
Net profit from continuing operations	**4.970.910**	**(43.891)**	**4.927.019**
Discontinued operations			
Profit for the period on discontinued operations	1.704	-	1.704
Net profit for reporting period	**4.972.614**	**(43.891)**	**4.928.723**
Other comprehensive income for the period:	**5.651**	**51.215**	**56.866**
Valuation of available-for-sale financial assets	304	-	304
Foreign exchange differences from translation of foreign entities	5.347	-	5.347
Actuarial gains and losses	-	51.215	51.215
TOTAL COMPREHENSIVE INCOME	**4.978.265**	**7.324**	**4.985.589**
Net profit attributable to:			
- equity holders of the parent company	4.936.095	(43.400)	4.892.695
- non-controlling interest	36.519	(491)	36.028
Total comprehensive income attributable to:			
- equity holders of the parent company	4.941.746	7.274	4.949.020
- non-controlling interest	36.519	50	36.569
Earnings per share (in PLN)			
- basic earnings per share for the period	2,64	(0,02)	2,62
- basic earnings from the continuing operations	2,64	(0,02)	2,62

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CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	As at 31 December 2011 *(published data)*	Implementation of revised IAS19	As at 31 December 2011 *(restated data)*
Equity attributable to equity holders of the parent			
Share capital	18.697.837	-	18.697.837
Revaluation reserve	(777)	-	(777)
Treasury shares	(229)	-	(229)
Foreign exchange differences from translation of foreign entities	6.292	-	6.292
Reserve capital	8.553.143	-	8.553.143
Other capital reserves	49.779	-	49.779
Retained earnings	13.452.823	(59.252)	13.393.571
Non-controlling interest	414.392	(398)	413.994
Total equity	**41.173.260**	**(59.650)**	**41.113.610**
Long-term liabilities			
Interest-bearing loans, borrowings, bonds and lease	1.341.351	-	1.341.351
Other liabilities	17.864	-	17.864
Provisions	3.216.279	73.642	3.289.921
Deferred tax liability	1.384.507	(13.992)	1.370.515
Deferred income and government grants	1.255.298	-	1.255.298
Long-term liabilities related to discontinued operations	667	-	667
Total long-term liabilities	**7.215.966**	**59.650**	**7.275.616**
Total short-term liabilities	**10.373.405**	**-**	**10.373.405**
TOTAL LIABILITIES AND EQUITY	**58.762.631**	**-**	**58.762.631**

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CONSOLIDATED STATEMENT OF CASH FLOWS

	Period ended 31 December 2011 *(published data)*	**Implementation of revised IAS19**	**Period ended 31 December 2011** *(restated data)*
Cash flows – operating activities			
Profit before tax related to discontinued operations	2.159	-	2.159
Profit before tax related to continuing operations	6.165.394	(54.186)	6.111.208
		-	
Adjustments for:		-	
Share of profit from associates accounted for under the equity method	(174.373)	-	(174.373)
Depreciation and amortization	2.710.556	-	2.710.556
Interest and dividend, net	75.011	-	75.011
(Profit) / loss on investment activities	(1.984.792)	-	(1.984.792)
Change in receivables	110.823	-	110.823
Change in inventories	(214.778)	-	(214.778)
Change in liabilities excluding loans and bank credits	1.140.338	-	1.140.338
Change in prepayments and accruals	(648.806)	-	(648.806)
Change in provisions	557.482	54.186	611.668
Income tax paid	(796.930)	-	(796.930)
Other	(72)	-	(72)
Net cash from operating activities	**6.942.012**	**-**	**6.942.012**

14 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;
- Renewable Energy includes generation of energy in pumped storage power plants and from renewable sources.
- Wholesale includes trade in electricity on the wholesale market, trading of emissions certificates and property rights related to energy origin units of ownership and fuel trading
- Distribution includes management over local distribution networks and delivery of electricity with the use of these networks;
- Retail sale includes sale of electricity and rendering services to end users;

Organization and management over the Group is based on the division into segments, taking into account the nature of the products and services. Each segment represents a strategic business unit, offering different products and serving different markets. Assignment of particular entities to operating segments is described in Note 2 of these financial statements. Transactions between segments are settled within the Group as if they were concluded with third parties – under market conditions.

Additionally, the Group presents geographical areas of its activities, however these do not represent operating segments.

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 lower in summer.

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Information on business segments

Period ended 31 December 2012	Segment: Conventional energy	Segment: Renewable energy	Segment: Wholesale	Segment: Distribution	Segment: Retail sale	Other activities	Consolidation adjustments	Total continued operations
Revenues								
Revenues from sales to external	14.301.574	553.088	1.197.331	1.229.466	12.421.352	816.120	37.883	**30.556.814**
Revenues from sales between segments	780.082	20.822	9.451.551	4.309.277	188.501	929.599	(15.679.832)	**-**
Total revenues from segments	**15.081.656**	**573.910**	**10.648.882**	**5.538.743**	**12.609.853**	**1.745.719**	**(15.641.949)**	**30.556.814**
Result								
EBIT *)	**2.013.143**	**102.569**	**554.790**	**1.028.953**	**218.672**	**(114.302)**	**66.691**	**3.870.516**
EBITDA **)	**3.724.865**	**250.473**	**574.128**	**1.970.032**	**227.561**	**(1.793)**	**45.301**	**6.790.567**
Net financial revenues (expenses)								245.591
Share of profit of associates								(13.570)
Profit (loss) before tax								**4.102.537**
Corporate income tax								(869.703)
Net profit (loss) for the reporting year								**3.232.834**
Assets and liabilities								
Assets of the segments excluding trade receivables	30.992.764	2.400.570	750.415	14.579.855	913.655	1.053.894	(694.034)	49.997.119
Trade receivables	403.559	61.048	761.904	299.331	1.212.689	331.341	(1.175.139)	1.894.733
Shares in associates								40.454
Unallocated assets								6.321.629
Total assets								**58.253.935**
Liabilities of the segment excluding trade liabilities	8.373.869	135.153	336.750	1.770.216	1.823.140	404.231	(58.831)	12.784.528
Trade liabilities	764.285	24.620	501.545	229.707	534.094	230.444	(1.082.825)	1.201.870
Unallocated liabilities								3.595.726
Total liabilities								**17.582.124**
Other information on business segments								
Capital expenditures	2.767.691	126.637	4.727	1.338.845	4.600	135.797	(124.000)	4.254.297
Purchase of non-current assets (net value) within acquired new companies	113	659.999	-	-	-	-	195.423	855.535
Impairment allowances on financial and non-financial assets	1.665.044	42.660	66.202	7.149	25.388	17.111	(25.672)	1.797.882
Amortization, depreciation	1.711.722	147.904	19.338	941.079	8.889	112.509	(21.390)	2.920.051
Other non-monetary expenses ***)	3.330.714	14.122	(189.965)	263.006	1.158.658	87.809	-	4.664.344

*) EBIT = profit (loss) before tax and financial revenues / expenses
**) EBITDA = EBIT + depreciation/amortization
***) Non-monetary changes of provisions inter alia: provisions for retirement and pension awards, recultivation, provision for liability due to carbon dioxide emission rights, jubilee awards, employee tariff that are recognized in profit or loss and other comprehensive income

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Period ended 31 December 2011 (restated data)	Segment: Conventional energy	Segment: Renewable energy	Segment: Wholesale	Segment: Distribution	Segment: Retail sale	Other activities	Consolidation adjustments	Total continued operations
Revenues								
Revenues from sales to external	12.804.438	512.415	761.665	885.039	12.184.776	928.765	34.256	**28.111.354**
Revenues from sales between segments	745.416	19.214	9.472.983	4.367.971	316.636	901.595	(15.823.815)	**-**
Total revenues from segments	**13.549.854**	**531.629**	**10.234.648**	**5.253.010**	**12.501.412**	**1.830.360**	**(15.789.559)**	**28.111.354**
Result								
EBIT *)	**2.953.508**	**86.952**	**178.631**	**703.349**	**112.749**	**32.334**	**22.771**	**4.090.294**
EBITDA **)	**4.491.288**	**214.409**	**202.142**	**1.617.335**	**122.379**	**147.016**	**6.281**	**6.800.850**
Net financial revenues (expenses)								1.846.541
Share of profit of associates								174.373
Profit (loss) before tax								**6.111.208**
Corporate income tax								(1.184.189)
Net profit (loss) for the reporting year								**4.927.019**
Assets and liabilities								
Assets of the segments excluding trade receivables	31.770.357	1.894.750	361.255	14.193.821	716.274	1.149.518	(801.421)	49.284.554
Trade receivables	345.151	44.986	630.972	362.224	1.214.149	290.458	(1.120.201)	1.767.739
Shares in associates	-	-	-	-	-	-	-	55.062
Unallocated assets								7.655.276
Total assets								**58.762.631**
Liabilities of the segment excluding trade liabilities	8.442.479	82.224	508.628	1.684.543	1.648.791	352.234	(29.775)	12.689.124
Trade liabilities	704.296	18.229	441.106	203.559	613.283	187.093	(1.050.394)	1.117.172
Unallocated liabilities								3.842.725
Total liabilities								**17.649.021**
Other information on business segments								
Capital expenditures	2.922.877	148.505	10.037	1.254.635	5.079	123.727	(151.256)	4.313.604
Impairment allowances on financial and non-financial assets	(7.579)	3.637	152	4.794	7.168	1.644	1.541	11.357
Amortization, depreciation	1.537.780	127.457	23.511	913.986	9.630	114.682	(16.490)	2.710.556
Other non-monetary expenses ***)	3.321.316	7.697	62.326	199.033	1.160.557	47.092	7.925	4.805.946

*) EBIT = profit (loss) before tax and financial revenues / expenses
**) EBITDA = EBIT + depreciation/amortization
***) Non-monetary changes of provisions inter alia: provisions for retirement and pension awards, recultivation, provision for liability due to carbon dioxide emission rights, jubilee awards, employee tariff that are recognized in profit or loss and other comprehensive income

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Information on geographical areas

Period ended 31 December 2012.

Revenues	Domestic market	EU countries	Other countries	Total
Revenues from continuing operations	30.051.466	487.871	17.477	30.556.814
Revenues from the area	**30.051.466**	**487.871**	**17.477**	**30.556.814**

Other information on the area	Domestic market	EU countries	Other countries	Total
Assets of the area	51.878.985	12.867	-	51.891.852
Unallocated assets	6.280.626	36.717	4.286	6.321.629
Investments in associates	40.454	-	-	40.454
Total assets	**58.200.065**	**49.584**	**4.286**	**58.253.935**

Period ended 31 December 2011.

Revenues	Domestic market	EU countries	Other countries	Total
Revenues from continuing operations	27.590.578	505.224	15.552	28.111.354
Revenues from the area	**27.590.578**	**505.224**	**15.552**	**28.111.354**

Other information on the area	Domestic market	EU countries	Other countries	Total
Assets of the area	51.052.293	-	-	51.052.293
Unallocated assets	7.618.477	36.717	82	7.655.276
Investments in associates	55.062	-	-	55.062
Total assets	**58.725.832**	**36.717**	**82**	**58.762.631**

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15 Revenues and expenses

15.1 Sales revenues

Revenues from operating activities	Period ended 31 December 2012	Period ended 31 December 2011
Sales of finished goods and merchandise with excise tax	*29.060.238*	*27.402.134*
Excise tax	*(466.284)*	*(459.311)*
Revenues from sale of finished goods and merchandise	28.593.954	26.942.823
Revenues from sale of services	599.158	697.591
Revenues from leases	36.401	31.430
Revenues from LTC compensations	1.327.301	439.510
Total sales revenues	**30.556.814**	**28.111.354**

The issue of revenues from LTC compensations is described in Note 45.1 of these financial statements.

15.2 Costs by type and functions

Costs by type	Period ended 31 December 2012	Period ended 31 December 2011 *(restated data)*
Depreciation/amortization	2.920.051	2.710.556
Materials and energy	4.124.432	3.874.131
External services	2.500.712	2.547.869
Taxes and charges	2.212.711	2.359.606
Personnel expenses	4.846.793	4.314.007
Other costs by type	322.273	290.209
Total costs by type	**16.926.972**	**16.096.378**
Change in inventories	(14.614)	(2.712)
Cost of products and services for the entity's own needs	(882.979)	(866.472)
Distribution and selling expenses	(1.495.512)	(1.638.285)
General and administrative expenses	(764.903)	(819.903)
Cost of merchandise and materials sold	8.576.229	7.905.155
Cost of goods sold	**22.345.193**	**20.674.161**

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15.3 Other operating revenues and expenses

Other operating revenues	Period ended 31 December 2012	Period ended 31 December 2011
Adjustment of revenues from LTC compensations	199.629	-
Profit on disposal of property, plant and equipment	16.839	14.988
Reversal of impairment allowances for receivables	31.387	52.637
Reversal of impairment allowances for other assets	2.329	2.203
Provisions reversed	262.791	41.401
Compensations, penalties and fines received	144.377	445.814
Grants received	18.377	15.219
Taxes refunded	12.415	2.991
Court fees refunded	4.347	2.894
Assets acquired free of charge	20.461	1.361
Surpluses / disclosures of assets	28.547	10.746
Revenues from illegal energy consumption	6.949	5.954
Other	34.273	27.776
Total other operating revenues	**782.721**	**623.984**

Revenues from provision reversed in 2012 relate mainly to dispute with Alpiq Holding described in note 30.2. of these financial statements. In year 2011 the position of compensations, penalties and fines received includes mainly accrued and received fines from Alstom consortium.

Other operating expenses	Period ended 31 December 2012	Period ended 31 December 2011
Adjustment of settlement from LTC compensations	-	1.037.632
Impairment allowances raised for receivables	64.569	42.259
Impairment allowances raised for other assets	1.676.021	16.590
Loss on disposal of property, plant and equipment and intangible assets	803	3.400
Provisions raised	106.942	142.845
Effect of change in recultivation provision due to change in discount rate	886.201	79.500
Donations granted	5.896	4.943
Compensation paid	3.369	2.647
Court fees paid	8.494	5.954
Liquidation of damages/ removal of failures	49.313	82.423
Scrapping of non-current assets	20.841	35.327
Forgiveness of receivables	8.352	4.868
Costs of social activities	4.269	5.304
Impairment allowance of goodwill	-	26.027
Settlement of inventory shortages	6.487	5.090
Other	21.854	17.886
Total other operating expenses	**2.863.411**	**1.512.695**

The issue of an adjustment of settlement related to LTC compensation presented in the table above was described in note 45.1 of these financial statements.

Impairment of property, plant and equipment consists mainly of impairment allowance of assets of Elektrownia Dolna Odra and the CCS project. These events are discussed in Note 21 to these consolidated financial statements.

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15.4 Financial revenues and expenses

Financial revenues	Period ended 31 December 2012	Period ended 31 December 2011
Financial revenues from financial instruments	**569.901**	**2.296.211**
Dividends	3.944	4.290
Interest revenue	391.918	223.524
Revaluation/ reversal of impairment allowances	19.123	4.428
Profit on disposal of investments	58.295	1.997.607
Exchange gains	96.621	66.362
Other financial revenues	**42.985**	**8.186**
Discount rate adjustment	127	440
Interest on statutory receivables	3.250	1.726
Provisions reversed	38.633	5.285
Other	975	735
Total financial revenues	**612.886**	**2.304.397**

The Group presents interest incomes arising mainly from cash investments and bonds issued by third parties. In 2012, earnings from sales of investments were mainly related to the sale of a non-controlling stake in Towarowa Giełda Energii S.A., and in 2011 - sale of Polkomtel S.A. shares.

Financial expenses	Period ended 31 December 2012	Period ended 31 December 2011
Financial expenses from financial instruments	**202.345**	**262.610**
Interest expenses	83.894	131.735
Revaluation	504	8.457
Impairment losses	69.333	2.467
Loss on disposal of investments	10	169
Exchange losses	48.604	119.782
Other financial expenses	**164.950**	**195.246**
Interest expenses (effect of discount unwinding)	156.420	183.184
Interest paid relating to state liabilities	2.369	945
Provisions created	2.680	5.862
Other	3.481	5.255
Total financial expenses	**367.295**	**457.856**

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15.5 Depreciation costs and impairment losses in the statement of comprehensive income

	Period ended 31 December 2012	Period ended 31 December 2011
Included in cost of goods sold:	**2.856.267**	**2.643.474**
Property, plant and equipment depreciation	2.797.818	2.585.940
Impairment allowances on property, plant and equipment	13.215	12.390
Intangible assets amortization	43.961	43.420
Impairment allowances on intangible assets	-	516
Other	1.273	1.208
Included in distribution and selling expenses:	**19.964**	**18.813**
Property, plant and equipment depreciation	17.133	15.467
Impairment allowances on property, plant and equipment	(17)	389
Intangible assets amortization	2.848	2.957
Included in general and administrative expenses:	**40.075**	**45.011**
Property, plant and equipment depreciation	33.661	38.095
Impairment allowances on property, plant and equipment	-	144
Intangible assets amortization	6.414	6.772
Included in other operating expenses:	**1.658.494**	**5.325**
Property, plant and equipment depreciation	-	3
Impairment allowances on property, plant and equipment	1.658.494	4.641
Intangible assets amortization	-	681
Included in change in inventories	**3.447**	**2.203**
Included in costs of products and services for the entity's own use	**300**	**1.054**

16 Employee benefits expenses

	Period ended 31 December 2012	Period ended 31 December 2011 *(restated data)*
Payroll	3.182.500	3.148.259
Social security expenses	618.962	577.447
Retirement and pensions costs	26.462	18.285
Jubilee awards and allowances	92.637	81.263
Other post-employment benefits	31.191	28.884
Other employee benefits	895.041	459.869
Total employee benefits expenses:	**4.846.793**	**4.314.007**
Included in costs of goods sold	3.900.024	3.443.593
Included in distribution and selling expenses	267.088	272.707
Included in general and administrative expenses	491.914	444.784
Included in costs of products and services for the entity's own use	187.767	153.217
Change in inventories	-	(294)

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17 Income tax

17.1 Tax disclosed in the statement of comprehensive income

Main elements of income tax expense for the periods ended 31 December 2012 and 31 December 2011 are as follows:

	Period ended 31 December 2012	**Period ended 31 December 2011** *(restated data)*
Consolidated statement of comprehensive income		
Current income tax	*802.911*	*996.769*
Current income tax expense	797.844	1.017.133
Previous periods' current income tax adjustments	5.067	(20.364)
Deferred tax related to temporary differences originated and reversed	66.792	187.420
Income tax expense presented in the consolidated statement of comprehensive income	**869.703**	**1.184.189**
Income tax expenses presented in discontinued operations	**(61)**	**455**
Other comprehensive income		
(Tax benefit) / tax expense recognized in other comprehensive income (equity)	(38.238)	12.013

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A reconciliation of the calculation of income tax on profit before tax at the statutory tax rate and income tax calculated according to the effective tax rate for the Group for the years ended 31 December 2012 and 31 December 2011 is as follows:

	Period ended 31 December 2012	Period ended 31 December 2011 *(restated data)*
Profit before tax from continued operations	**4.102.537**	**6.111.208**
Profit before tax from discontinued operations	**340**	**2.159**
Profit before tax	**4.102.877**	**6.113.367**
Income tax according to Polish statutory tax rate of 19%	779.546	1.161.540
Previous periods current income tax adjustments	5.067	(20.364)
Costs not recognized as tax-deductible costs	79.962	60.316
Non-taxable revenues	(58.061)	(63.787)
Other	63.250	46.939
Tax at effective tax rate amounting to 21,2% [2011: 19,4%]	**869.764**	**1.184.644**
Income tax (expense) as presented in statement of comprehensive income	869.703	1.184.189
Income tax attributable to discontinued operations	61	455

In the position of other differences are mainly recognized adjustments relating to deferred tax estimates by PGE Group subsidiaries.

