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 2011.

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Consolidated financial statements for the year ended 31 December 2011 prepared in accordance with IFRS (all thousand amounts in thousand PLN)

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Nota	Period ended 31 December 2011	Period ended 31 December 2010 *(restated)**
Continuing operations			
Total sales revenues	**15**	**28.111.354**	**20.471.430**
Costs of goods sold	**15**	(20.620.787)	(14.252.380)
Gross profit on sales		**7.490.567**	**6.219.050**
Other operating revenues	**15**	623.984	666.403
Distribution and selling expenses	**15**	(1.638.068)	(1.535.628)
General and administrative expenses	**15**	(819.308)	(793.014)
Other operating expenses	**15**	(1.512.695)	(407.575)
Financial revenues	**15**	2.304.397	395.086
Financial expenses	**15**	(457.856)	(531.188)
Share of profit of associate	**25**	174.373	227.019
Profit before tax		**6.165.394**	**4.240.153**
Corporate income tax	**17**	(1.194.484)	(666.542)
Net profit		**4.970.910**	**3.573.611**
Discontinued operations			
Profit for the period on discontinued operations	**19**	1.704	24.237
Net profit for the operating period		**4.972.614**	**3.597.848**
OTHER COMPREHENSIVE INCOME:			
Valuation of available-for-sale financial assets		304	80
Revaluation of assets of associates		-	-
Foreign exchange differences from translation of foreign entities		5.347	1.757
Other comprehensive income for the period, net		**5.651**	**1.837**
TOTAL COMPREHENSIVE INCOME		**4.978.265**	**3.599.685**
Net profit attributable to:			
- equity holders of the parent company		4.936.095	2.990.269
- non-controlling interest		36.519	607.579
Total comprehensive income attributable to:			
- equity holders of the parent company		4.941.746	2.992.106
- non controlling interest		36.519	607.579
Earnings per share (in PLN)			
– basic earnings per share for the period	**32**	2,64	1,68
– basic earnings from the continuing operations	**32**	2,64	1,68

* For details on 2010 data restatement please refer to Note 13 of these financial statements.

Consolidated financial statements for the year ended 31 December 2011 prepared in accordance with IFRS (all amounts in thousand PLN)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Note	As at 31 December 2011	As at 31 December 2010 (*restated*)*
ASSETS			
Non-current assets			
Property, plant and equipment	**21**	42.974.819	41.442.181
Investment property	**22**	33.286	24.959
Intangible assets	**23**	216.921	202.629
Loans and receivables	**42**	323.473	407.831
Available-for-sale financial assets	**42**	100.751	95.242
Shares in associates accounted for under the equity method	**25**	55.062	1.408.465
Other long-term assets	**29**	440.157	264.432
Deferred tax assets	**17**	296.387	286.621
Non-current assets related to discontinued operations	**19**	4.077	5.062
Total non-current assets		**44.444.933**	**44.137.422**
Currents assets			
Inventories	**27**	1.305.327	1.090.549
Emission rights	**28**	3.366.988	2.625.535
Income tax receivables		31.920	29.976
Trade receivables	**42**	1.767.739	1.618.591
Other loans and financial assets	**42**	2.784.000	796.663
Available-for-sale short-term financial assets	**42**	8.432	80.251
Other current assets	**29**	947.056	752.914
Cash and cash equivalents	**30**	4.052.238	2.730.423
Assets classified as held-for-sale	**18**	33.067	7.572
Currents assets related to discontinued operations	**19**	20.931	10.095
Total currents assets		**14.317.698**	**9.742.569**
TOTAL ASSETS		**58.762.631**	**53.879.991**

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

Consolidated financial statements for the year ended 31 December 2011 prepared in accordance with IFRS (all amounts in thousand PLN)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