17.2 Deferred tax disclosed in statement of financial position

Components of deferred tax liability

	As at 31 December 2012	As at 31 December 2011 *(data restated)*
1996-2000 investment relief	838	997
Difference between tax value and carrying value of property, plant and equipment	2.048.692	1.826.700
Accrued interest on deposits, loans granted, bonds and receivables	52.520	78.081
Difference between tax value and carrying value of other financial assets	290	3.614
Difference between tax value and carrying value of financial liabilities	14.440	10.012
Current period revenues unrealized for tax purposes	140.800	144.730
Difference between tax value and carrying value of energy origin units	60.899	37.128
Revenues from accrued LTC compensations	632.633	371.875
Accrued revenues	133.584	132.073
CO_2 emission rights	513.137	544.978
Other	55.931	114.373
Gross deferred tax liability	**3.653.764**	**3.264.561**

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Components of deferred tax assets

	As at 31 December 2012	**As at 31 December 2011** *(data restated)*
Difference between tax value and carrying value of property, plant and equipment	414.365	96.987
Current period costs not realized for tax purpose	128.303	128.147
Provisions for employee benefits	503.836	400.739
Provisions for recultivation of excavations and recultivation of ash storages	376.243	193.615
Accrued employee bonuses	23.048	16.404
Difference between tax value and carrying value of financial assets	7.541	19.331
Difference between tax value and carrying value of financial liabilities	25.487	30.490
Difference between tax value and carrying value of inventories	27.367	27.474
Payroll and other employee benefits	19.330	33.114
Tax losses	1.542	1.485
Energy infrastructure acquired free of charge and connection payments received	161.365	167.201
Provision due to CO_2 emission	405.136	588.972
Other provisions	51.276	65.028
Provision for energy origin units	142.715	120.128
Compensations from reversal of LTC	177.537	208.152
Other	88.807	93.611
Gross deferred tax asset	**2.553.895**	**2.190.878**
Impairment allowances on tax asset	(853)	(445)
Net deferred tax asset	**2.553.042**	**2.190.433**
After off-set of balances at the Group companies' level the deferred tax of the Group is presented as:		
Deferred tax asset	**367.079**	**296.387**
Deferred tax liability	**(1.467.801)**	**(1.370.515)**

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18 Non-current assets classified as held for sale

Property, plant and equipment comprise social holiday resorts of PGE Dystrybucja S.A and buildings held for sale in PGE Obrót S.A. In 2011 the main position of property, plant and equipment represented of power generating assets of PGE Energia Odnawialna S.A. of value of around 20 million PLN. 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

	As at 31 December 2012	As at 31 December 2011
Assets		
Intangible assets	-	72
Property, plant and equipment	8.029	30.301
Stock and shares classified as held for sale	1.356	2.694
Assets classified as held for sale	**9.385**	**33.067**
Liabilities directly associated with non-current assets classified as held for sale	**-**	**-**
Net assets/liabilities classified as held for sale	**9.385**	**33.067**

19 Discontinued operations

During the year ended 31 December 2012 the parent company and key subsidiaries did not discontinue any significant operations. However, in PGE Group there are carried out activities under which assets that are not closely related to core business are sold.

In 2012, results of MegaMed sp. z o.o. till the date of its disposal are presented as discontinued operations. As at 31 December 2012 the Group does not identify significant areas of discontinued operations.

20 Assets and liabilities of the Social Fund

The Social Fund Act of 4 March 1994 states that a social fund is created by employers employing over 20 full time employees. The Group entities create such a fund and perform periodical allowances. The fund does not possess any property, plant and equipment. The goal of the fund is to subsidize the social activity for employees of the Group, loans granted to its employees and other social expenses.

The Group entities compensated the Fund's assets with liabilities as the Fund's assets do not represent the assets of the Group.

As at 31 December 2012, assets assigned to the social fund in the Group amounted to PLN 179.880 thousand and as at 31 December 2011, PLN 182.007 thousand.

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21 Property, plant and equipment

31 December 2012	Land	Buildings and construction	Machinery and equipment	Vehicles	Other property, plant and equipment	Construction in progress	Total
Gross book value							
Opening balance	**195.256**	**25.566.620**	**30.450.110**	**547.541**	**386.558**	**2.269.938**	**59.416.023**
Direct purchase	8	524	3.782	2.897	3.041	4.125.447	**4.135.699**
Transfer from construction in progress	11.841	1.513.525	1.647.837	39.665	29.579	(3.242.447)	**-**
Sales/ disposals	(910)	(12.935)	(30.535)	(26.065)	(817)	(832)	**(72.094)**
Transfer between groups	-	(1.001)	908	(17)	110	-	**-**
Donations and transfers free of charge	1	13.129	208	(176)	-	-	**13.162**
Scrapping	(5)	(97.819)	(382.350)	(1.722)	(6.096)	(19)	**(488.011)**
Acquisition of subsidiary	253	217.794	446.774	-	81	15	**664.917**
Disposal of subsidiary	(455)	(17.013)	(2.266)	(233)	(10.692)	(2.839)	**(33.498)**
Other changes in values	16.513	(5.678)	12.678	7.265	(408)	(46.270)	**(15.900)**
Closing balance	**222.502**	**27.177.146**	**32.147.146**	**569.155**	**401.356**	**3.102.993**	**63.620.298**
***Depreciation and impairment* allowances**							
Opening balance	**9.071**	**6.357.545**	**9.504.155**	**272.968**	**275.294**	**22.171**	**16.441.204**
Depreciation for the period	1.652	1.128.771	1.642.148	51.876	28.090	-	**2.852.537**
Increase of impairment allowances	4.311	588.573	846.945	2.757	3.905	227.290	**1.673.781**
Decrease of impairment allowances	-	(500)	(800)	-	(29)	(760)	**(2.089)**
Sales/ disposals	(16)	(4.586)	(16.917)	(21.188)	(562)	-	**(43.269)**
Transfers between groups	-	182	(212)	(1)	8	-	**(23)**
Donations and transfers free of charge	-	-	(82)	(134)	-	-	**(216)**
Scrapping	-	(82.500)	(373.371)	(1.183)	(5.862)	-	**(462.916)**
Acquisition of subsidiary	2	258	834	-	64	-	**1.158**
Disposal of subsidiary	(113)	(2.876)	(1.579)	(61)	(7.580)	-	**(12.209)**
Other changes in values	(488)	(11.025)	(4.844)	2.836	(530)	(2.805)	**(16.856)**
Closing balance	**14.419**	**7.973.842**	**11.596.277**	**307.870**	**292.798**	**245.896**	**20.431.102**
Opening balance net book value	**186.185**	**19.209.075**	**20.945.955**	**274.573**	**111.264**	**2.247.767**	**42.974.819**
Closing balance net book value	**208.083**	**19.203.304**	**20.550.869**	**261.285**	**108.558**	**2.857.097**	**43.189.196**

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31 December 2011	Land	Buildings and construction	Machinery and equipment	Vehicles	Other property, plant and equipment	Construction in progress	Total
Gross book value							
Opening balance	**184.826**	**22.088.467**	**25.417.854**	**365.255**	**553.689**	**7.358.214**	**55.968.305**
Direct purchase	8.578	63	6.669	3.247	3.744	4.224.138	**4.246.439**
Transfer from construction in progress	12.679	3.577.682	5.642.547	74.584	30.396	(9.337.888)	**-**
Sales/ disposals	(423)	(9.144)	(8.756)	(12.481)	(1.569)	(3.501)	**(35.874)**
Transfer between groups	(20.646)	60.027	54.892	120.760	(215.033)	-	**-**
Donations and transfers free of charge	8	9.069	80	-	(77)	5	**9.085**
Scrapping	(149)	(125.452)	(647.946)	(3.416)	(4.612)	(496)	**(782.071)**
Held for sale	(1.317)	(20.234)	(12.486)	(26)	(737)	-	**(34.800)**
Other changes in values	11.700	(13.858)	(2.744)	(382)	20.757	29.466	**44.939**
Closing balance	**195.256**	**25.566.620**	**30.450.110**	**547.541**	**386.558**	**2.269.938**	**59.416.023**
***Depreciation and impairment* allowances**							
Opening balance	**16.081**	**5.422.986**	**8.582.784**	**164.115**	**325.766**	**14.392**	**14.526.124**
Depreciation for the period	1.514	1.044.628	1.514.086	53.591	28.943	-	**2.642.762**
Increase of impairment allowances	-	2.930	14.919	1	23	7.434	**25.307**
Decrease of impairment allowances	-	(6.414)	(735)	-	-	(594)	**(7.743)**
Sales/ disposals	(10)	(4.304)	(6.175)	(10.310)	(1.233)	-	**(22.032)**
Transfers between groups	(6.776)	10.712	36.979	73.274	(114.189)	-	**-**
Donations and transfers free of charge	-	-	-	-	(73)	-	**(73)**
Scrapping	-	(100.558)	(633.189)	(3.505)	(4.389)	-	**(741.641)**
Held for sale	-	(3.889)	(1.824)	(17)	(255)	-	**(5.985)**
Other changes in values	(1.738)	(8.546)	(2.690)	(4.181)	40.701	939	**24.485**
Closing balance	**9.071**	**6.357.545**	**9.504.155**	**272.968**	**275.294**	**22.171**	**16.441.204**
Opening balance net book value	**168.745**	**16.665.481**	**16.835.070**	**201.140**	**227.923**	**7.343.822**	**41.442.181**
Closing balance net book value	**186.185**	**19.209.075**	**20.945.955**	**274.573**	**111.264**	**2.247.767**	**42.974.819**

During the period ended 31 December 2012, the Group entities included in the values of property, plant and equipment and property, plant and equipment in progress expenses related to external financing in the amount of PLN 2.196 thousand (PLN 40.193 thousand during the year ended 31 December 2011).

Significant increases

During the current reporting period, PGE Group purchased property, plant and equipment and property, plant and equipment under construction of PLN 4,135 million. Largest expenditures were made by PGE Górnictwo i Energetyka Konwencjonalna S.A. (PLN 2,749 million) and PGE Dystrybucja S.A. (PLN 1,305 million). The main item of investments at 1,113 million PLN was the integrated restructuring and refurbishing project for power units 7 and 8 at the Elektrownia Bełchatów.

In addition, property, plant and equipment were increased during the reporting period due to purchase of Pelplin sp. z o.o. and Żuromin sp. z o.o. by PGE Energia Odnawialna S.A., in the amount of 659.9 million. No significant property, plant and equipment sale transactions occurred during the reporting period.

Changes in estimating useful life of property, plant and equipment

During the reporting period the Group companies reviewed economic useful lives of property, plant and equipment used in determining the depreciation rates. In result of the review part of the depreciation rates was updated. The change resulted in decrease of the annual depreciation cost by PLN 53.843 thousand.

The recoverable amount of production property, plant and equipment

During the period ended 31 December 2012 there were significant changes in the economic environment of production companies operating in Poland.

Consequently, PGE Group performed impairment tests related to cash generating units ("CGU"), including production property, plant and equipment the purpose of which was to determine their recoverable value as at 31 December 2012. Due to the fact, that there were no similar transactions on the Polish market, the recoverable value was determined with the use of the discounted cash flow method on the basis of financial projections for the years 2013 - 2030.

The key assumptions influencing the recoverable value of tested CGUs are as follows:

- Recognized as one CGU, respectively:
  - Oddział Kopalnia Węgla Brunatnego Bełchatów and Oddział Elektrownia Bełchatów,
  - Oddział Kopalnia Węgla Brunatnego Turów and Oddział Elektrownia Turów,

  due to the technological and economical connections between these entities;
- recognized as three separate CGU: Elektrownia Dolna Odra, Elektrownia Szczecin and Elektrownia Pomorzany being a part of Oddział Zespół Elektrowni Dolna Odra;
- the adopted assumptions of electricity prices in the years 2013-2030, including influence of LTC settlements and the costs of purchase of CO_2 emission allowances;
- the assumptions on the number of CO_2 emission rights received free of charge for the years 2008-2012 for particular CGU in accordance with the National Allocation Plan II and the decision about additional allocation of emission limits for the block 858MW in Oddział Elektrownia Bełchatów. For the years 2013-2020 assumption of proportional reduction of limits as compared to the allocation for the year 2012 was set, from 47% in year 2013 to 0% in year 2020 and subsequent years;
- maintenance of production capacities at current level;
- the adopted after tax weighted average cost of capital in the range of 8,4% - 9,6%;
- LTC compensations received by entitled producers.

The sensitivity analysis performed indicates that the most significant factors influencing the estimation of the income value of cash generating units are: the forecast on wholesale prices of electricity and assumed discount rates.

As a result of tests conducted as at 31 December 2012, recoverable value of tested property, plant and equipment appeared to exceed their carrying value for all the tested CGUs except the Elektrownia Dolna Odra, where the test indicated the need to create impairment allowance of property, plant and equipment owned by that power plant. Therefore, impairment was written off the value of tangible fixed assets of the Elektrownia Dolna Odra in the amount of PLN 1,485.9 million.

Measurement estimate of property, plant and equipment in distribution company

As at the balance sheet date carrying value of fixed assets related to the distribution activity amounted to nearly PLN 14 billion and represents almost 24% of the total consolidated assets. Their recoverable amount depends on the tariff granted by the Energy Regulatory Office ("ERO"). The regulatory (tariff) revenue of the companies, calculated yearly in the financial plan, assures covering of justified costs: operating costs, depreciation charges, tax charges, purchase costs of electricity to cover balancing differences, costs transferred and return on capital invested in distribution activity on the justified level. Return on equity and depreciation charges are dependent on the so called Regulatory Value of Assets.

Currently the electrical energy market in Poland was facing structural changes. Distribution companies, including those within the PGE Group, lead thorough discussions with the Energy Regulatory Office over the question of accepting the revaluated assets as a basis to calculate the return on equity in tariff. In 2009 the works of the team formed by the Polish Society of Transmission and Distribution of Electricity ("PSTDE") with the participation of the President of ERO were finished. The purpose of the works was to elaborate a proposal of unified principles of measurement of assets' value related to transmission system on the basis of which transmission tariffs will be calculated as well as the so-called access path to a full return on the capital invested on the basis of elaborated assumptions. As a consequence of the works specified above, the Regulatory Value of Assets of PGE Dystrybucja S.A. branches was determined. As at the date of preparation of these consolidated financial statements, PGE Group has not identified the need to update the carrying values of the relevant property, plant and equipment.

Other property, plant and equipment of the Group companies

Since 2009, works have been carried out at the Elektrownia Bełchatów in the course of implementing the project entitled "Construction of a CCS – Carbon Capture and Storage system". This project is co-financed by the European Union with the funds of the European Energy Programme for Recovery (EEPR). At the same time, PGE GiEK S.A. was seeking extra funds for financing the CCS project, including inter alia other European and domestic programmes.

On 18 December 2012, the European Commission decided to grant funding under the first call asking interested parties to submit applications for the NER 300 Programme for 23 renewable projects, amounting to a total of €1.2 billion. However, the Commission did not award funding even to a single CCS project. Therefore, CCS project funding could not be closed, as this is not possible without the NER 300 resources. The subsidiary does not have any government warranties of support for the project with domestic funds. Until the effective date of these financial statements, the National Support Mechanism has not been implemented.

Due to the failure to obtain the necessary public funding for the CCS project as well as other risks (legal, social and technological) identified in the project, PGE Group had to create impairment allowance of the expenditures already incurred on implementing the CCS project. The value of this impairment allowance, i.e. PLN 155.7 million, was carried to financial result (other operating expenses) of the Group.

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22 Investment property

	2012	2011
Opening balance as at 1 January	**33.286**	**24.959**
Increase of value	426	14.688
Depreciation	(1.273)	(1.131)
Decrease of value	(4.156)	(5.230)
Closing balance as at 31 December	**28.283**	**33.286**

Investment property in the Group companies comprises mainly buildings located in the entity's location, leased to third parties in part or in full.

The Group measures investment property at cost of acquisition less depreciation amount. Fair value of investment property is not significantly higher than their carrying amount in light of the materiality related to the consolidated financial statements as a whole.

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23. Intangible assets

31 December 2012	Development costs	Goodwill	Licenses and patents		Other intangible assets	Non-commissioned intangible assets	Total
			Total	Including computer software			
Gross book value							
Opening balance	**14.383**	**9.891**	**381.560**	**357.012**	**130.900**	**30.764**	**567.498**
Direct purchase	-	177.907	566	505	-	118.146	296.619
Transfer of non-commissioned intangible assets	-	-	63.919	42.210	6.400	(70.319)	-
Transfers between groups	90	-	1.748	-	(1.838)	-	-
Donations and transfers free of charge	-	-	-	-	7.100	-	7.100
Scrapping	-	-	(12.702)	(12.343)	(33)	-	(12.735)
Sale of subsidiary	-	-	(1.502)	(1.502)	-	-	(1.502)
Other changes of values	334	-	(17.241)	(19.510)	(9.757)	5.833	(20.831)
Closing balance	**14.807**	**187.798**	**416.348**	**366.372**	**132.772**	**84.424**	**836.149**
Amortization and impairment allowance							
Opening balance	**12.665**	**-**	**266.559**	**244.473**	**70.606**	**747**	**350.577**
Amortization for the period	694	-	48.844	40.722	3.508	-	53.046
Transfers between groups	-	-	22	-	(22)	-	-
Scrapping	-	-	(12.165)	(12.128)	(29)	-	(12.194)
Sale of subsidiary	-	-	(962)	(962)	-	-	(962)
Other changes of values	-	-	(14.967)	(448)	(1.773)	-	(16.740)
Closing balance	**13.359**	**-**	**287.331**	**271.657**	**72.290**	**747**	**373.727**
Net book value							
Opening balance	**1.718**	**9.891**	**115.001**	**112.539**	**60.294**	**30.017**	**216.921**
Closing balance	**1.448**	**187.798**	**129.017**	**94.715**	**60.482**	**83.677**	**462.422**

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31 December 2011	Development costs	Goodwill	Licenses and patents		Other intangible assets	Non-commissioned intangible assets	Total
			Total	Including computer software			
Gross book value							
Opening balance	**14.031**	**9.952**	**340.527**	**256.417**	**126.206**	**25.663**	**516.379**
Direct purchase	248	-	1.263	1.111	3.943	61.698	67.152
Transfer of non-commissioned intangible assets	-	-	50.122	42.282	12.749	(62.871)	-
Sales/ disposals	-	-	(81)	(81)	-	-	(81)
Donations and transfers free of charge	-	-	-	-	7.424	-	7.424
Scrapping	-	-	(18.516)	(18.476)	(90)	-	(18.606)
Held for sale	-	(61)	(20)	(20)	-	-	(81)
Other changes of values	104	-	8.265	75.779	(19.332)	6.274	(4.689)
Closing balance	**14.383**	**9.891**	**381.560**	**357.012**	**130.900**	**30.764**	**567.498**
Amortization and impairment allowance							
Opening balance	**11.813**	**-**	**231.738**	**181.155**	**69.968**	**231**	**313.750**
Amortization for the period	749	-	47.200	41.536	5.881	-	53.830
Increase of impairment allowances	-	-	-	-	-	516	516
Sales/ disposals	-	-	(25)	(25)	-	-	(25)
Scrapping	-	-	(18.426)	(18.422)	(89)	-	(18.515)
Held for sale	-	-	(10)	(10)	-	-	(10)
Other changes of values	103	-	6.082	40.239	(5.154)	-	1.031
Closing balance	**12.665**	**-**	**266.559**	**244.473**	**70.606**	**747**	**350.577**
Net book value							
Opening balance	**2.218**	**9.952**	**108.789**	**75.262**	**56.238**	**25.432**	**202.629**
Closing balance	**1.718**	**9.891**	**115.001**	**112.539**	**60.294**	**30.017**	**216.921**

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Goodwill

Increases of goodwill as presented in 2012 are related to acquisition of Pelplin sp. z o.o. and Żuromin sp. z o.o. As specified in Note 2.2 to these financial statements, accounting acquisitions of these subsidiaries have not yet been completed and therefore the goodwill presented in the above table may vary during the 12 months following the date of acquisition of these companies.

The presented amount of intangible assets not commissioned as at 31 December 2012 concerns mainly the SAP implementation programme in the Group.

24. Lease

24.1. Operating lease liabilities – the Group as the lessee

As at 31 December 2012 and as at 31 December 2011, the future minimum lease payments related to irrevocable lease agreements are as follows:

	Future liabilities as at	
	31 December 2012	**31 December 2011**
Less than 1 year	394	337
Between 1 and 5 years	1.968	1.171
More than 5 years	2.755	2.947
Total lease payments	**5.117**	**4.455**

Additionally the Group entities incur costs related to a perpetual usufruct of land. The value of these costs for the year ended 31 December 2012 amounted to PLN 14.988 thousand.

24.2. Operating lease receivables – Group as a lessor

The PGE Group companies have signed agreements with Polskie Sieci Elektroenergetyczne S.A. on rendering intervention services related to administration of and using of production units by the system operator in order to balance active and passive power on an intervention basis in the National Electroenergetic System (NES). This aims at ensuring proper and safe operation of the system. The above mentioned agreements, although not having a legal form of leasing, give the right to use the assets for a series of payments.

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24.3. Liabilities from lease and lease agreement with option to purchase

As at 31 December 2012 and as at 31 December 2011, the future minimum lease payments related to these agreements and current value of minimum net lease payments are as follows:

	As at 31 December 2012		As at 31 December 2011	
	Minimal payments	Current value of payments	Minimal payments	Current value of payments
Less than 1 year	2.918	2.213	4.540	3.930
Between 1 and 5 years	2.764	2.124	5.662	5.098
More than 5 years	136	133	713	678
Total minimum lease payments	**5.818**	**4.470**	**10.915**	**9.706**
Less financial expenses	(1.348)	-	(1.209)	-
Current value of minimum lease payments, including:	**4.470**	**4.470**	**9.706**	**9.706**
Short-term	2.213	2.213	3.930	3.930
Long-term	2.257	2.257	5.776	5.776

24.4. Receivables from finance lease and lease agreement with purchase option

	As at 31 December 2012		As at 31 December 2011	
	Minimal payments	Current value of payments	Minimal payments	Current value of payments
Less than 1 year	145	113	1.058	825
Between 1 and 5 years	116	108	1.821	1.578
More than 5 years	-	-	-	-
Total minimum lease payments	**261**	**221**	**2.879**	**2.403**
Less financial expenses	(40)	-	(476)	-
Current value of minimum lease payments, including:	**221**	**221**	**2.403**	**2.403**
Short-term	113	113	825	825
Long-term	108	108	1.578	1.578

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25. Investments in associates accounted for using the equity method

	PEC Bogatynia*	Swe-Pol Link*	TOTAL
Share in voting rights	34,93%	49,00%	
	Transmission, distribution and turnover of heat	Transmission of electricity	
As at 31 December 2012			
Share of statement of financial position in associate:			
Current assets (short-term)	1.948	17.664	19.612
Non-current assets (long-term)	7.880	390	8.270
Short-term liabilities	(675)	(2.023)	(2.698)
Long-term liabilities	(72)	-	(72)
Share of net assets	**9.081**	**16.032**	**25.113**
Goodwill	-	15.341	15.341
Shares in associate in the statement of financial position	**9.081**	**31.373**	**40.454**
Period ended 31 December 2012			
Share of revenue of the associate	3.729	53.264	56.993
Share of profit (loss) of the associate:	**(398)**	**(13.172)**	**(13.570)**

* Preliminary non-audited data

PGE Polska Grupa Energetyczna S.A. as a 49% shareholder in SwePol Link AB signed contracts to the effect of further restructuring of the Poland-Sweden DC link. At the end of 2010, there were certain changes in EU legislation (implementation of Third Party Access principle), followed by signing of a multilateral agreement - so-called Market Coupling Agreement in December 2010 by PSE Operator S.A., Svenska Kraftnat, SwePol Link AB, SwePol Link Poland, Nordpool and TGE energy exchanges, formally releasing the transmission capacity of the link on the market. On 31 August 2012, link assets were sold and transferred to the Polish and Swedish transmission operators. Further consequence of assets sale will be the liquidation of SwePol Link Poland and SwePol Link AB. Therefore, on 26 October 2012, an Extraordinary General Meeting of Shareholders of SwePol Link AB took place, passing a resolution on liquidation of SwePol Link AB. The carrying value of shares in SwePol Link AB should be considered jointly with the amount of deferred income described in note 37 to these financial statements.

In 2011, the Group was presenting share in profit of associates in the amount of PLN 174.373 thousand. Of this value, PLN 168.148 related to share in profit of Polkomtel S.A., which was sold in November 2011.

26. Joint ventures

During the reporting periods ended 31 December 2012 and 31 December 2011 the Group did not participate in any significant joint ventures.

The issue of the Letter of Intent on exploration and extraction of shale gas was described in the note 45.2 of these following financial statements.

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27. Inventories

	31 December 2012			31 December 2011		
	Historical cost	Impairment allowance	Net realizable value	Historical cost	Impairment allowance	Net realizable value
Materials	1.178.752	(134.549)	1.044.203	985.676	(139.796)	845.880
Finished goods	5.632	(22)	5.610	5.205	(19)	5.186
Semi-products and work in progress	74.876	-	74.876	57.549	-	57.549
Energy origin rights	664.622	(11.950)	652.672	385.649	(20)	385.629
Merchandise	7.591	(932)	6.659	8.789	(830)	7.959
CO_2 emission rights	429.715	(555)	429.160	3.744	(620)	3.124
Total	**2.361.188**	**(148.008)**	**2.213.180**	**1.446.612**	**(141.285)**	**1.305.327**

Impairment allowance for inventories as at 1 January 2012	**(141.285)**
Impairment allowances raised	(47.108)
Impairment allowances reversed	18.628
Impairment allowances used	21.598
Other	159
Impairment allowance for inventories as at 31 December 2012	**(148.008)**

Creation of the above impairment allowances related mainly to spare parts and materials as a result of their amortization or obsolescence. Reversal of impairment allowances, mainly on spare parts and materials, resulted from their disposal or usage to the value exceeding the previously measured carrying amount.

Energy origin rights and CO_2 emission rights presented in inventories are held for merchandise purposes.

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28. Carbon dioxide emission rights

A separate item in the statement of financial position is used for presentation of European Union Allowances (EUA) for carbon emissions, designed for the PGE Group companies' own purposes, and other units redeemed pursuant to greenhouse gas emissions (CER, ERU) - received free of charge under the National Allocation Plan (NAP) and acquired otherwise. EUA received free of charge under the NAP are recognized in the books 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 dedicated 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 1 January 2012	**56.405**	**3.038.286**	**8.238**	**328.702**	**3.366.988**
Purchase	17.041	534.435	2.484	42.203	576.638
Allocation within NAP	57.042	1.738.417	-	-	1.738.417
Redemption	(54.185)	(2.614.667)	(4.935)	(176.792)	(2.791.459)
Reclassification to/from inventories	-	-	-	-	-
As at 31 December 2012	**76.303**	**2.696.471**	**5.787**	**194.113**	**2.890.584**

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29. Other short-term and long assets

Other long-term assets

	As at 31 December 2012	As at 31 December 2011
Advances for construction in progress	342.592	194.080
Advances for the purchase of shares	-	198.150
Other prepaid expenses	64.629	47.927
Total other long-term assets	**407.221**	**440.157**

Advances for construction in progress relate mainly to investment projects conducted by PGE Górnictwo i Energetyka Konwencjonalna S.A. Advances for the purchase of shares comprised as at 31 December 2012 advances reported by PGE Energia Odnawialna S.A. for the purchase of shares in Żuromin sp. z o.o. and Pelplin sp. z o.o. Other prepaid expenses comprise mainly acquired right of perpetual usufruct of land, which in accordance with the accounting policies of PGE Capital Group is presented on the similar basis as operating lease.

Other short-term assets

	As at 31 December 2012	As at 31 December 2011
Deferred expenses		
Tax on civil law transactions	-	75.300
Property and tort insurance	27.425	28.207
IT services	5.085	4.441
Accrued commissions	16.177	12.483
Accrued construction-assembly contracts	7.984	-
Other accrued costs	35.979	37.494
Other short-term assets		
Accrued revenues	548.629	502.397
VAT receivable	102.611	89.190
Excise tax receivable	26.651	19.045
Other tax receivables	5.640	6.534
Advances for deliveries of property, plant and equipment, and intangible assets	12.697	12.520
Prepayments for deliveries	5.326	208
Dividends receivable	-	146.443
Other short-term assets	12.029	12.794
Total other short-term assets	**806.233**	**947.056**

The accrued revenues comprise estimation of sales of the electric energy not read from the meters as at the balance sheet date.
Tax on civil law transactions presented in the above table as at 31 December 2011 relates to the acquisition processes in PGE S.A. (described in note 45.5 of these financial statements).

Dividends receivable presented in the above table as at 31 December 2011 relates to the settlement of PGE Górnictwo i Energetyka Konwencjonalna S.A. with non-controlling shareholders.

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30. Cash and cash equivalents

Cash at the bank is subject to variable interest rates which are based on bank deposits' interest rates. Short-term deposits are made for different periods, from one day up to one month, depending on the Group's needs for cash, and are deposited at individually settled interest rates. Fair value of cash and cash equivalents as at 31 December 2012 amounted PLN 4.795.493 thousand (as at 31 December 2011, amounted to PLN 4.052.238 thousand).

The balance of cash and cash equivalents comprise the following positions:

	As at 31 December 2012	As at 31 December 2011
Cash on hand and cash at bank	1.040.338	429.435
Overnight deposits	547.336	138.684
Short-term deposits	3.207.819	3.484.119
Total	**4.795.493**	**4.052.238**
Cash and cash equivalents presented in the statement of cash flows	**4.789.910**	**4.040.902**
Credit limits at disposal	991.880	1.621.419
Including credit in current account	*983.580*	*1.609.719*

The difference between the value of Cash and Cash equivalents presented in the statement of financial position and that presented in the statement of Cash flows results mainly from interests accrued but not received as at balance sheet date, as well as exchange differences from cash and cash equivalents as well as cash attributed to discontinued operations.

Restricted cash relates mainly to the Mine Liquidation Trust and Mine Recultivation Trust. Restricted cash under the Funds amounted PLN 400.333 thousand as at 31 December 2012 and PLN 188.561 thousand as at 31 December 2011.

Furthermore, the above cash and cash equivalents include cash deposit securing the settlements with Warsaw Commodity Clearing House (for details please refer to note 42.5 of these financial statements).

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31. Share capital and other equity

The basic assumption of the Group policy regarding equity management is to maintain an optimal equity structure over the long term in order to assure a good financial standing and secure equity structure ratios that would support the operating activity of the Group. It is also crucial to maintain a sound equity base that would be the basis to win confidence of potential investors, creditors and the market and assure further development of the Group.

31.1. Share capital

	As at 31 December 2012
Number of Series A ordinary Shares with a nominal value of 10 PLN each	1.470.576.500
Number of Series B ordinary Shares with a nominal value of 10 PLN each	259.513.500
Number of Series C ordinary Shares with a nominal value of 10 PLN each	73.228.888
Number of Series D ordinary Shares with a nominal value of 10 PLN each	66.441.941
Total	**1.869.760.829**

	As at 31 December 2011
Number of Series A ordinary Shares with a nominal value of 10 PLN each	1.470.576.500
Number of Series B ordinary Shares with a nominal value of 10 PLN each	259.513.500
Number of Series C ordinary Shares with a nominal value of 10 PLN each	73.241.482
Number of Series D ordinary Shares with a nominal value of 10 PLN each	66.452.245
Total	**1.869.783.727**

All shares of the Company are paid up.

Ownership structure of the Company in the reporting period is presented below.

	State Treasury	Other Shareholders	Total
As at 1 January 2012	**69,29%**	**30,71%**	**100,00%**
As at 31 December 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.

On 29 February 2012, the State Treasury sold shares in PGE S.A., constituting 7,01% of the share capital of the Company. In accordance with a notification received from the State Treasury, in result of the mentioned sale transaction the shareholding in the Company owned by the State Treasury amounts to 61,89%.

As at the date of these financial statements no changes to the share capital of the Company were registered as compared to the balance sheet date.

31.2. Rights of the shareholders

Rights of the State Treasury

The Company is the parent company of the PGE Group, to which State Treasury holds special rights.

Even though, the shares of the Company are not preferential, the Company's Articles of Association provide special rights to the State Treasury as long as it remains a shareholder of the Company.

According to the Company's Articles of Association, the State Treasury holds the right to approach the Management Board with a written demand for a General Meeting of Shareholders to be called, including matters for the meeting agenda, submitting draft resolutions related to matters included in the agenda or matters that may be included in the agenda, obtaining copies of announcements published in the Court and Commercial Monitor.

In addition, based on the Company's Articles of Association, the State Treasury holds special rights to influence the process of appointing members of the Supervisory Board. Namely, half of the members of the Supervisory Board, including the President of the Supervisory Board are appointed by the General Shareholders' Meeting from the list of candidates submitted by the State Treasury. The State Treasury will hold this right for as long as its shareholding in the Company is not less than 20%.

Furthermore, based on the Company's Articles of Association, the State Treasury holds the right to appoint and dismiss one member of the Supervisory Board in the form of a written statement submitted to the Company during the General Meeting of Shareholders or outside the General Meeting of Shareholders through of the Management Board. Furthermore, this right can be executed by the State Treasury independently of voting rights in appointing other members of the Supervisory Board.

Additionally, if the mandate of a member of the Supervisory Board expires and as a result the number of members of the Supervisory Board is less than the minimum number of members specified in the Company's Articles of Association, the Management Board is obliged to call a General Meeting of Shareholders in order to appoint an additional member. As soon as at least one mandate of a member of the Supervisory Board appointed in group voting expires, the State Treasury regains its individual right to appoint one member of the Supervisory Board in the form of a written statement.

On 29 June 2011 the Shareholders' Meeting adopted a resolution introducing changes to restrictions on voting rights for existing shares. The voting right was limited, meaning that no shareholder may exercise more than 10% of the total number of voting rights exercisable during the Shareholders' Meeting, with the exception that for the purpose of determining obligations of purchasers of significant shareholdings described in the Act on Public Offering, Conditions Governing the Introduction of Financial Statements to Organized Trading, and Public Companies dated 29 July 2005 ("Act on Public Offering"), the mentioned restriction will not apply. The above mentioned restriction does not apply to the State Treasury and other shareholders, who act with the State Treasury under agreement for joint exercise of voting rights. These restrictions are effective for as long as the shareholding owned by the State Treasury is not less than 5%.

Right regarding the Company's operations

Based on the Act of 18 March 2010 on special rights the Minister of the Treasury and their performance in certain incorporated companies or holding companies operating in the electricity, oil and gaseous fuels sectors (OJ No 65, dated 21 April 2010, item. 404) the Minister of the Treasury has the right to object to any resolution or legal action of the Management Board that relates to the ability to dispose a part of company's property, which is of significant importance to its functioning, continuity of operations and integrity of critical infrastructure if there is a reasonable assumption that such legal action might violate public order or public safety. The objection can also be expressed against any resolution adopted that relates to:

- liquidation of the Company,
- changes of the use or discontinuance of exploitation of the company's asset, which is a component of critical infrastructure,
- change in the scope of activities of the Company,

- sale or lease of the enterprise or its organized part or establishment of legal restrictions,
- approval of operational and financial plan, investment plan, or long-term strategic plan,
- movement of the Company's seat abroad,

if the enforcement of such a resolution resulted in an actual threat to the operation continuity or integrity of the critical infrastructure. The objection is expressed in the form of an administrative decision.

The new Act introduces a function of a representative for critical infrastructure. The representative is chosen by the Company in consultation with the Minister of Treasury and the director of the Government Security Center.

31.3. Treasury shares

As a consequence of PGE S.A.'s merger with PGE Górnictwo i Energetyka S.A. and PGE Energia S.A., PGE S.A. acquired 22.898 treasury shares for PLN 579 thousand. The value of each share was based on the valuation made for the purpose of the merger. This acquisition of shares was transacted for the purpose of their redemption. The General Meeting of Shareholders of PGE S.A. adopted a resolution relating to the redemption of shares by lowering the share capital. On 23 June 2012 the capital reduction was registered in the National Court Register.

31.4. Reserve capital

In accordance with adopted accounting policy reserve capital of the Group is reserve capital presented in the stand alone financial statement of the parent company.

Reserve capital results from a surplus of issue value over nominal value less costs of share issue. Furthermore, a reserve capital results from statutory write-offs on profits generated in previous reporting periods, as well as from a surplus of profit distribution over the value of a statutory write-off.

Reserve capital subject to distribution amounted to PLN 3.455.060 thousand as at 31 December 2012.

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31.5. Retained earnings and limitations to payment of a dividend

Retained earnings include the amounts that are not subject to distribution i.e. that cannot be paid as a dividend by the parent company:

	As at 31 December 2012	As at 31 December 2011 *(restated data)*
Amounts included in retained earnings that cannot be distributed by the parent:		
Retained earnings of subsidiaries, attributable to equity holders of the parent, including consolidation adjustments	11.082.042	8.758.180
8% of the value of the parent company's statutory profit to be allocated to reserve capital as specified in the Commercial Code	-	-
Profit/loss recognized by the parent company as retained earnings in the position of other comprehensive income	(1.913)	2.560
The excess of the value of the published net profit over the value of the restated net profit of the parent company for the year 2011	-	(2.560)
Other retained earnings of the parent company not subject to distribution	79.466	79.276
Retained earnings of the parent subject to distribution	783.998	4.556.115
Total retained earnings presented in the consolidated financial statements of the parent attributable to equity holders of the parent	**11.943.593**	**13.393.571**

According to regulations of the Commercial Code of the Companies, the parent company and subsidiaries which are joint stock companies are obliged to create reserve capital to cover potential losses. At least 8% of the profit for the reporting year recognized in the statutory financial statements is transferred to reserve capital, until this capital amounts to at least one third of the share capital. As at the 31 December 2012, the reserve capital of PGE Polska Grupa Energetyczna S.A. exceeded the amount specified in the Commercial Code.

Retained earnings of the parent company include increases and decreases resulting from the restatement of the financial statements in accordance with IFRS. In line with the Company Code only the capital resulting from profit is distributed as dividend to the shareholders.

The General Shareholders' Meetings decides on the use of the reserve capital, however the part of reserve capital which amounts to one third of share capital can only be used to cover losses recognized in statutory financial statements and cannot be distributed for other purposes.

As at 31 December 2012 there were no other restrictions on payment of dividends.

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31.6. Equity attributable to non-controlling interests

As at 31 December 2012 equity attributable to non-controlling interests relates mainly to non-controlling shareholders of PGE Górnictwo i Energetyka Konwencjonalna S.A.

The below table presents changes in the equity attributable to non-controlling shareholders in the reporting periods.

	Period ended 31 December 2012	Period ended 31 December 2011 *(restated data)*
Opening balance	**413.994**	**595.510**
Share in profit of subsidiaries	22.042	36.028
Share in actuarial gains and losses	(882)	541
Dividends declared by subsidiaries	(1.011)	(26.904)
Changes in accounting policies	-	-
Acquisition of new companies	19.723	(8.676)
Sale of subsidiaries	-	(1)
Acquisition of non-controlling interests by the Capital Group	(127.041)	(182.472)
Inclusion of new companies to the Capital Group as a result of business combinations of subsidiaries	-	(32)
Effect of merger in the Capital Group	(37.332)	-
Closing balance	**289.493**	**413.994**

Acquisition of non-controlling shares during the year ended 31 December 2012 relates mainly to the acquisition of shares of PGE Górnictwo i Energetyka Konwencjonalna S.A., PGE Obrót S.A., and PGE Dystrybucja S.A. by PGE S.A. and the effect of the purchase of treasury shares by PGE Obrót S.A. (for the purpose of accounting in the consolidated equity the transaction was recognized as if the treasury shares were redeemed). Change in non-controlling interests relates also to merger of PGE Elektrownia Opole S.A. with PGE Górnictwo i Energetyka Konwencjonalna S.A. in March 2012.

The purchase of non-controlling shares during the year ended 31 December 2011 refers mainly to the share purchase transactions in PGE Elektrownia Opole S.A.

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32. Earnings per share

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

An entity shall calculate diluted earnings per share by dividing profit or loss 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).

Presented below is information on profit and shares used to calculate basic earnings per share.

	Period ended 31 December 2012	**Period ended 31 December 2011** *(restated data)*
Net profit on continuing operations	3.232.834	4.927.019
Net profit on discontinued operations	278	1.704
Net profit, attributed to	**3.233.112**	**4.928.723**
- shareholders of the parent company	3.211.070	4.892.695
- non-controlling interests	22.042	36.028
Net profit attributable to ordinary equity holders of the Company used to calculate diluted earnings per share	3.211.070	4.892.695
Number of ordinary shares at the beginning of the reporting period	1.869.760.829	1.869.760.829
Number of ordinary shares at the end of the reporting period	1.869.760.829	1.869.760.829
Average weighted number of ordinary shares issued used to calculate basic earnings per share	**1.869.760.829**	**1.869.760.829**

Presented number of shares does not contain treasury shares acquired for redemption purposes.

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33. Dividends paid and dividends declared

	Dividend paid or declared from the profit for the year ended		
	31 December 2012	**31 December 2011**	**31 December 2010**
Cash dividends from ordinary shares			
Dividend paid from retained earnings	-	3.421.662	1.215.345
Dividend paid from other reserve capital	-	-	-
Total cash dividends from ordinary shares	**-**	**3.421.662**	**1.215.345**
Cash dividends per share (in PLN)	-	**1,83**	**0,65**

Dividend from the profit for 2011

On 30 May 2012, the Ordinary General Meeting of Shareholders of PGE S.A. passed a resolution concerning distribution of net profit for 2011, in the amount of PLN 4.556.115.489,08 to:

- dividend for Shareholders, in the amount of PLN 3.421.662.317,07, i.e. PLN 1.83 per share,
- reserve capital in the amount of PLN 1.134.453.172,01.

The General Meeting set the dividend date at 22 August 2012 and the date of dividend payment at 6 September 2012.

Dividend from the profit for period ended 31 December 2012

During the reporting period and as at the date of preparation of the financial statement the Company made no advance payments of dividends. The financial statement was prepared before profit distribution as well as determination of the amount of dividend.

The Management Board of the Company recommends dividend in the amount of PLN 1.607.994 thousand (PLN 0,86 per share), constituting 50% of the net profit attributable to shareholders of the parent company reported in the consolidated financial statements for the year ended 31 December 2012. Dividend payment will consist of net profit recognized in separate financial statements and corresponding part of reserve capital.

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34. Employment benefits

As described in note 13 of these financial statements, the Group decided on the early application of the amended IAS 19, which resulted in the necessity to restate comparatives particularly in relation to past service costs. Also in line with the amended standards actuarial gains and losses relating to post-employment benefits are recognized in other comprehensive income.

Retirement and pension allowances, coal allowance, medical benefits, allowance for Social Fund and other benefits for pensioners

The Group entities pay retirement or pension awards in the amount specified in the Corporate Collective Labor Agreement when an employee retires or becomes a pensioner. Moreover, the former employees of the companies of PGE Group receive benefits in the form of medical care, coal allowance, Social Fund allowance, etc. Due to the above, entities raise a provision for these awards based on the valuation made by an actuary.

Energy Tariff

Based on the Inter-Corporate Collective Labor Agreement, changed in 2005, the obligation of payment of benefits, the so called "energy tariff", to former employees of the electric power engineering industry and other entitled persons is imposed on entities in which the entitled persons were employed. As a result, from 2006 the Group creates an appropriate provision. The amount of the provision is measured by an independent actuary. The cost of creating the provision is recognized in operating expenses.

Social Fund and medical care

The Group entities allocate funds to the Social Fund for retirees and pensioners. The Group entities also provide medical care for retirees and pensioners. Provisions are created to cover such costs and these are measured using actuarial methods.

Amounts of these provisions and a reconciliation of changes in provisions during the reporting period are presented below:

Period ended 31 December 2012

	Retirement, pension and other benefits provisions	Coal allowance	Energy tariff	Social Fund	Medical care	Total
As at 1 January 2012 *(restated data)*	**329.903**	**118.867**	**602.300**	**211.519**	**37.723**	**1.300.312**
Changes in the composition of the Group	(732)	-	-	(484)	-	**(1.216)**
Current service costs	12.643	1.089	9.742	4.392	644	**28.510**
Actuarial gains and losses excluding discount rate adjustment	(34.183)	(16.065)	(22.743)	(26.090)	(2.942)	**(102.023)**
Benefits paid	(18.804)	(7.165)	(21.788)	(9.464)	(1.372)	**(58.593)**
Discount rate adjustments	59.359	17.968	172.854	45.905	8.122	**304.208**
Interest costs	18.291	6.651	33.995	11.795	2.059	**72.791**
Other changes	1.137	-	7.444	(13)	(440)	**8.128**
As at 31December 2012	**367.614**	**121.345**	**781.804**	**237.560**	**43.794**	**1.552.117**
Short-term	40.495	7.878	25.908	9.590	1.751	85.622
Long-term	327.119	113.467	755.896	227.970	42.043	1.466.495

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Period ended 31 December 2011

(restated data)	**Retirement, pension and other benefits provisions**	**Coal allowance**	**Energy tariff**	**Social Fund**	**Medical care**	**Total**
As at 1 January 2011	**332.308**	**124.176**	**608.813**	**216.925**	**37.054**	**1.319.276**
Current service costs	11.650	1.106	8.718	3.648	1.321	**26.443**
Actuarial gains and losses excluding discount rate adjustment	(6.393)	(3.254)	(9.828)	(5.989)	350	**(25.114)**
Benefits paid	(17.751)	(7.048)	(19.368)	(7.711)	(1.906)	**(53.784)**
Discount rate adjustments	(6.734)	(2.771)	(21.169)	(6.336)	(1.104)	**(38.114)**
Interest costs	17.395	6.658	32.814	11.520	2.020	**70.407**
Other changes	(572)	-	2.320	(538)	(12)	**1.198**
As at 1 December 2011	**329.903**	**118.867**	**602.300**	**211.519**	**37.723**	**1.300.312**
Short-term	**56.944**	**8.144**	**23.613**	**10.083**	**1.811**	**100.595**
Long-term	**272.959**	**110.723**	**578.687**	**201.436**	**35.912**	**1.199.717**

Key actuarial assumptions related to the calculation of provisions as at the balance sheet date are as follows:

	31 December 2012	**31 December 2011**
Discount rate (%)	4,0	5,75
Expected inflation rate (%)	2,5	2,5
Employee turnover (%)	0,47-8,56	0,27-9,69
Expected salary growth rate (%)	2,5-4,5	2,0-5,1
Expected medical benefits costs growth rate (%)	2,2-3,5	2,2-3,5
Expected Social Fund (ZFŚS) allowance rate (%)	3,5-5,0	3,5-5,0

Based on information obtained from an actuary, the Group assesses that the influence of changes in assumptions on the value of provisions for retirement and pension benefits, coal allowance, social fund, medical care and jubilee awards (Note 35) would be as follows

- should the discount rate be higher by 1 percentage point (p.p.), relevant provisions would decrease by 8% and should the discount rate be lower by 1 p.p. the respective provisions would increase by 10%,
- should the grow rates be higher by 1 p.p., the respective provisions would increase by ca. 9% and should the grow rates be lower by 1 p.p., relevant provisions would decrease by 10%.

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35. Provisions

Period ended 31 December 2012

	Post-employment benefits	Provisions for jubilee awards	Provisions for third-party claims	Provisions for legal disputes	Provisions for purchase of CO_2 emission rights	Provisions for employee claims	Provisions for recultivation costs	Provisions for scrapping of property, plant and equipment	Provisions for energy origin units held for redemption	Other provisions	TOTAL
As at 1 January 2012 _(data restated)_	**1.300.312**	**762.532**	**408.333**	**127.679**	**3.099.855**	**13.926**	**1.102.039**	**84.649**	**633.290**	**391.768**	**7.924.383**
Changes in the composition of the Group	(1.216)	(2.786)								(778)	**(4.780)**
Costs of present employment	28.510	37.708	-	-	-	-	-	-	-	-	**66.218**
Actuarial gains and losses excluding discount rate adjustment	(102.023)	128.351	-	-	-	-	-	-	-	-	**26.328**
Revaluation of provision/ discount rate adjustments	304.208	115.354	-	-	-	-	886.201	-	-	-	**1.305.763**
Interest costs	72.791	40.400	-	-	-	-	40.926	4.142	-	6	**158.265**
Benefits paid/ provisions used	(58.593)	(92.960)	-	(2.379)	(2.791.459)	(1.179)	(602)	(5.083)	(969.297)	(448.586)	**(4.370.138)**
Raised during the year	-	-	1.070	97.062	1.823.899	7.675	43.068	150	1.108.870	534.874	**3.616.668**
Reversed	-	-	(204.642)	(61.955)	-	(4.961)	-	(404)	(22.537)	(70.884)	**(365.383)**
Other changes	8.128	1.349	-	206	-	(1.186)	4.328	-	969	2.391	**16.185**
As at 31 December 2012	**1.552.117**	**989.948**	**204.761**	**160.613**	**2.132.295**	**14.275**	**2.075.960**	**83.454**	**751.295**	**408.791**	**8.373.509**
Short-term	**85.622**	**98.459**	**204.761**	**105.443**	**2.132.295**	**9.659**	**-**	**23.035**	**751.295**	**267.526**	**3.678.095**
Long-term	**1.466.495**	**891.489**	**-**	**55.170**	**-**	**4.616**	**2.075.960**	**60.419**	**-**	**141.265**	**4.695.414**

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

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Period ended 31 December 2011

(restated data)	Post-employment benefits	Provisions for jubilee awards	Provisions for third-party claims	Provisions for legal disputes	Provisions for purchase of CO_2 emission rights	Provisions for employee claims	Provisions for recultivation costs	Provisions for scrapping of property, plant and equipment	Provisions for energy origin units held for redemption	Other provisions	TOTAL
As at 1 January 2011	**1.319.276**	**781.541**	**350.293**	**91.529**	**2.875.058**	**18.932**	**930.166**	**95.441**	**563.336**	**350.302**	**7.375.874**
Costs of present employment	26.443	35.534	-	-	-	-	-	-	-	-	**61.977**
Actuarial gains and losses excluding discount rate adjustment	(25.114)	4.585	-	-	-	-	-	-	-	-	**(20.529)**
Revaluation of provision/ discount rate adjustments	(38.114)	(12.567)	-	-	-	-	79.500	-	-	-	**28.819**
Interest costs	70.407	39.477	17.361	-	-	-	53.875	1.977	-	-	**183.097**
Benefits paid/ provisions used	(53.784)	(89.353)	(763)	(4.037)	(2.908.512)	(4.802)	(4.028)	(12.769)	(1.100.390)	(253.461)	**(4.431.899)**
Raised during the year	-	-	41.442	57.268	3.133.309	6.551	38.952	-	1.174.704	352.502	**4.804.728**
Reversed	-	-	-	(20.419)	-	(6.853)	-	-	(3.995)	(54.790)	**(86.057)**
Other changes	1.198	3.315	-	3.338	-	98	3.574	-	(365)	(2.785)	**8.373**
As at 31 December 2011	**1.300.312**	**762.532**	**408.333**	**127.679**	**3.099.855**	**13.926**	**1.102.039**	**84.649**	**633.290**	**391.768**	**7.924.383**
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	**1.199.717**	**667.111**	**-**	**68.306**	**-**	**10.853**	**1.101.454**	**79.675**	**-**	**162.805**	**3.289.921**

35.1. Change of discount rate and other actuarial assumptions for valuations as at 31 December 2012

A significant decrease was recorded in Q4 2012 in Poland of returns from long-term Treasury bonds, which are used by PGE Group for determining the discount rates, according to IAS 19 section 78. The discount rates used in valuation of actuarial provisions and recultivation provisions were 5.75% as at 31 December 2011 and 4.00% as at 31 December 2012. Such a major decrease resulted in:

- growth of recultivation provisions by PLN 886.201 thousand;
- growth of provisions for post-employment benefits by PLN 304.208 thousand;
- growth of provisions for jubilee awards by PLN 115.354 thousand.

Furthermore, other actuarial assumptions were updated as at the balance date, mainly including: retirement age, salaries growth rate, medical benefits price increase rate, electricity price increase rate, staff turnover ratios. As a consequence of change in the remaining assumptions:

- provision for jubilee awards increased by PLN 128.351 thousand;
- provision for post-employment benefits decreased by PLN 102.023 thousand.

Changes in provisions for post-employment benefits due to actuarial gains and losses were recognized under other comprehensive income (net of deferred tax effect). The remaining changes in provisions as discussed above are recorded in the gross profit in the profit or loss.

35.2. Provisions for post employment benefits

The amount of provisions disclosed in the financial statements results from the valuation prepared by the independent actuary and was described in note 34 to these financial statements.

35.3. Provisions for jubilee awards

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

35.4. Provisions for liability due to carbon dioxide emission rights

Group entities record provisions for liabilities due to 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 fulfill current obligation as at balance sheet date, including recorded EUA's value received as free of charge and acquired EUA, and also possibly to cover any shortage with CER or ERU certificates.

35.5. Provisions for third-party claims

Provisions presented under this caption relate to dispute of the parent company with Alpiq Holding AG. The issue was described in note 38 to these consolidated financial statements.

35.6. Provisions 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 at the reporting date the provision amounted to PLN 79.7 million. The provision is created to cover claims under court proceedings.

Provisions for court disputes established by Exatel S.A.

As at the balance date, Exatel S.A. estimated the risk related to business activities, including cases in court, losses on pending commercial contracts, court proceedings on labor-related cases, and probable costs of penalties and compensations. As at the date of preparation of the 2012 financial statements, the Management Board of Exatel S.A. estimated this risk at PLN 56.8 million.

35.7. 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 in value 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 unit-of-production method based on the rate of lignite 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 lignite excavation. Mine Liquidation Trust which is created in accordance with Geological and Mining Law constitutes part of the provision.

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.

35.8. Scrapping of property, plant and equipment

The provision for scrapping of property, plant and equipment relates to assets of PGE Górnictwo i Energetyka Konwencjonalna S.A. Oddział Elektrownia Turów. The obligation to scrap assets and recultivate the area results from „The integrated permission for running electric energy and heat energy producing installation" in which the restitution of the area was specified. The amount of created provision was established on the basis of expected scrapping expenses and was recognized on the debit side in initial value of property, plant and equipment. Depreciation of activated scrapping expenses, which is calculated on the basis of the estimated economic useful life of an appropriate item of property, plant and equipment as well as change in provision value resulting from the discount unwinding as at the balance sheet date influence the financial result of the Group. As at the balance sheet date, the value of provision amounts to PLN 83.5 million.

35.9. 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 31 December 2012 amounts to PLN 751.3 million.

35.10. Other provisions

Dispute concerning the scope of taxation with real estate tax

The main caption of other provisions is a provision covering both reported and declared claims relating to real estate tax. The matter of dispute was described in detail in note 40 of these consolidated financial statements.

Dispute concerning the redemption of energy origin units

PGE Obrót S.A. is a party to the proceedings against the Energy Regulatory Office, related to an obligation of redemption of energy origin units – so called green and red certificates. As at 31 December 2012 the provision created to cover possible penalties amounted to PLN 20.6 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 labor agreement or regulations applicable to individual entities. As at 31 December 2012 created provisions amounted to PLN 79 million.

Provision for unused annual holiday leave

The Group creates provision for employee benefits related to unused annual holiday leave. As at the balance sheet date the provision amounted to PLN 87 million.

Provision related to the Voluntary Leave Program

In the current reporting period, PGE Group companies continued realization of a Voluntary Leave Program (VLP). The total value of expenses reported in the consolidated statement of comprehensive income in 2012 amounted to PLN 257.361 thousand. As at 31 December 2012 a respective provision amounted to PLN 34.670 thousand, and the other liabilities related to VLP amounted to PLN 110.393 thousand.

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36. Other non-financial liabilities

The non-financial liabilities for the years ended 31 December 2012 and 31 December 2011 are as follows:

	As at 31 December 2012	As at 31 December 2011
Liabilities from dividends	9.773	69.355
Excise tax	103.229	98.587
VAT tax	316.924	271.902
Liabilities from social insurances	211.410	232.712
Personal income tax	81.497	111.970
Environmental fees	140.835	126.720
Payroll	307.679	309.199
Liabilities due to Voluntary Leave Program	110.393	8.878
Third party payments related to future periods	71.470	80.351
Advances for deliveries	140.804	132.427
Other	63.979	57.654
Total	**1.557.993**	**1.499.755**

The "other" position comprises mainly payments to the Social Fund, the Employment Pension Program and to the State Fund for Rehabilitation of Persons with Disabilities.

37. Deferred income and government grants

Deferred income and government grants	**As at 31 December 2012**	**As at 31 December 2011**
Long-term:		
Government grants	264.945	387.202
Other deferred income	859.809	868.096
Long-term deferred income and government grants	**1.124.754**	**1.255.298**
Short-term:		
Government grants	9.734	5.380
Other deferred income	113.667	111.737
Short-term deferred income and government grants	**123.401**	**117.117**

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Government grants	As at 31 December 2012	As at 31 December 2011
Redemption of loans from environmental funds	55.197	54.594
Grants received from NFEPWM	101.082	93.753
Grants from EU for CCS	85.492	219.307
Other government grants	32.908	24.928
Total deferred income, including:	**274.679**	**392.582**
Long-term	264.945	387.202
Short-term	9.734	5.380

Other deferred income	As at 31 December 2012	As at 31 December 2011
Property, plant and equipment acquired free of charge	155.094	130.410
Subsidies received and connection fees	760.972	799.515
Lease income	2.704	2.987
Other deferred income	54.706	46.921
Total deferred income, including:	**973.476**	**979.833**
Long-term	859.809	868.096
Short-term	113.667	111.737

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". As described in Note 21 to these financial statements, significant uncertainty exists regarding the continuation of the CCS project. The value of CCS grant as presented in the table above as at 31 December 2012, is equal to the direct project-related expenses. The remaining value of the grant was reclassified and is presented as at the reporting date under other financial liabilities.

Subsidies received 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.

Other deferred income presented in the above table is mainly related to prepayments for transmission services to Vattenfall, which were returned to the Company in 2012. These prepayments were associated with the investment in SwePol Link AB and therefore, a certain part of these prepayments was presented as a financial assets acquisition price component in the financial statements. After the prepayments were returned in Q3 2012, the respective portion was presented under deferred income until disposal or liquidation of shares in SwePol Link AB.

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38. Contingent liabilities and receivables. Legal claims

38.1. Contingent liabilities

Contingent liabilities	As at 31 December 2012	As at 31 December 2011
Liabilities due to bank guarantees	250	-
Contingent return of grants from environmental funds	294.304	220.891
Legal claims	8.282	12.184
Contractual fines and penalties	14.190	13.858
Employee claims	52.040	52.009
Compensations related to non-agreed usage of property	2.558	7.296
Other contingent liabilities	101.486	197.524
Total contingent liabilities	**473.110**	**503.762**

Contingent return 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 bring the expected environmental effect.

Liabilities related to legal claims

This caption 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 caption mainly represents 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 Labor Code and the Corporate Collective Labor Agreement.

Potential claims may be raised by these employees in relation to a sentence by a Regional Court, resolving on the interpretation of the concept of day off work (which is not defined by labor 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 sentence - 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. Contingent liability was calculated for those employees who requested the employer to present their work timesheets 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 87 million and the value of potential cash fines in the amount of almost PLN 14 million resulting from proceeding relating to environmental protection (breach of the conditions of disposal of sewage and deforestation in some PGE Group companies).

38.2. Other issues related to contingent liabilities

Non-agreed usage of property

Due to the nature of its activities the companies of the Group use many properties, on which the buildings and structures or devices used to the transmission of the electricity are based. In respect of many properties there are doubts as to the title of usage. In the case of property, for which the Group companies have no legal title or the title is doubtful, there is a risk of claims by their owners, the alleged owner or other person for compensation in respect of non-agreed usage of these properties. As described in note 35.6 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. Impact on this issue may also have the planned Act on transmission corridors.

Contractual liabilities related to the purchase of commodities (fuel)

According to the concluded agreements on the purchase of fuels (mainly coal and gas), the PGE Group companies are obliged to collect the minimum volume of fuels 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 fuel specified in the contract, it is obliged to pay appropriate fee (the amount of gas fuel not collected by power plants but paid up, may be collected within the next three contractual years). In the opinion of the Group, the terms and conditions of fuel deliveries from PGNiG do not differ from other fuel deliveries conditions on the Polish market.

Fulfillment of the so-called stock exchange commitment in 2010

In the previous financial statements the PGE Capital Group described the issue of the fulfillment of the so-called stock exchange commitment in year 2010. Amendment of the Energy Law Act entered into force on 9 August 2010, imposing an obligation on power companies engaged in production of electricity to sell the energy they produce on commodity exchanges.

The interpretation of Article 49a of the amended Energy Law Act relating to the definition of the energy unsold before the date of entry into force of the amended Energy Law Act is unclear.

According to the interpretation of this provision 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 Energy Law Act do not apply to such electricity, and are applicable only to electricity sold through commodity exchange.

In 2012, the President of the Energy Regulatory Office commenced formal proceedings on this matter. PGE Górnictwo i Energetyka Konwencjonalna S.A. (and PGE Elektrownia Opole S.A. until the merger) presented relevant clarifications and documents. When preparing the previous financial statements, the Group was unable to obtain reasonable estimates of the outcomes of proceedings and amounts of penalties, if any. In September 2012, PGE Górnictwo i Energetyka Konwencjonalna S.A. received the respective decisions of the President of the Energy Regulatory Office, setting the penalty at a total of PLN 90 thousand. The company appealed against that decision. Until the date of preparation of these financial statements, the matter has not been resolved.

38.3. Contingent receivables.

As at balance sheet date, the Group has appr. PLN 68 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 Notes 40.1 and 45.5 of these financial statements.

38.4. Other legal claims and court issues

PGE - ATEL (presently Alpiq Holding AG) dispute

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

On 12 September 2012 the Court of Arbitration gave a ruling, based on which PGE became obliged to pay a compensation to Alpiq in the amount of EUR 43.204 thousand plus accrued interest.

In the previous periods on the basis of available information, to the best of its knowledge, the Company made a reasonable estimation of claims which could be probably considered justified by the Arbitration Tribunal. The Company established a provision for the claim thus estimated, in the amount exceeding EUR 94 million (including the principal amount of EUR 79 million). After the date of issue and delivery of the ruling of the Court of Arbitration the Company reversed excess of the previously created provision. As at the balance sheet date the Company recognized the amount determined by the Court including remuneration of legal advisors. Currently, parties are in process of determining how to comply with the ruling of the Court.

Legal issues related to the Consolidation Programme

As a result of the Consolidation Programme, on 3 and 16 August 2010 extraordinary general meetings of certain PGE Group entities passed resolutions to merge. Few shareholders of these companies filed appeals against the above mentioned resolutions for determining their invalidity and possibly demanding that the resolutions be repealed. The above claims were made with reference to the merger resolution adopted by PGE Elektrownia Opole S.A. and merger resolutions adopted by some companies merged within the Mining and Conventional Energy business line (PGE Górnictwo i Energetyka Konwencjonalna S.A. conducts these cases), as well as a merger resolution adopted by shareholders of PGE Górnictwo i Energetyka S.A. (case conducted by PGE S.A.).

In all sentences issued, the Court dismissed the appeals, confirming that the claims of the shareholders were unfounded and the actual aim of these shareholders is to question the parity of shares, which is unacceptable on the basis of procedure of appeals against resolutions. Shareholders using their right filed cassation complaints against PGE Górnictwo i Energetyka Konwencjonalna S.A., PGE Elektrownia Opole S.A. and PGE Polska Grupa Energetyczna S.A.

The Supreme Court refused to recognize cassation appeals, or ruled to dismiss the plaintiffs' cassation appeals.

In the last case concerning determination of invalidity (or repealing) of the merger resolution, which was considered by 2nd instance court, the court ruled to dismiss the plaintiff's appeal. There is a risk of a cassation appeal being filed to the Supreme Court.

Notwithstanding the appeals against the merger resolutions, the following decisions were also appealed against: on registration of merger of PGE Górnictwo i Energetyka Konwencjonalna S.A. with acquired companies within the conventional energy business line, and merger of PGE Polska Grupa Energetyczna S.A. with acquired companies. The Appeals Court ultimately dismissed the appeals and the decisions concerning registration of the above mergers came into force.

During the period from September to December 2012, the District Court for Warsaw-Śródmieście in Warsaw received motions for summons to compromise to PGE Polska Grupa Energetyczna S.A. through payment of damages totaling approx. 5.5 million PLN. The claimants are the former shareholders of PGE Górnictwo i Energetyka S.A. with its registered seat in Łódź, who derive their claim from understated exchange ratio of shares of the acquired company - PGE Górnictwo i Energetyka S.A. to shares of the acquiring company - PGE Polska Grupa Energetyczna S.A.

During the period from August to October 2012, similar claims were received by the District Court in Bełchatów. The claimants summon PGE Górnictwo i Energetyka Konwencjonalna S.A. in Bełchatów to compromise through payment of damages to them in a total amount exceeding PLN 24 million. The claimants are former shareholders of PGE Elektrownia Opole S.A. They derived the damages claims presented in these motions from the right to raise objections to understatement of the exchange ratio of shares of the acquired company - PGE Elektrownia Opole S.A. to shares of the acquiring company - PGE Górnictwo i Energetyka Konwencjonalna S.A. The claimants believe that the share exchange ratio was understated.

Until the date of preparation of these financial statements, no arrangement has been reached in any of the cases referred to above.

39. Future investment commitments

As at 31 December 2012, the largest contemplated investment at PGE Group is the construction of power units 5 and 6 at PGE Górnictwo i Energetyka Konwencjonalna S.A., Opole Power Plant branch. Considering the appeal filed against the decision on environmental conditions of consent for implementation of that project, actual performance has not yet commenced. According to the contract signed with the General Contractor, the value of this project is PLN 9.397 million, including the first part of advance payment already effected at PLN 188 million. The issue of this construction is discussed in Note 45.7 to these financial statements.

Beyond the above mentioned investment as at the balance sheet date, the Group was committed to incur capital expenditures on property, plant and equipment in the amount of PLN 3.524 million. These amounts relate to construction of new power units, modernization of Group's assets and a purchase of machinery and equipment. Significant investment commitments concern:

- the modernization of blocks no 7-12 in PGE Górnictwo i Energetyka Konwencjonalna S.A. Oddział Elektrownia Bełchatów for the total amount of ca. PLN 2.471 million;
- investment commitments of PGE Dystrybucja S.A. of the total value of approx. PLN 655 million.

40 Tax settlements

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

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

Basic tax rates in 2012 were as follows: corporate income tax – 19%, basic value added tax rate – 23%, lowered: 8%, 5%, 0%, furthermore some goods and products are subject to tax exemption.

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

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

40.1 Excise tax

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

The issue of excise tax refund for the period currently is a matter of dispute between producers and tax authorities. Different aspects of the disputes, which are subject to proceedings before the administrative court. 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.

40.2 Real estate tax

There are tax proceedings carried out to determine the scope subject to real estate tax in PGE Group power stations. The issue mainly concerns manufacturing units of Elektrownia Opole and Zespół Elektrowni Dolna Odra. 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. Tax proceedings are currently at various levels in front of first instance authorities (vogt, mayor), local government board of appeals and appeal courts.

Until the date of preparation of these financial statements, the dispute concerning property tax of Dolna Odra Power Plant for 2006 has been resolved. Following several stages of proceedings, on 12 July 2012 the Local Government Board of Appeals in Szczecin issued a decision identifying the amount of this company's tax obligation and concurred with the company's opinion.

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In addition, in December 2012 the Supreme Administrative Court ruled on property tax of Elektrownia Opole for 2004. In the verbal justification of the judgment, the court concurred with the company's opinions, i.e. stated that indoor plant and systems are not subject to taxation with property tax as civil engineering structures.

Considering the pending disputes, PGE Group established an appropriate provision for potentially higher tax amount (Note 35 to these financial statements).

41 Information on related parties

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

41.1 Associates

The information on investments in associates accounted for using the equity method is presented in note 25 of these financial statements.

	Sale to associates	Purchase from associates	Trade receivables from associates	Trade liabilities towards associates
Year 2012	6.481	333	1.038	50
Year 2011	28.638	29.054	873	36

41.2 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 approx. 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	Including overdue	Trade liabilities towards State Treasury entities	Including overdue
Year 2012	2.422.095	4.647.636	260.621	855	545.675	654
Year 2011	2.069.502	4.921.790	229.712	12.219	539.635	75

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

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

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41.3 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, as well as: PGE Energia Jądrowa S.A., PGE EJ1 sp. z o.o., PGE Systemy S.A. and Exatel S.A.

	Period ended 31 December 2012	Period ended 31 December 2011 *(restated)*
Short-term employee benefits (salaries and salary related costs)	22.946	22.069
Jubilee and retirement benefits	-	121
Post-employment and termination benefits	6.641	3.065
Remuneration of key management personnel	**29.586**	**25.255**
Remuneration of key management personnel of entities of non-core operations	17.925	21.590
Total remuneration of key management personnel	**47.511**	**46.845**

	Period ended 31 December 2012	Period ended 31 December 2011 *(restated)*
The Management Board of the parent company	8.473	2.662
The Supervisory Board of the parent company	325	373
The Management Boards – subsidiaries	19.655	20.620
The Supervisory Boards – subsidiaries	1.133	1.600
Remuneration of key management personnel	**29.586**	**25.255**
Remuneration of key management personnel of entities of non-core operations	17.925	21.590
Total remuneration of key management personnel	**47.511**	**46.845**

The Members of the Management Boards 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 type in the statement of comprehensive income.

Data in the above table represents the remuneration expense of the management personnel recognized in the reporting period in the PGE Capital Group companies. The remuneration expense in the period ended 31 December 2012 includes the appropriate portion of the created provision for the awards, to which the key management personnel is entitled. Final amount of the bonus and awards will depend on the performance of individual units and the PGE Capital Group.

The increase of salaries of the parent's Management Board in 2012, as compared to 2011, results mainly from the change of remuneration structure. In the comparable period, PGE S.A. Board Members were also sitting on Management Boards and Supervisory Boards of key subsidiaries of PGE Group and receiving remuneration for performing these functions. During the period under consideration, Members of the Company's Management Board did not sit on the boards of subsidiaries and did not receive remuneration for their functions in Supervisory Board.

Detailed information about the remuneration of the Management Board and the Supervisory Board of the parent company is presented in note 7.4.2. and 7.4.3 of the Management Report on Activities of PGE Capital Group.

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42 Financial instruments

42.1 Amount in the statement of financial position and fair value of categories and classes of financial instruments

Categories and classes of financial assets:	Position in statement of financial position	Carrying amount As at 31 December 2012 Long-term	Short-term	Total	As at 31 December 2011 Long-term	Short-term	Total	Fair value 31 December 2012 Total	31 December 2011 Total
1. Held-to-maturity investments		-	-	-	-	-	-	-	**-**
2. Loans and receivables:									
(i) Trade receivables	a)	-	1.894.733	**1.894.733**	-	1.767.739	**1.767.739**	**1.891.515**	**1.764.435**
(ii) Deposits and investments		-	10.217	**10.217**	-	2.107.368	**2.107.368**	**10.217**	**2.107.368**
(iii) Other financial loans and receivables		329.287	757.870	**1.087.157**	321.895	675.807	**997.702**	**1.087.157**	**997.702**
▪ Bonds, bill and notes receivable acquired	b)	321.341	-	**321.341**	313.739	-	**313.739**	**321.341**	**313.739***
▪ Originated loans	b)	2.681	336	**3.017**	874	191.031	**191.905**	**3.017**	**191.905**
▪ Other financial receivables	b)	5.265	143.386	**148.651**	7.282	445.112	**452.394**	**148.651**	**452.394**
▪ LTC compensations	b)	-	614.148	**614.148**	-	39.664	**39.664**	**614.148**	**39.664**
Total loans and receivables:		**329.287**	**2.662.820**	**2.992.107**	**321.895**	**4.550.914**	**4.872.809**	**2.988.889**	**4.869.505**
3. Available-for-sale financial assets, including:									
(i) Shares in entities not quoted on active markets		33.242	550	**33.792**	98.422	5.309	**103.731**	**-**	**-**
(ii) Shares quoted on active markets		14	90	**104**	2.329	-	**2.329**	**104**	**2.329**
(iii) Investment funds' units		-	3.737	**3.737**	-	3.121	**3.121**	**3.737**	**3.121**
(iv) Other financial assets available for sale		-	-	**-**	-	2	**2**	**-**	**2**
Total available-for-sale financial assets:		**33.256**	**4.377**	**37.633**	**100.751**	**8.432**	**109.183**	**3.841**	**5.452**

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		Carrying amount						Fair value	
		As at 31 December 2012			As at 31 December 2011			31 December 2012	31 December 2011
Categories and classes of financial assets:	**Position in statement of financial position**	**Long-term**	**Short-term**	**Total**	**Long-term**	**Short-term**	**Total**	**Total**	**Total**
4. Financial assets at fair value through profit or loss									
(i) Derivatives		-	5.526	**5.526**	-	-	**-**	**5.526**	**-**
5. Cash and cash equivalents Cash and cash equivalents		-	4.795.493	**4.795.493**	**-**	4.052.238	4.052.238	**4.795.493**	**4.052.238**
Financial assets not included in IAS 39									
(i) Lease receivables	b)	108	113	**221**	1.578	825	**2.403**	**221**	**2.403**

* as described in note 43.8 of these consolidated financial statements, the main item in the caption "bonds, bills and notes receivable acquired" are bonds issued by the company Autostrada Wielkopolska S.A. The bonds are measured at amortized cost with the use of an effective discount rate. Taking into account that these bonds are not quoted on an active market and are subject to variable interest rate as well as the fact, that there is no available information on current market credit margin applicable to similar financial instruments, the Company assumed that the bonds' book value is approximately the fair value for the purpose of a disclosure compliant with IFRS 7.

a) Long-term trade receivables are presented in the statement of financial position as "Other long-term financial assets". Short-term trade receivables are presented in the statement of financial position as "Trade receivables".

b) These are presented in the statement of financial position as "Loans and receivables".

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Categories and classes of financial liabilities:	Position in statement of financial position	Carrying amount – As at 31 December 2012 – Long-term	Carrying amount – As at 31 December 2012 – Short-term	Carrying amount – As at 31 December 2012 – Total	Carrying amount – As at 31 December 2011 – Long-term	Carrying amount – As at 31 December 2011 – Short-term	Carrying amount – As at 31 December 2011 – Total	Fair value – 31 December 2012 – Total	Fair value – 31 December 2011 – Total
1. Financial liabilities at fair value through profit or loss held for trading:									
(i) Derivatives		-	36.513	**36.513**	-	48.093	**48.093**	**36.513**	**48.093**
Total financial liabilities at fair value through profit or loss:		**-**	**36.513**	**36.513**	**-**	**48.093**	**48.093**	**36.513**	**48.093**
2. Financial liabilities at amortized cost:									
(i) Interest bearing loans and credits	a)	1.082.987	809.234	**1.892.221**	1.335.575	693.731	**2.029.306**	**1.892.221**	**2.032.614**
(ii) Trade liabilities		-	1.201.870	**1.201.870**	-	1.117.172	**1.117.172**	**1.199.965**	**1.115.226**
(iii) LTC compensations		-	393.568	**393.568**	-	1.063.707	**1.063.707**	**393.568**	**1.063.707**
(iv) Other financial liabilities at amortized cost	b)	22.038	1.152.752	**1.174.790**	17.864	762.906	**780.770**	**1.174.790**	**780.770**
Total financial liabilities at amortized cost:		**1.105.025**	**3.557.424**	**4.662.449**	**1.353.439**	**3.637.516**	**4.990.955**	**4.660.544**	**4.992.317**
3. Other financial liabilities not included in IAS 39									
(i) Liabilities from finance lease and lease agreements with option of purchase	a)	2.257	2.213	**4.470**	5.776	3.930	**9.706**	**-**	**-**
Total other financial liabilities:		**2.257**	**2.213**	**4.470**	**5.776**	**3.930**	**9.706**	**-**	**-**

a) These are presented in the statement of financial position as "Interest bearing loans and borrowings"

b) These are presented in the statement of financial position as "Other financial liabilities"

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42.2 Statement of comprehensive income

	Assets and liabilities at fair value through profit or loss and cash	Available-for-sale financial assets	Held-to-maturity financial assets	Loans and receivables	Financial liabilities at amortized cost	Total financial instruments by class
Period ended 31 December 2012						
Dividends	-	3.944	-	-	-	**3.944**
Gains / (losses) from interest	262.350	120	-	114.585	(69.031)	**308.024**
Gains / (losses) from foreign exchange	(19.132)	2.272	-	(29.473)	94.350	**48.017**
Reversal of Impairment allowances / increase of value	17.254	681	-	32.559	16	**50.510**
Creation of Impairment allowances / decrease of value	(148)	(65.065)	-	(69.193)	-	**(134.406)**
Gain / (loss) on investment disposal	-	58.285	-	-	-	**58.285**
Total profit / (loss)	**260.324**	**237**	**-**	**48.478**	**25.335**	**334.374**

	Assets and liabilities at fair value through profit or loss and cash	Available-for-sale financial assets	Held-to-maturity financial assets	Loans and receivables	Financial liabilities at amortized cost	Total financial instruments by class
Period ended 31 December 2011						
Dividends	-	4.290	-	-	-	**4.290**
Gains / (losses) from interest	130.168	155	-	77.168	(115.702)	**91.789**
Gains / (losses) from foreign exchange	26.991	(3)	-	39.371	(119.779)	**(53.420)**
Reversal of Impairment allowances / increase of value	-	2.072	-	54.993	-	**57.065**
Creation of Impairment allowances / decrease of value	(6.928)	(2.252)	-	(44.003)	-	**(53.183)**
Gain / (loss) on investment disposal	-	1.997.428	-	10	-	**1.997.438**
Total profit / (loss)	**150.231**	**2.001.690**	**-**	**127.539**	**(235.481)**	**2.043.979**

During the period ended 31 December 2012, the amount of PLN 959 thousand, net of deferred tax, related to a measurement of available-for-sale financial assets was reflected in other comprehensive income.

42.3 Fair value of financial instruments

The book value of the following assets and liabilities represents a reasonable estimate of their fair value:

- held-to-maturity investments, based on variable interest rates,
- available-for-sale financial assets except for shares in entities not quoted on an active markets,
- financial assets and liabilities at fair value through profit or loss.

42.3.1 Financial instruments quoted on active markets (shares, bonds)

Fair value of shares and bonds listed on a stock exchange were measured on the basis of the closing rate of these financial instruments, published on the Internet page of the Warsaw Stock Exchange S.A. as at the balance sheet date.

42.3.2 Financial instruments not quoted on active markets, for which the fair value can be estimated reliably

Fair value of instruments not quoted on active markets is measured by the Group with the use of an appropriate valuation method as long as a reliable measurement is possible with the use of prices from the most recent transactions conducted under standard market rules; a comparison with prices from other instruments' active markets, which are essentially identical; analysis of discounted cash flows and other methods/techniques of measurement commonly used on the market, suitable for particular specifics and characteristics of a measured financial instrument and the situation of the issuer (drawer).

Fair value of the Group's financial instruments not quoted on active markets is based on valuation methods for which input data can only be observed market data, which are obtained from renowned providers of financial information.

Fair value of derivative transactions used by the Group is determined on the market yield curve of future interest rates. Interest rates are used for discounting future cash flows are calculated on the basis of quotations of IRS transactions on the inter-bank market, obtained from the Reuters agency.

42.3.3 Financial instruments not quoted on active markets, for which fair value cannot be estimated reliably

Basic assets of the Group classified as available-for-sale financial assets are shares in entities not quoted on active markets. For shares in entities that are not listed, there is no active market nor is there a possibility of using measurement techniques for reliable valuation of given shares. Due to the above, the Group is not able to establish a range of reasonable fair value estimates. Such assets are measured at cost of acquisition less impairment losses.

As at the balance sheet date the biggest position presented in stock and shares in entities not quoted on active markets were shares in Energo-Utech, representing 34% of this kind of instruments.

42.4 Description of significant position within particular classes of financial instruments

42.4.1 Loans and receivables

The key position of financial instruments recognized as loans and receivables are trade receivables and other loans and financial receivables.

Trade receivables

Trade receivables amount to PLN 1.894.733 thousand and represent 63% of total balance of financial instruments recognized as loans and receivables. Detailed description of this position is presented in Note 43.6 of these financial statements.

Other loans and financial receivables

A significant position in this position are bonds issued by Autostrada Wielkopolska S.A. of value of PLN 321.341 thousand, which represent 11% of the balance of other loans and financial receivables.

The bonds of Autostrada Wielkopolska S.A. were previously tested for impairment as at 31 December 2010. Because the finance results of Autostrada Wielkopolska S.A. are worse than the business anticipated previously, the Company ordered re-testing the bonds for impairment. Because the bonds of Autostrada Wielkopolska S.A. are not traded and their market quotations are not known, the test was conducted on the basis of the company's financial model. The model assumptions include, inter alia, the success of Autostrada Wielkopolska S.A. in the dispute with the State Treasury concerning compensation for exemption from transit charges of trucks having road tax vignettes. The State Treasury filed a claim concerning reimbursement of overcharged compensation by the company, in the amount of almost PLN 900 million.

Considering the above assumptions, no impairment adjustments were found necessary as at 31 December 2012. As at the date of preparation of these financial statements, the dispute between Autostrada Wielkopolska S.A. with the State Treasury has not been resolved. In the event of the company being unsuccessful, the related assets would have to be re-assessed and their recoverable value will probably have to be updated.

The above position includes also the compensations from Long-Term Contracts in amount of PLN 614.148 thousand, which represent 21% of the balance of other loans and financial receivables. The issue of compensations from Long-Term Contracts is described in detail in Note 45.1 of these financial statements.

Position other financial receivables represent 5% of balance of loans and financial receivables. Other financial receivables comprise mainly receivables from deposits, protection of execution of contracts and receivables from guarantee deposits on the electric energy market and receivables from fines and penalties.

42.4.2 Available-for-sale financial assets

The most significant positions of available-for-sale financial assets are shares in entities not quoted on active markets and shares quoted on active markets what was described in Note 42.3.3 of these consolidated financial statements. The Group is not able to reliably estimate the fair value of entities that are not quoted on active markets, therefore the value of these is presented in the purchase price adjusted by applicable impairment allowances.

42.4.3 Financial assets and liabilities at fair value through profit or loss

As at 31 December 2012 the Group recognized in above category financial instruments such as forward and swap.

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During the reporting period, PGE Polska Grupa Energetyczna S.A. entered into a number of forward contracts on the currency market. The purpose of these transactions was to secure the Company against exchange rate risk (EUR/PLN), related mainly to the market trade of CO_2 emission rights. As at 31 December 2012 these forward transactions were valued at PLN 5.526 thousand (assets) and PLN 148 thousand (liabilities).

Additionally, the Group presented IRS hedge transactions, related to swap concluded by PGE Górnictwo i Energetyka Konwencjonalna S.A. Oddział Elektrownia Turów as financial liabilities at fair value through profit or loss. These transactions were concluded on 18 September 2003 with Citibank N.A. London Branch and are meant to hedge variable (USD LIBOR 6m) interest rates on investment credits granted by Nordic Investment Bank in the value of USD 30, 40 and 80 million.

Based on the transaction, the bank – party to a contract pays to the entity interest based on a variable rate, and PGE Górnictwo i Energetyka Konwencjonalna S.A. Oddział Elektrownia Turów pays to Citibank interest based on a fixed rate. The interest rate changed from variable to fix as a net effect of the IRS transactions hedging on Nordic Investment Bank credit.

List of instruments owned is presented in the table below

Type of hedge	Description of the hedging instrument	Fair value of the hedging instrument as at the balance sheet date	Description of the risk subject to the hedge
Cash flow hedge	IRS transaction - change of a variable interest rate USD LIBOR 6m to a fixed rate (5,20%) for NIB 40 credit; half-year payments, amortized in accordance to credit repayment schedule	(2.192)	Currency credit in the amount of USD 40 million, interest rate LIBOR 6m+ 0,23% margin; half-yearly payments,
Cash flow hedge	IRS transaction - change of a variable interest rate USD LIBOR 6m to a fixed rate (5,2050%) for NIB 30 credit; half-year payments, amortized in accordance to credit repayment schedule	(3.874)	Currency credit in the amount of USD 30 million, interest rate LIBOR 6m +0,18% margin; half-yearly payments
Cash flow hedge	IRS transaction - change of a variable interest rate USD LIBOR 6m to a fixed rate (5,61%) for NIB 80 credit; half-year payments, amortized in accordance to credit repayment schedule	(30.299)	Currency credit in the amount of USD 80 million, interest rate LIBOR 6m +0,86% margin; half-yearly payments
Total		**(36.365)**	

As the Group does not apply hedge accounting, the change in fair value of the above hedging instruments is recognized in consolidate statement of comprehensive income in the relevant reporting period.

The above mentioned agreements expire in years 2015, 2016 and 2019. The estimation of the fair value of IRS instruments is based on the comparison of discounted future cash flows, so-called "swap legs". The value of cash flows resulting from interest rate on "variable leg" of the transaction and the amount of the discount is calculated on the basis of the yield curve of market interest rates.

During the period ended 31 December 2012 the Group fair valued IRS transaction and recognized the negative accrued valuation of the IRS transaction amounting to PLN 11.728 thousand in the statement of comprehensive income. Furthermore, during the period the Group incurred the costs of swap payments accounting for PLN 14.489 thousand. Taking into account the long-term period of the transactions concluded and that the credit limit granted by the party of the transaction has not been exceeded, the entity did not take any actions aimed at closing the above described transaction.

Data adopted for measurement of the fair value of the above hedge financial instruments have the Level 2 in the fair value hierarchy introduced by the amended in 2009 IFRS 7 item 27A and 27B.

42.4.4 Financial liabilities measured at amortized cost

42.4.4.1 Interest bearing loans and credits

Loans and credits drawn as at 31 December 2012.

Currency	Reference rate	Value of credit / loan as at reporting date (in thousands) in currency	in PLN	Due in the period: Until 1 year	From 1 to 2 years	From 2 to 3 years	From 3 to 4 years	From 4 to 5 years	Above 5 years
PLN	Variable	887.552	887.552	715.960	37.591	29.994	23.598	21.918	58.491
	Fixed	7.386	7.386	922	1.295	2.438	1.982	749	-
Total PLN		**894.938**	**894.938**	**716.882**	**38.886**	**32.432**	**25.580**	**22.667**	**58.491**
EURO	Variable	150.000	605.702	176	12.644	33.420	49.785	72.819	436.858
	Fixed	-	-	-	-	-	-	-	-
Total EURO		**150.000**	**605.702**	**176**	**12.644**	**33.420**	**49.785**	**72.819**	**436.858**
USD	Variable	78.123	242.152	46.876	46.494	40.295	34.096	24.797	49.594
	Fixed	-	-	-	-	-	-	-	-
Total USD		**78.123**	**242.152**	**46.876**	**46.494**	**40.295**	**34.096**	**24.797**	**49.594**
CHF	Variable	44.121	149.429	45.300	45.087	37.127	21.915	-	-
	Fixed	-	-	-	-	-	-	-	-
Total CHF		**44.121**	**149.429**	**45.300**	**45.087**	**37.127**	**21.915**	**-**	**-**
Total credits and loans			**1.892.221**	**809.234**	**143.111**	**143.274**	**131.376**	**120.283**	**544.943**

Loans and credits drawn as at 31 December 2011.

Currency	Reference rate	Value of credit / loan as at reporting date (in thousands) in currency	in PLN	Due in the period: Until 1 year	From 1 to 2 years	From 2 to 3 years	From 3 to 4 years	From 4 to 5 years	Above 5 years
PLN	Variable	438.736	438.736	185.172	94.761	31.295	25.194	21.905	80.409
	Fixed	409.681	409.681	407.666	806	806	403	-	-
Total PLN		**848.417**	**848.417**	**592.838**	**95.567**	**32.101**	**25.597**	**21.905**	**80.409**
EURO	Variable	150.000	653.855	492	18.061	18.011	33.289	66.230	517.772
	Fixed	-	-	-	-	-	-	-	-
Total EURO		**150.000**	**635.855**	**492**	**18.061**	**18.011**	**33.289**	**66.230**	**517.772**
USD	Variable	93.149	318.327	51.771	51.261	51.261	44.426	37.591	82.017
	Fixed	-	-	-	-	-	-	-	-
Total USD		**93.149**	**318.327**	**51.771**	**51.261**	**51.261**	**44.426**	**37.591**	**82.017**
CHF	Variable	57.443	208.707	48.630	48.369	48.369	39.829	23.510	-
	Fixed	-	-	-	-	-	-	-	-
Total CHF		**57.443**	**208.707**	**48.630**	**48.369**	**48.369**	**39.829**	**23.510**	**-**
Total credits and loans			**2.029.306**	**693.731**	**213.258**	**149.742**	**143.141**	**149.236**	**680.198**

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

- investment credit facility taken out by PGE Górnictwo i Energetyka Konwencjonalna S.A. Oddział Elektrownia Bełchatów from Nordycki Bank Inwestycyjny to finance construction of 858 MW power unit - with a carrying value of PLN 605.702 thousand as at December 31, 2012.
- as at 31 December 2012 the Group presented credit in current accounts in total value of PLN 616.683 thousand.

As at 31 December 2012, the value of available overdraft facilities in current account amounted to PLN 983.580 thousand. Overdrafts in current account relating to the main Group entities are due for repayment until March 2015.

42.4.4.2 Liabilities form bonds issued

As at 31 December 2012 and 2011 the Group had no liabilities from bonds issued.

During year 2012 PGE S.A. had a possibility of issuing bonds within 3 bond issue programmes: programme addressed to external investors of the maximum amount of PLN 10 billion, programme addressed to Polish capital markets investors of maximum amount of PLN 5 billion and programme addressed to PGE Group companies in maximum amount of PLN 5 billion.

Bond issue programme of PLN 10 billion

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

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

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

Bonds are subject to the partial underwriting i.e. the underwriters of the Programme have an obligation to purchase bonds issued by the Company under the Programme, as it is stated in the Commitment Agreement. Primary aggregate obligation of banks amounted to PLN 7,3 billion and as at 4 August 2011 it was decreased to PLN 5,8 billion. As at 31 December 2012 bonds were subject to underwriting amounting to PLN 1,5 billion by following underwriters: Banca Infrastrutture Innovazione e Sviluppo S.p.A., Bank Polska Kasa Opieki S.A., Nordea Bank Polska S.A., Nordea Bank AB, ING Bank N.V., ING Bank Śląski S.A. and Powszechna Kasa Oszczędności Bank Polski S.A. Underwriters of the Programme are obliged to purchase bonds during the period from 15 November 2010 till 31 October 2013.

Bonds are to be issued as specified in article 9 paragraph 3 of the Act on Bonds dated 29 June 1995 (Official Journal 2001, no. 120, item 1300 with amendments) based on the Programme Agreement and the Issue Terms, as bearer discount bonds (zero-coupon bonds) with maturity of 1, 3 or 6 months but their maturity cannot exceed 6 months. The maturity of the last issue of bonds may be different (but not shorter than 7 days and not longer than 6 months); however the last issue maturity date cannot fall after the Programme maturity date.

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

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

As at 31 December 2012, the Company had no bonds issued within the programme described above.

Bond Issue Programme of PLN 5 billion addressed to Polish capital market investors

On 29 August 2011 Company signed an issue agreement with Pekao S.A. bank (acting as Agent, Paying Agent and Depository) and ING Bank Śląski S.A. (acting as Sub-Agent, Sub-Paying Agent and Sub-Depository) for an indefinite period of time, under which the bond issue programme was established.

The maximum Programme amount (representing a maximum aggregate nominal amount of bonds issued and outstanding under the Programme) is PLN 5 billion.

Bonds are to be issued as specified in article 9 paragraph 3 of the Act on Bonds dated 29 June 1995 (Official Journal 2001, no. 120, item 1300 with amendments) based on the Programme Agreement and Issue Terms, as dematerialized bearer coupon bonds or bearer zero-coupon bonds with maturity not shorter than 1 month and not longer than 10 years.

Bonds under the Programme will be denominated in Polish zloty (PLN). The nominal value of one bond will amount to PLN 10.000 or multiples of this amount. Bonds issued may be coupon or zero-coupon bonds based on market interest rates in accordance with *best-effort* rule.

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

As at 31 December 2012, the Company had no bonds issued within the programme above.

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42.5 Collaterals for repayments of liabilities

The Group uses many financial instruments and combinations thereof as collaterals for repayment of loans. The most frequently used are agreements of assignment of receivables, bills and execution statements. Additionally, the Group uses power of attorney to bank accounts and cessions of receivables.

As at the balance sheet date, assets of the following value were collateral for repayment of liabilities or contingent liabilities:

	Carrying amount of assets being collateral for repayment of liabilities as at	
	31 December 2012	**31 December 2011**
Property, plant and equipment	1.152.235	5.242.971
Inventories	29.713	23.220
Trade receivables	13.270	-
Cash	-	-
Other assets	-	73.080
Total assets being collaterals for repayment of liabilities	**1.195.218**	**5.339.271**

Property, plant and equipment presented in the table above are collaterals for repayment of drawn investment credits. As at 31 December 2012 and as at 31 December 2011 the most significant position is a collateral mortgage on the new power unit 858 MW constructed in PGE Górnictwo i Energetyka Konwencjonalna S.A. Oddział Elektrownia Bełchatów. The table lists the value of the mortgage, ie the amount of EUR 195 million, but the value of the assets on which the mortgage is registered amounts to value of PLN 4.346.286 thousand. As at 31 December 2011, the largest position in the table listed above was pledge on the power unit, which was released in 2012.

The collaterals on inventories comprise mainly pledges related to received funds form environmental funds. In 2011, the position of other assets comprises mainly the deposited greenhouse gas emission rights, which are a guarantee for the transactions on the energy market.

The Group companies are obliged to maintain a specified cash balance on its account held with Bank Ochrony Środowiska S.A. according to the Rules of WCCH (Warsaw Commmodity Clearing House) and to participation in a guarantee fund. The amount of the deposit and guarantee fund amounted to PLN 121.686 thousand as at 31 December 2012.

Moreover, the PGE Group companies maintain similar bank accounts at Nordea S.A. bank as a deposit securing payments of liabilities due to purchases of electric energy on poee (electricity trading platform) Warsaw Stock Exchange Energy Market (poee WSE Energy Market) and the Companies' open positions on the market. As at 31 December 2012 the above mentioned cash balance amounted to almost PLN 100 million.

43 Objectives and principles of financial risk management

PGE Group companies, due to their business activities, are exposed to the following types of financial risks:

- Market risk, including:
  - Interest rate risk;
  - Currency risk;
  - Price risk;
- Credit risk;
- Liquidity risk;

Since the contribution of the entities to PGE, the Group manages financial risk in shape and range as presented in further part of this paragraph. Currently the Group is in the stage of elaborating group procedures and policies on financial risk management. In the previous period, financial risk management was executed on the level of particular entities constituting the PGE Group.

The main objective of financial risk management in PGE Group entities is to reduce fluctuations of cash flows and financial result related to entities' exposure to market risk and other categories of financial risk, particularly credit risk to an acceptable level by the Company's management. The defined objective is realized on the level of PGE Group or on the level of each entity, as long as it is consistent with objectives at the Group level.

Both on the Group level and entity level, the objectives are achieved with the use of the mechanism of natural hedging and hedging derivative transactions in the range compliant with the Group's internal regulations.

None of the PGE Group entities concludes derivative transactions for purposes other than to secure an identified exposure to market risk. As a result, it is prohibited in the Group to conclude speculative transactions, i.e. such transactions that increase the exposure to interest rate risk or currency risk, in comparison to the risk level resulting from identified sources of entities' exposure to the mentioned types of market risk, the purpose of which is to obtain additional gains on changes of risk level.

The PGE Group applies an active approach to market risk management. This approach assumes that the market risk generated by the PGE Group entities shall be transferred to the parent company, i.e. PGE S.A. with the use of Intra-Group transactions. Internal transactions are concluded at market conditions. The active approach to market risk management assumes the following:

- Adjustment of the level of collateral (the ratio of secured exposure in relation to the whole of exposure for interest rate risk and currency risk) to the Group expectations on the shaping of risk factors in order to obtain benefits resulting from expected changes of risk factors;
- Supporting the realization of budgetary assumptions of the Group, realization of investment programmes and Group development strategy with the use of a collateral mechanism against interest rate risk and currency risk.

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43.1 Liquidity risk

PGE Group entities run an active policy on investment of cash. It means that the entities are monitoring the state of monetary surplus and are forecasting future cash flows, and on such a basis the investment strategy is realized towards cash aimed at realization of the investment strategy objectives.

In case of monetary shortage, PGE Group entities use available financing sources in the order presented below:

- Bank credit granted in current account;
- Bonds issued that are acquired by PGE S.A;
- Bonds issued that are acquired by external buyers.

The Bond issue program is presented in detail in Note 42.4.4.2 of these financial statements.

43.2 Interest rate risk

PGE Group entities are exposed to interest rate risk as a result of financing their operating and investment activities with interest bearing indebtedness at variable interest rates or through investments in financial assets at variable or fixed interest rates. On the other hand, financing business activity with indebtedness at a fixed interest rate is related to the opportunity cost risk in case of interest rates' decline.

The entities are exposed to interest rate risk related to deposits placed, cash, investment in bonds issued by Autostrada Wielkopolska S.A. and liabilities from credits granted and bonds issued.

The below table presents the interest rate gap, constituting the Group's exposure to interest rate risk and risk concentration, with regards to currencies and type of interest rate:

		Type of interest rate	Nominal value as at 31 December 2012	Nominal value as at 31 December 2011
Financial assets exposed to interest rate risk	PLN	Fixed	10.886	2.110.326
		Variable	4.685.600	3.924.849
	Other currencies	Fixed	-	190.537*
		Variable	433.803	441.941
Financial liabilities exposed to interest rate risk	PLN	Fixed	7.386	409.681
		Variable	887.552	438.736
	Other currencies	Fixed	-	-
		Variable	1.033.648	1.228.982
Net exposure	PLN	Fixed	**3.500**	**1.700.645**
		Variable	**3.798.048**	**3.486.113**
	Other currencies	Fixed	**-**	**190.537**
		Variable	**(599.845)**	**(787.041)**

*In this position loan for Electra Bohemia s.r.o is included in the amount of PLN 1.545 thousand which is equivalent to CZK 9.030 thousand. Due to the fact that the amount is not significant, has not been presented in Note 43.3 and 43.14 of these financial statements.

Interest on financial instruments of a variable interest rate is updated in periods shorter than one year. Interest on financial instruments of a fixed interest rate is flat throughout the whole period until maturity of these instruments

Cash is presented in the position of financial assets exposed to variable interest rates. Cash comprises mainly short-term deposits (not longer than 3 months) of fixed interest rate. However due to risk of changeability of interest rates when negotiating the interest rates in future periods, the Group presents them in the position of assets exposed to higher risk.

The Group is exposed to the risk of change of fair value of SWAP derivatives, resulting from changes of interest rates.

43.3 Currency risk

In the PGE Group companies two types of exposure to currency risk can be identified:

Exposure to transaction risk

The risk results from the fact that a portion of cash flows related to core operations of entities is denominated in or indexed to foreign currencies. The other sources of exposure to the risk are capital investments and financing in foreign currencies. Currency risk relates to changes in future cash flows denominated in or indexed to foreign currencies as a result of changes in foreign exchange rates.

Exposure to translation risk

The risk results from translation of carrying amounts of items of assets and liabilities denominated in foreign currency to the functional currency of financial statements of the entities, i.e. PLN. Similar to transaction risk, the lack of certainty of future foreign exchange rates, at which the carrying amounts of items of assets and liabilities shall be translated as at the balance sheet date, causes uncertainty concerning carrying amounts of these items in PLN as at the balance sheet date and relevant financial income and/or expenses resulting from foreign exchange differences recognized in statement of comprehensive income. Presented below are main sources of exposure to currency risk:

- Capital expenditures denominated in or indexed to foreign currencies,
- Loans and borrowings of Group companies denominated in foreign currencies,
- Sales (export) of electricity denominated in foreign currencies,
- Purchases of electricity denominated in foreign currencies or purchases of electricity for which part of the purchase is indexed to foreign currency rates,
- Fees denominated in or indexed to foreign currency relevant to purchase of transmission capacities,
- Sales of CO_2 emission rights denominated in or indexed to foreign currencies,
- Purchase of CO_2 emission rights denominated in or indexed to foreign currencies,
- Expenses related to current exploitation of production goods denominated in or indexed to foreign currencies,
- Financial assets with deposit characteristics denominated in foreign currencies.

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The below table presents the Group's exposure to currency risk with regards to particular classes of financial instruments:

	Total carrying value	Currency position as at 31 December 2012							
		EUR		USD		CHF		SEK	
	PLN	in currency	PLN	in currency	PLN	in currency	PLN	in currency	PLN
Financial assets									
Deposits	10.217	-	-	-	-	-	-	-	-
Bonds, bills and notes receivable acquired	321.341	78.602	321.341	-	-	-	-	-	-
Trade receivables	1.894.733	4.689	19.261	209	646	-	-	-	-
Cash and cash equivalents	4.795.493	27.490	112.113	62	192	45	153	9	4
Originated loans	3.017	-	-	-	-	-	-	-	-
Other financial receivables	148.651	-	-	-	-	-	-	-	-
Shares in entities not quoted on active markets	33.792	-	-	-	-	-	-	-	-
Shares quoted on active markets	104	-	-	-	-	-	-	-	-
Other financial assets	3.737	-	-	-	-	-	-	-	-
Lease receivables	221	-	-	-	-	-	-	-	-
Compensations related to LTC	614.148	-	-	-	-	-	-	-	-
Derivatives FORWARD	5.526	59.774	265.351	-	-	-	-	-	-
Financial liabilities									
Derivatives FORWARD	(148)	(3.176)	(13.492)	-	-	-	-	-	-
Derivatives SWAP	(36.365)	-	-	(11.732)	(36.365)	-	-	-	-
Interest bearing loans and credits	(1.892.221)	(150.000)	(605.702)	(78.123)	(242.152)	(44.121)	(149.429)	-	-
Bonds and debt securities issued	-	-	-	-	-	-	-	-	-
Trade and other financial liabilities at amortized cost	(2.376.660)	(9.984)	(44.199)	(337)	(1.032)	-	-	-	-
Liabilities related to LTC	(393.568)	-	-	-	-	-	-	-	-
Liabilities from finance lease and lease agreements with option of purchase	(4.470)	-	-	-	-	-	-	-	-
Net currency position		**7.395**	**54.673**	**(89.921)**	**(278.711)**	**(44.076)**	**(149.276)**	**9**	**4**

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	Total carrying value	Currency position as at 31 December 2011							
		EUR		USD		CHF		SEK	
	PLN	in currency	PLN	in currency	PLN	in currency	PLN	in currency	PLN
Financial assets									
Deposits	2.107.368	-	-	-	-	-	-	-	-
Bonds, bills and notes receivable acquired	313.739	71.033	313.739	-	-	-	-	-	-
Trade receivables	1.767.739	4.852	21.431	297	1.015	-	-	-	-
Cash and cash equivalents	4.052.238	28.961	127.916	39	132	32	117	74	37
Originated loans	191.905	-	-	-	-	-	-	381.801	188.992
Other financial receivables	452.394	-	-	-	-	-	-	-	-
Shares in entities not quoted on active markets	103.731	-	-	-	-	-	-	-	-
Shares quoted on active markets	2.329	-	-	-	-	-	-	-	-
Other financial assets	3.123	-	-	-	-	-	-	-	-
Lease receivables	2.403	-	-	-	-	-	-	-	-
Compensations related to LTC	39.664	-	-	-	-	-	-	-	-
Financial liabilities			-	-	-	-	-	-	-
Derivatives	(48.093)	-	-	(14.073)	(48.093)	-	-	-	-
Interest bearing loans and credits	(2.029.306)	(150.000)	(653.855)	(93.149)	(318.327)	(57.443)	(208.707)	-	-
Bonds and debt securities issued	-	-	-	-	-	-	-	-	-
Trade and other financial liabilities at amortized cost	(2.961.649)	(27.865)	(123.076)	(203)	(693)	-	-	(36.686)	(18.159)
Liabilities from finance lease and lease agreements with option of purchase	(9.706)	-	-	-	-	-	-	-	-
Net currency position		**(73.019)**	**(313.845)**	**(107.089)**	**(365.966)**	**(57.411)**	**(208.590)**	**345.189**	**170.870**

43.4 Price risk

Due to their type of business activities, the PGE Group entities are susceptible to change of cash flows and financial results in domestic currency due to price changes of the following risk factors:

- Electric energy;
- Heat energy;
- Coal;
- Gas;
- CO_2 emission rights;
- Energy origin units of electricity from renewable sources ("green certificates") or from cogeneration plants ("red/yellow certificates").

The Group owns lignite mines, that deliver production fuel to two powerhouses. Due to this fact, the Group's exposure to price fluctuations of these resources is not significant.

The Group's exposure to price risk of merchandise reflects the volume of external purchase of particular resources presented in the table below:

	Year 2012		Year 2011	
Type of fuel	**Tonnage – external purchase (in thousand tons)**	**Cost of purchase (PLN million)**	**Type of fuel**	**Tonnage – external purchase (in thousand tons)**
Coal	6.555	1.917	7.316	1.966
Gas [m3 thousand]	635.477	600	611.987	501
Biomass	1.374	517	731	254
Fuel oil	56	133	78	174
Total		**3.167**		**2.895**

Moreover, as presented in Note 28 of these financial statements, during the period ended 31 December 2012, the Group purchased CO_2 emission rights for PLN 577 million and during the period ended 31 December 2011, CO_2 emission rights for PLN 724 million.

43.5 Credit risk

Credit risk is connected with a potential credit event that can occur, such as insolvency of a customer, partial payment of a receivable, significant delay in receivable payment or other breaches of contract conditions (in particular the lack of delivery and acceptance of the goods as agreed in the contract and the possible non-payment for damages and contractual penalties).

The PGE Group entities are exposed to credit risk arising in the following areas:

- Basic activities of entities – the credit risk results from, among others, purchases and sales of electricity and heat energy, purchases and sales of fossil fuels, etc.;
- Investment activities of entities – the credit risk results from transactions resulting from investment projects which depend on the financial situation of the Group's suppliers;
- Management of market risk in the Group – the credit risk relates to the possibility of there being a lack of fulfilling of liabilities of the second side of the derivative transaction in relation to the PGE Group entity, if fair value of the derivative transaction is positive from the point of view of the Group.
- Allocation of free cash of entities – the credit risk results from investing free cash of PGE Group entities in securities bearing credit risk i.e. financial instruments other than those issued by State Treasury.

The classes of financial instruments exposed to credit risk but having different characteristics of credit risk:

- Deposits;
- Bonds, bills, notes receivable acquired;
- Trade receivables;
- Loans granted;
- Other financial receivables;
- Cash and cash equivalents;
- Derivatives;
- Guarantees and sureties granted.

There are significant concentrations of credit risk within the Group related to:

- Trade receivables from key customers, as at 31 December 2012 the three most significant customers accounted for ca. 12% of the trade receivables balance. In addition, receivables from sale of electricity to households account for ca. 18% of the trade receivables balance.
- Compensation from Long-Term Contracts described in note 45.1 of these consolidated financial statements.
- AWSA bonds described in Note 42.4.1. on these financial statements.

Maximum credit risk exposure resulting from Company's financial assets is equal to the carrying value of these items. The total maximum credit risk exposure resulting from the Company's assets amounted to PLN 7.830.980 thousand as at 31 December 2012.

43.6 Trade receivables

The terms of payments for trade receivables are usually 2-3 weeks, however in 2012 the Group received payments for receivables after 25 days (debtors turnover ratio in the main companies in PGE Group ranged between 8 and 41 days, taken retail sale and distribution segment). Trade receivables relate mainly to receivables for energy sold and additional services rendered. According to the management, due to current control over trade receivables, there is no additional credit risk that would exceed the level reflected by allowances for receivables.

The Group hold a Policy of Credit Risk Management in PGE Group, which is applied in the process of management of the credit risk mainly by using the following mechanisms and techniques: evaluation of financial standing of the customers and setting up credit limits; requiring credit collaterals from customers with lower financial standing; standardization of contents of agreements relating to credit risk and standardization of credit collaterals; system of current monitoring of payments and system of early vindication; cooperation with business intelligence agencies and debt collection companies.

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Credit risk relating to trade receivables by geographical region is presented in the table below:

	31 December 2012		31 December 2011	
Geographical region/ country	**Receivables balance**	**Share %**	**Geographical region/ country**	**Receivables balance**
Poland	1.841.530	97,2%	1.722.724	97,5%
United Kingdom	6.039	0,3%	8.816	0,5%
Germany	28.695	1,5%	24.640	1,4%
Czech Republic	4.480	0,2%	2.008	0,1%
Other	13.989	0,8%	9.551	0,5%
Total	**1.894.733**	**100,0%**	**1.767.739**	**100,0%**

43.7 Deposits, cash and cash equivalents

The Group manages credit risk related to cash by diversification of banks in which surpluses of cash are allocated. All entities, that the Group concludes deposit transactions with, operate in the financial sector. These can only be banks registered in Poland or divisions of foreign banks with high ratings, adequate solvency ratio, equity and strong, stable market position in Poland. The most significant cash balances of the Group allocated in three banks accounted for approx. 73% as at 31 December 2012.

43.8 Other Loans and financial receivables

Other financial receivables and loans comprise of the receivables from to LTC compensations (for more details please refer to note 45.1 to these consolidated financial statements) and acquired bonds of Autostrada Wielkopolska S.A., loans granted as well as other financial receivables. The above position is described in detail in Note 42.4.1.

43.9 Derivatives

All entities, the Group concludes derivative transactions with operate in the financial sector. These are Polish banks with high ratings, of adequate equity and strong, stable market position. As at the balance sheet date, the Group presented derivative transactions concluded, described in detail in note 42.4.3 to these consolidated financial statements.

43.10 Guarantees granted

Guarantees granted by the Group entities are presented in note 38 of the consolidated financial statements.

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43.11 Ageing of receivables and write offs on receivables

As at 31 December 2012, trade receivables and shares in entities not quoted on active markets were subject to impairment allowances. The change in impairment allowances for these classes of financial instruments are presented in the table below:

	Trade receivables	Loans granted	Shares in entities not quoted on active markets
Year ended 31 December 2012			
Impairment allowances as at 1 January	**(221.833)**	**-**	**(114.969)**
Impairment allowances used	16.617	-	227
Impairment allowances reversed	58.406	-	-
Impairment allowances created	(91.740)	-	(64.542)
Change in presentation	(10.252)	-	475
Impairment allowances as at 31 December	**(248.802)**	**-**	**(178.809)**
Value before the impairment allowances	2.143.535	3.017	212.601
Net value (carrying amount)	1.894.733	3.017	33.792
Year ended 31 December 2011			
Impairment allowances as at 1 January	**(231.630)**	**-**	**(120.592)**
Impairment allowances used	20.389	-	988
Impairment allowances reversed	65.724	-	410
Impairment allowances created	(75.773)	-	(697)
Change in presentation	(543)	-	4.922
Impairment allowances as at 31 December	**(221.833)**	**-**	**(114.969)**
Value before the impairment allowances	1.989.572	191.905	218.700
Net value (carrying amount)	1.767.739	191.905	103.731

The majority of impairment allowances created by the Group during the reporting period relate mainly to trade receivables of companies from retail sale and distribution segment. Impairment allowances in companies of retail sale and distribution segment as at 31 December 2012 amounted to PLN 201.082 thousand (PLN 186.939 thousand in 2011). Factors that were taken into consideration by the Company in the calculation of the impairment of the above positions are described in note 12 to these consolidated financial statements.

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There are no other significant receivables positions within the Group, except from trade receivables, that would be significantly past due but not covered by an impairment allowances. The ageing structure of trade receivables and other loans and receivables taking into account impairment allowances, are presented below:

Trade receivables and other loans and receivables	Before due date	Past due < 30 days	30 – 90 days	90 – 180 days	180 – 360 days	>360 days
31 December 2012						
Before the impairment allowances	2.591.674	337.196	91.055	30.246	43.840	273.220
Impairment allowances	(60.883)	(2.951)	(5.422)	(9.916)	(33.599)	(272.570)
After impairment allowances	2.530.791	334.245	85.633	20.330	10.241	650

Trade receivables and other loans and receivables	Before due date	Past due < 30 days	30 – 90 days	90 – 180 days	180 – 360 days	>360 days
31 December 2011 *(restated data)*						
Before the impairment allowances	2.337.770	267.836	108.614	36.303	35.604	348.433
Impairment allowances	(37.526)	(1.826)	(3.604)	(10.943)	(21.214)	(334.006)
After impairment allowances	2.340.244	266.010	105.010	25.360	14.390	14.427

As at 31 December 2012 more than 74% of the overdue trade receivables, other loans and receivables that were not covered with an impairment allowances relate to companies from retail sale segment.

43.12 Liquidity risk

The Group is monitoring the risk of lack of funds with the use of a periodical liquidity planning tool. This tool takes into account the maturity of both investments and financial assets (i.e. receivables' and other financial assets' accounts) and estimated future cash flows from operating activities.

PGE Group entities are exposed to liquidity risk in the following areas:

- Core operations of entities – liquidity risks results from maladjustment of structure of dates of operating activities cash flows and execution of assets and liabilities;
- Market risk exposure within the Group – liquidity risk results from possible necessity of settlement of hedging derivative transactions, the market value of which is negative from the point of view of the Group or the necessity of granting a guarantee to the second party of the collateral deposit transaction (cash collateral deposited eg. due to participation in commodity exchanges) in the case of negative valuation of derivatives to the moment of full settlement of a collateral transaction.
- Allocation of free cash of entities – the liquidity risk results from necessity of realization of financial assets owned, the market of which is characterized by low volume of turnover and/or relatively high spread between purchase price and sale price.

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The below table presents the maturity of the Group's financial liabilities as at the balance sheet dates on the basis of the maturity date based on contractual non-discounted payments.

31 December 2012	Less than 3 months	Between 3 and 12 months	Between 1 and 5 years	More than 5 years	Total
Interest bearing loans and credits	188.557	661.740	565.372	582.310	1.997.979
Trade liabilities, LTC liabilities and other financial liabilities at amortized cost	2.337.653	410.416	22.024	135	2.770.228
Liabilities from finance lease and lease agreements with an option of purchase	1.589	624	2.257	-	4.470
Derivatives	893	10.892	25.031	2.878	39.694
Total	**2.528.692**	**1.083.672**	**614.684**	**585.323**	**4.812.371**

31 December 2011	Less than 3 months	Between 3 and 12 months	Between 1 and 5 years	More than 5 years	Total
Interest bearing loans and credits	227.729	504.268	673.266	752.991	2.158.254
Trade liabilities, LTC liabilities and other financial liabilities at amortized cost	1.855.382	1.088.403	17.487	377	2.961.649
Liabilities from finance lease and lease agreements with an option of purchase	3.594	336	5.776	-	9.706
Derivatives	1.152	13.350	34.352	6.644	55.498
Total	**2.087.857**	**1.606.357**	**730.881**	**760.012**	**5.185.107**

43.13 Market (finance) risk – sensitivity analysis

The Company identifies the following types of market risk as the most significant:

- interest rate risk,
- currency risk.

The PGE Group is exposed mainly to currency risk related to foreign exchange rates between EUR/PLN, USD/PLN, CHF/PLN and SEK/PLN. Furthermore, the Group is exposed to interest rate risk related to referential interest rates of PLN, EUR, USD and CHF. The Group uses a script analysis method for the purpose of analyzing sensitivity to changes of market risk factors. The Group uses experts' scripts reflecting the subjective opinion on the Group in relation to future fluctuations of individual market risk factors.

The scenario analysis presented in this point is intended to analyze the influence of changes in market risk factors on the financial results of the Group. Only positions that can be defined as financial instruments are subject to the analysis of interest and currency risk.

Potential foreign exchange rates' changes were calculated as ±8,65% for EUR/PLN, ±14,51% for USD/PLN, ±10,34% for CHF/PLN and ±11,15% for SEK/PLN.

In sensitivity analysis related to interest rate risk, the Group applies parallel shift of interest rate curve related to a potential possible change of referential interest rates during the following year. For the purpose of sensitivity analysis on the interest rate risk for currencies, for which the Group is exposed to as at the balance sheet date, potential interest rates' changes was estimated as ±94 bp for WIBOR, ±60 bp for EURIBOR, ±34 bp for LIBOR USD and ±34 bp for LIBOR CHF.

In case of sensitivity analysis of interest rates' fluctuations, the effect of risk factors' changes would be recognized in the statement of comprehensive income in the position of interest income or expenses for the financial instruments at amortized cost and on the position of revaluation of financial instruments at fair value.

Presented below is the sensitivity analysis related to all types of market risks the Group is exposed to as at the balance sheet date, indicating the potential influence of changes of individual risk factors by class of assets and liabilities on the gross financial result.

43.14 Sensitivity analysis for currency risk

The Group identifies an exposure to fluctuations of foreign exchange rates of the following pairs of currencies: EUR/PLN, USD/PLN, CHF/PLN and SEK/PLN.

The below table presents the sensitivity of a gross financial result to reasonably possible changes to foreign currencies exchange rates, under the assumption of stability of other risk factors for these classes of financial instruments exposed to currency risk.

Financial instruments by class	31 December 2012		Sensitivity analysis for currency risk as at 31 December 2012					
			EUR/PLN		USD/PLN		CHF/PLN	
	Total amount in statement of financial position	Amount exposed to risk	gross financial result		gross financial result		gross financial result	
	PLN thousand	PLN thousand	Exchange rate EUR/PLN + 8,65%	Exchange rate EUR/PLN - 8,65%	Exchange rate USD/PLN + 14,51%	Exchange rate USD/PLN - 14,51%	Exchange rate CHF/PLN + 10,34%	Exchange rate CHF/PLN - 10,34%
Trade receivables	1.894.733	19.907	1.666	(1.666)	94	(94)	-	-
Bonds, bills, notes receivable acquired	321.341	321.341	27.796	(27.796)	-	-	-	-
Cash and cash equivalents	4.795.493	112.462	9.698	(9.698)	28	(28)	16	(16)
Derivatives – Forward	5.526	265.351	(19.478)	19.478	-	-	-	-
Derivatives – Forward	(148)	(13.492)	621	(621)	-	-	-	-
Derivatives – SWAP	(36.365)	(36.365)	-	-	(5.275)	5.275	-	-
Interest bearing loans and credits	(1.892.221)	(997.283)	(52.393)	52.393	(35.124)	35.124	(15.449)	15.449
Trade liabilities, LTC liabilities and other financial liabilities at amortized cost	(2.770.228)	(45.231)	(3.823)	3.823	(150)	150	-	-
Gross profit change			**(35.913)**	**35.913**	**(40.427)**	**40.427**	**(15.433)**	**15.433**

Financial instruments by class	31 December 2011 Total amount in statement of financial position PLN thousand	Amount exposed to risk PLN thousand	Sensitivity analysis for currency risk as at 31 December 2011 EUR/PLN gross financial result Exchange rate EUR/PLN + 13,60%	Exchange rate EUR/PLN – 13,60%	USD/PLN gross financial result Exchange rate USD/PLN + 23,35%	Exchange rate USD/PLN – 23,35%	CHF/PLN gross financial result Exchange rate CHF/PLN + 18,50%	Exchange rate CHF/PLN – 18,50%	SEK/PLN gross financial result Exchange rate SEK/PLN + 13,20%	Exchange rate SEK/PLN – 13,20%
Trade receivables	1.767.739	22.446	2.915	(2.915)	237	(237)	-	-	-	-
Loans granted	191.905	188.992	-	-	-	-	-	-	24.947	(24.947)
Bonds, bills, notes receivable acquired	313.739	313.739	42.668	(42.668)	-	-	-	-	-	-
Cash and cash equivalents	4.052.238	128.202	17.397	(17.397)	31	(31)	22	(22)	5	(5)
Derivatives	(48.093)	(48.093)	-	-	(11.230)	11.230	-	-	-	-
Interest bearing loans and credits	(2.029.306)	(1.180.889)	(88.924)	88.924	(74.330)	74.330	(38.611)	38.611	-	-
Trade liabilities, LTC liabilities and other financial liabilities at amortized cost	(2.961.649)	(141.928)	(16.738)	16.738	(162)	162	-	-	(2.397)	2.397
Gross profit change			**(42.682)**	**42.682**	**(85.454)**	**85.454**	**(38.589)**	**38.589**	**22.555**	**(22.555)**

43.15 Sensitivity analysis for interest rate risk

The Group identifies exposure to interest rate risk related to WIBOR, EURIBOR and LIBOR rates. The table below presents the sensitivity of the gross financial result based on reasonable, possible future fluctuations of interest rates, under assumption of stability of other risk factors for these classes of financial instruments that are exposed to interest rate risk:

Financial assets and liabilities	31 December 2012 Total amount in statement of financial position	Amount exposed to risk	Sensitivity analysis for interest rate risk as at 31 December 2012 WIBOR gross financial result		EURIBOR gross financial result		LIBOR USD gross financial result		LIBOR CHF gross financial result	
	PLN thousand	PLN thousand	WIBOR + 94bp	WIBOR – 94bp	EURIBOR+ 60bp	EURIBOR - 60bp	LIBOR USD + 34bp	LIBOR USD – 34bp	LIBOR CHF + 34bp	LIBOR CHF – 34bp
Cash and cash equivalents	4.795.493	4.795.493	40.501	(40.501)	717	(717)	1	(1)	-	-
Bonds	321.341	321.341	-	-	1.896	(1.896)	-	-	-	-
Derivatives	(36.513)	(36.365)	-	-	-	-	(2.453)	2.453	-	-
Interest bearing loans and credits	(1.892.221)	(1.884.835)	(8.169)	8.169	(3.761)	3.761	(951)	951	(605)	605
Gross profit change			**32.332**	**(32.332)**	**(1.148)**	**1.148**	**(3.403)**	**3.403**	**(605)**	**605**

Financial assets and liabilities	31 December 2011 Total amount in statement of financial position	Amount exposed to risk	Sensitivity analysis for interest rate risk as at 31 December 2011 WIBOR gross financial result		EURIBOR gross financial result		LIBOR USD gross financial result		LIBOR CHF gross financial result	
	PLN thousand	PLN thousand	WIBOR + 113bp	WIBOR - 113bp	EURIBOR+ 83bp	EURIBOR - 83bp	LIBOR USD + 63bp	LIBOR USD - 63bp	LIBOR CHF + 25bp	LIBOR CHF - 25bp
Cash and cash equivalents	4.052.238	4.052.238	36.944	(36.944)	890	(890)	1	(1)	-	-
Derivatives	(48.093)	(48.093)	-	-	-	-	(6.808)	6.808	-	-
Interest bearing loans and credits	(2.029.306)	(1.619.625)	(11.402)	11.402	(5.150)	5.150	(2.004)	2.004	(551)	551
Gross profit change			**25.542**	**(25.542)**	**(4.260)**	**4.260**	**(8.811)**	**8.811**	**(551)**	**551**

Change of interest rates will have a direct influence on the valuation of derivatives relating to conversion of variable to fixed interest rates. In case of other assets and liabilities presented in the above tables, changes of interest rates would have impact on future valuation of these instruments.

The above mentioned positions are recorded in the statement of comprehensive income and consequently in the position of retained earnings. Change of interest rates does not influence the value of other positions of equity in the statement of financial position.

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44 Employment structure

Employment in the Group (in posts) was as follows:

	As at 31 December 2012	As at 31 December 2011
Total employees, including:	**41.276**	**44.317**
Conventional Energy	19.638	21.693
Renewable Energetic	546	522
Wholesale turnover	390	350
Distribution	11.306	12.073
Retail sale	1.491	1.635
Other consolidated entities	7.905	8.044

45 Significant events during the reporting period and subsequent events

45.1 Compensation for long term contacts

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

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

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

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

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

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

Proceedings concerning adjustments of annual stranded costs for 2008

During the period from February to November 2012, the Court of Appeals ruled on six similar cases concerning adjustments of stranded costs for 2008, issued for the specific production companies - members of PGE GiEK S.A.:

- In three cases, with a combined value of the object of dispute being PLN 186.8 million, the Court of Appeals ruled to dismiss the appeals of the President of the Energy Regulatory Office against the judgments of the Court for Competition and Consumer Protection as unsubstantiated, and modified the decisions of the President of the Energy Regulatory Office as claimed by the company.

- In one case, where the value of the object of dispute was PLN 26.7 million, the Court of Appeals ruled to sustain the appeal of the President of the Energy Regulatory Office against the judgment of the Court for Competition and Consumer Protection (concerning the Lublin Wrotków Heat and Power Generating Plant).

PGE GiEK S.A. or the President of the Energy Regulatory Office, respectively, filed cassation appeals against the above rulings to the Supreme Court. The claims are currently at different stages of proceeding.

- In one case, with the value of the object of dispute being PLN 178.8 million, the Court of Appeals ruled to suspend the proceedings and to wait with ruling on the case until the Supreme Court renders its decision regarding the cassation appeals.
- In one case, with the value of the object of dispute being PLN 42.4 million, the Court of Appeals ruled to revoke the judgment of the Court for Competition and Consumer Protection and to lodge the matter for reconsideration by the Court for Competition and Consumer Protection. On 12 November 2012, the Court for Competition and Consumer Protection recognized the case again and ruled to vary the decisions of the President of the Energy Regulatory Office as demanded by the company. The ruling is not yet enforceable. The President of the Energy Regulatory Office has the right to appeal against the ruling to the Court of Appeals in Warsaw.

Proceeding concerning adjustments of annual stranded costs for 2009 and 2010

In June 2012, the Court for Competition and Consumer Protection issued two judgments allowing the appeals of PGE GiEK S.A. against the decisions of the President of the Energy Regulatory Office concerning determination of the amount of adjustment of annual stranded costs payable to two producers for 2009. The combined value of the object of dispute was PLN 85.2 million.

For both cases, the President of the Energy Regulatory Office lodged his appeals and the company responded accordingly. For one of the cases, with the value of the object of dispute being PLN 92.9 million, in January 2013 the Court of Appeals ruled to dismiss the appeal of the President of the Energy Regulatory Office. The judgment is valid; however, the President of the Energy Regulatory Office is still entitled to file a cassation complaint against this judgment to the Supreme Court.

In October 2012, a single hearing took place before the Court for Competition and Consumer Protection concerning the appeal of PGE GiEK S.A. against the decision of the President of the Energy Regulatory Office concerning adjustment of stranded costs for 2009, with the value of the object of dispute being PLN 241.7 million. Ultimately, the Court for Competition and Consumer Protection did not rule on the case and postponed the session for a later date.

On 5 March 2013, two hearings took place before the Court for Competition and Consumer Protection concerning the appeals of PGE GiEK S.A. against the decision of the President of the Energy Regulatory Office concerning adjustment of stranded costs and costs occurring in gas-fired units for 2009 for Elektrociepłownia Rzeszów, with the value of the object of dispute being PLN 48.8 million. Court for Competition and Consumer Protection have not issued judgments in these cases. In case concerning stranded costs, the Court closed the case and postponed the announcement of judgment on 18 March 2013, while in the case concerning the adjustment of cost incurred in natural gas-fired units postponed the hearing without setting a specific date.

The remaining 12 cases with a total value of the objects of dispute being PLN 836.8 million, concerning 2009 and 2010, have not yet been resolved by the Court for Competition and Consumer Protection.

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

On 31 July 2012 the President of the Energy Regulatory Office issued a decision on determining the annual adjustments of the stranded costs and costs related to natural gas fired entities for 2011. These decisions were disadvantageous for PGE GiEK S.A. and the Group believes that they were issued in violation of the Long-Term Contracts Act (the total value of adjustments resulting from the decision of the President of the Energy Regulatory Office for producers from PGE GiEK S.A. for 2011 is (-) PLN 536.5 million). On 16 August 2012 PGE GiEK S.A. appealed against the above described decision of the President of the Energy Regulatory Office to the Regional Court in Warsaw, the Competition and Consumer Protection Court. As a result of the appeal the President of the Energy Regulatory Office changed the previously issued decision in favour of the Group and decreased the value of the annual adjustments of the stranded costs by PLN 83.8 million. The value of the mentioned adjustment is indisputable.

In terms of the annual adjustment of the costs in natural gas fired entities for the year 2011 the President of the Energy Regulatory Office did not consider the appeal and passed the appeal to the Competition and Consumer Protection Court. Value of the dispute amounts PLN 5.8 million.

Summary and presentation 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 of the Court of Appeals discussed above, concerning the Lublin-Wrotków Heat & Power Generating Plant, which is even more the case considering that, as discussed above, the Court of Appeals in Warsaw would give different rulings in similar cases concerning adjustments of annual stranded costs for 2008, where the appeals of the President of the Energy Regulatory Office were dismissed as unsubstantiated. Thus, the Court upheld the rulings given by the CCP Court on these cases, 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 steps allowed by the law to have the disputes resolved to their advantage. In the case under consideration, a cassation appeal was filed to the Supreme Court on 11 June 2012.

Because the judgment concerning the Lublin Wrotków Heat & Power Generating Plant was passed before the date of preparing the financial statements for the year ended 31 December 2011, the Group adjusted its income estimates for LTC compensations for 2008-2010 to the amount of advances actually received, adjusted by the annual corrections determined in the respective decisions of the President of the Energy Regulatory Office. Such an adjustment was not made for the 2008 revenues recognized at the Rzeszów Heat & Power Generating Plant, for which an advantageous decision was issued by the Court of Appeals. Therefore, an amount of PLN 1.037,6 million was recognized in other operating expenses of 2011.

As at 31 December 2012, PGE Group recomputed the KDT compensation model, accounting for the updated energy pricing paths, cost assumptions, and the change in allocation of so-called final adjustment. Therefore, total revenue from LTC compensations, presented under sales revenues, amounted to PLN 1.327,3 million.

Additionally, positive judgments in case of Gorzów Heat & Power Generating Plant, Turów Power Plant and ZEDO led to adjustment of LTC compensation accounts in the financial statements for the period ended 31 December 2012 by PLN 199.6 million. The value of adjustment was recognized in the statement of comprehensive income under other operating revenues.

The decisions and adjusted decisions of the President of the Energy Regulatory Office concerning annual adjustments for 2011 were of no significance for PGE Group's revenues or profits reported in condensed interim financial statements in 2012 and were presented as changes of settlements with Zarządca Rozliczeń S.A.

45.2 Framework agreement on the exploration and extraction of shale gas

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

The subject of the Agreement is the exploration, evaluation and extraction of shale gas in geological formations for which concessions have been granted for the exploration and evaluation of deposits of crude oil and natural gas in relation to the Wejherowo concession held by PGNiG (the "Wejherowo Concession"). With respect to the Wejherowo Concession, there is close cooperation involving an area of approximately 160 km^2 (the "Area of Cooperation"). The Agreement also provides for preferential treatment of the Parties with regard to the possibility of cooperation in relation to the remaining area of the Wejherowo Concession (with the exception of a situation where PGNiG on its own engages in exploration, evaluation or extraction of shale gas and excluding the area in the vicinity of Opalino and Lubocino where PGNiG is already conducting exploratory work).

Estimated expenditures on exploration, evaluation and extraction with respect to the first three zones (the Kochanowo, Częstkowo and Tępcz pads) within the Area of Cooperation are projected to be in the amount of PLN 1,72 billion. Details regarding the terms of cooperation, including a detailed project budget and timeline, the shares of the Parties in financing the expenditures arising from the agreed-on budget, shares in the project's profits and the principles of responsibility, including contractual penalties in the case of the failure, in particular by PGNiG, to fulfill certain obligations resulting from the Agreement, have to be established by 4 May 2013. Should such specific arrangements not be forthcoming by 4 May 2013, the Agreement may be terminated by each of the Parties. If within three months after reaching such arrangements the Parties have not received all of the required corporate approvals, or if by 31 December 2013 the required antimonopoly clearances have not been received, the Agreement will expire.

45.3 Signing a Letter of Intent concerning joint participation in development, construction and service of the first Polish nuclear power plant

On 5 September 2012, PGE S.A. signed a Letter of Intent concerning participation in the development, construction and service of a nuclear power plant. The parties to the Letter of Intent are: PGE Polska Grupa Energetyczna S.A., KGHM Polska Miedź S.A., Tauron Polska Energia S.A. and ENEA S.A.

On the basis of the Letter of Intent, the companies enumerated above will commence work on drafting a contract of purchase of shares in PGE EJ1 sp. z o.o. as a special-purpose vehicle ("SPV"), which will be in charge of direct preparation of the investment process of construction and service of the first Polish nuclear power plant. The draft contract will account for each of the Parties' rights and obligations in Project implementation, assuming that PGE shall play a leading role in the project implementation process, whether directly or through a subsidiary. The terms and conditions of acquiring shares in PGE EJ1 sp. z o.o. will incorporate the financial investments already made by PGE S.A. and its subsidiaries with respect to current advancement of the project.

On 28 December 2012, the parties to the Letter of Intent concerning participation in development, construction and service of a nuclear power plant, dated 5 September 2012, extended its validity to 31 March 2013.

45.4 Agreement to acquire shares of Energa S.A.

On 29 September 2010, the Management Board of PGE Polska Grupa Energetyczna S.A. concluded with the State Treasury, represented by the Minister of the State Treasury, agreement on sales of shares of Energa S.A., seated in Gdańsk ("Agreement"). The subject of the agreement was to acquire 4.183.285.468 shares of Energa S.A., representing 84,19% of its share capital. The purchase price of all shares representing 84,19% of share capital of this company was PLN 7.530 million.

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

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

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

Therefore, PGE S.A. applied to the Head of the First Tax Office of Mazowieckie Voivodship in Warsaw for reimbursement of PLN 75 million of paid tax on civil law transactions for execution of the above mentioned contract. The tax was returned on 18 July 2012.

45.5 Dispute concerning certificates of energy origin

Dispute concerning energy produced from biomass

During the current reporting period, investigations were pending before the Energy Regulatory Office regarding issuance of certificates of energy origin produced in 2011 from biomasses at Oddział Elektrownia Bełchatów (branch Bełchatów Power Plant) and Oddział Zespół Elektrowni Dolna Odra (branch Dolna Odra Group of Power Plants), being parts of PGE Górnictwo i Energetyka Konwencjonalna S.A. subsidiary. The President of the Energy Regulatory Office questions the fulfillment of biodegradability requirements by types of biomass used in these branches (post-hydrolysis lignocelluloses and shea pulp). Therefore the President of the Energy Regulatory Office withholds the decision to issue the certificates despite that it in prior years certificates of origin for energy produced of both types of biomass in the preceding years were issued.

In response to subsequent calls for clarification, the branches presented all the results of additional tests required by the Energy Regulatory Office, as well as explanations and opinions of accredited laboratory testing authorities, confirming that the requirements had been met. Until the balance sheet date, the Energy Regulatory Office issued the outstanding Certificates of Energy Origin for the year 2011. These revenues were recognized in these financial statements in the amount of PLN 97 million.

Issuance of certificates of origin for energy in 2012

The Energy Regulatory Authority conducts numerous clarification procedures concerning both certificates of origin from cogeneration and from renewable energy sources (RES) due to specific production organizations - members of PGE Górnictwo i Energetyka Konwencjonalna S.A. Therefore, PGE Group witnesses significant delays in issuance of the decisions. At the moment, clarification proceedings are pending with regard to certificates of origin from RES at the Bełchatów Power Plant, the Turów Power Plant, and the Szczecin Heat & Power Generating Plant. Delays are caused by various factors, including biomass biodegradability, measurement systems used, etc. The Group estimates that the amount of unrecognized incomes from this source in 2012 is around PLN 101 million.

45.6 Fire in Elektrownia Turów

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

Repair and reconstruction expenditures recognized in these financial statements approximately amounted to PLN 28 million.

45.7 Power generating unit construction project at PGE Górnictwo i Energetyka Konwencjonalna S.A. Opole Power Plant Branch

On 15 February 2012, PGE Elektrownia Opole S.A. (currently PGE Górnictwo i Energetyka Konwencjonalna S.A. Opole Power Plant Branch) signed a contract with Rafako S.A., Polimex-Mostostal S.A. and Mostostal Warszawa S.A. ("Contract"), forming a consortium: Rafako S.A., Polimex-Mostostal S.A. and Mostostal Warszawa S.A. (hereafter the "General Contractor"). The net value of the Contract is PLN 9.4 billion. The object of contract is the construction of two power units at the Opole Power Plant. The object of Contract will be performed on EPC (Engineering, Procurement, Construction) basis. According to the Contract terms, the General Contractor agrees to complete the contract within 54 months from the Notice to Commence Work for power generating unit 5 and within 62 months from the Notice to Commence Work for power generating unit 6.

Prerequisites for issuance of a Notice to Commence Work include submission of a building permit decision by PGE GiEK S.A. Obtaining the building permit decision depends on obtaining a positive environmental conditions decision for the project. On 2 and 14 February, the permits for construction of power units 5 and 6, issued by the Voivod of Opolskie Voivodeship and Starost of Opolski Poviat, respectively, entered into force; however, on 12 January 2012, the Provincial Administrative Court in Warsaw, upon considering the appeal by ClientEarth Poland Foundation against the decision of the General Director of Environmental Protection of 16 August 2011 concerning determination of environmental conditions of performance of the task, repealed the decisions of the 1st and 2nd instance authorities (the Regional Director of Environmental Protection in Opole and the General Director of Environmental Protection in Warsaw) concerning the environmental permit for power units 5 and 6. Therefore, on 14 March 2012, PGE GiEK S.A. sent a cassation appeal against the judgment of the Provincial Administrative Court in Warsaw of 12 January 2012 to the Supreme Administrative Court. On 2 October 2012, the Supreme Administrative Court repealed the above mentioned judgment of the Provincial Administrative Court in Warsaw of 12 January 2012 and resubmitted the case for consideration, issuing binding recommendations to the Provincial Administrative Court for reconsideration.

On 6 February 2013, the Provincial Administrative Court in Warsaw considered the case again and then postponed the judgment publication date to 19 February 2013.

On 19 February 2013, the Provincial Administrative Court dismissed the claim of ClientEarth Poland Foundation against the decision of the General Director of Environmental Protection of 16 August 2011, sustaining the decision of the Regional Director of Environmental Protection in Opole of 30 December 2010 determining the environmental conditions for the project of construction of power units 5 and 6 at PGE GiEK S.A. Opole Power Plant Branch. The above mentioned judgment of the Provincial Administrative Court is not valid and a cassation appeal can be filed against it to the Supreme Administrative Court.

45.8 Framework contract for site and environmental testing, signed by PGE EJ 1 sp. z o.o.

On 7 February 2013, PGE EJ 1 sp. z o.o. signed a framework contract with a contractor of site and environmental testing, i.e. a consortium of: WorleyParsons Nuclear Services JSC, WorleyParsons International Inc, WorleyParsons Group Inc., for a net amount not exceeding PLN 253 million. The contract was signed pursuant to resolution of a contract procedure for "Environmental Testing, Site Testing and Services Related to Obtaining Permits and Licenses Necessary in the Investment Process Related to Construction by PGE EJ 1 sp. z o.o. the First ca. 3000 MW Nuclear Power Plant in Poland".

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

Krzysztof Kilian
President of the
Management Board

Bogusława Matuszewska
Vice-President of the
Management Board

Wojciech Ostrowski
Vice-President of the
Management Board

Paweł Smoleń
Vice-President of the
Management Board

Piotr Szymanek
Vice-President of the
Management Board