LIABILITIES AND EQUITY	Note	As at 31 December 2011	As at 31 December 2010 (*restated*)*
Equity (attributable to equity holders of the parent)			
Share capital	**31**	18.697.837	18.697.837
Revaluation reserve		(777)	(1.081)
Treasury shares	**31**	(229)	(229)
Foreign exchange differences from translation of foreign entities		6.292	945
Reserve capital	**31**	8.553.143	6.727.589
Other capital reserves		49.779	49.779
Retained earnings	**31**	13.452.823	11.483.867
Non-controlling interest	**31**	414.392	595.958
Total equity		**41.173.260**	**37.554.665**
Long-term liabilities			
Interest-bearing loans and borrowings, bonds and lease	**42**	1.341.351	1.804.429
Other long-term liabilities	**42**	17.864	14.403
Provisions	**35**	3.216.279	3.362.235
Deferred tax liabilities	**17**	1.384.507	1.176.599
Deferred income and government grants	**37**	1.255.298	1.112.553
Long-term liabilities related to discontinued operations	**19**	667	1.366
Total long-term liabilities		**7.215.966**	**7.471.585**
Short-term liabilities			
Trade liabilities	**42**	1.117.172	980.224
Financial liabilities at fair value through profit or loss	**42**	48.093	41.165
Interest-bearing loans, borrowings, bonds and lease	**42**	697.661	914.956
Other short-term financial liabilities	**42**	1.826.613	1.265.555
Other short-term non-financial liabilities	**36**	1.499.755	1.396.213
Income tax liabilities		414.618	218.158
Deferred income	**37**	117.117	100.157
Short-term provisions	**35**	4.634.462	3.931.024
Short-term liabilities related to discontinued operations	**19**	17.914	6.289
Total short-term liabilities		**10.373.405**	**8.853.741**
Total liabilities		**17.589.371**	**16.325.326**
TOTAL LIABILITIES AND EQUITY		**58.762.631**	**53.879.991**

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

Consolidated financial statements for the year ended 31 December 2011 prepared in accordance with IFRS (all thousand amounts in thousand PLN)

STATEMENT OF CHANGES IN CONSOLIDATED EQUITY

For the period ended 31 December 2011

	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**	**11.483.867**	**36.958.707**	**595.958**	**37.554.665**
Total comprehensive income for the period	***-***	***304***	***-***	***5.347***	***-***	***-***	***4.936.095***	***4.941.746***	***36.519***	***4.978.265***
Retained earnings distribution	-	-	-	-	1.825.554	-	(1.825.554)	**-**	**-**	**-**
Dividend	-	-	-	-	-	-	(1.215.780)	**(1.215.780)**	(26.904)	**(1.242.684)**
Purchase of new companies	-	-	-	-	-	-	-	**-**	(8.676)	**(8.676)**
Sale of subsidiaries	-	-	-	-	-	-	-	**-**	(1)	**(1)**
Settlement of purchase of additional Stock in subsidiaries:	-	-	-	-	-	-	77.321	**77.321**	(182.472)	**(105.151)**
Value of the purchased non-controlling interest	-	-	-	-	-	-	182.472	**182.472**	(182.472)	**-**
The acquisition cost of shares and stocks in subsidiaries	-	-	-	-	-	-	(105.151)	**(105.151)**	-	**(105.151)**
Acquisition of new companies in result of mergers of subsidiaries	-	-	-	-	-	-	(3.126)	**(3.126)**	(32)	**(3.158)**
As at 31 December 2011	**18.697.837**	**(777)**	**(229)**	**6.292**	**8.553.143**	**49.779**	**13.452.823**	**40.758.868**	**414.392**	**41.173.260**

Consolidated financial statements for the year ended 31 December 2011 prepared in accordance with IFRS (all amounts in thousand PLN)

STATEMENT OF CHANGES IN CONSOLIDATED EQUITY

For the period ended 31 December 2010

*(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 2010	**17.300.900**	**(1.161)**	**-**	**(812)**	**5.449.549**	**-**	**8.332.474**	**31.080.950**	**7.669.933**	**38.750.883**
Total comprehensive income for the period	***-***	***80***	***-***	***1.757***	***-***	***-***	***2.990.269***	***2.992.106***	**607.579**	***3.599.685***
Retained earnings distribution	-	-	-	-	136.441	49.779	(186.220)	**-**	-	**-**
Dividend	-	-	-	-	-	-	(1.335.330)	**(1.335.330)**	(673.996)	**(2.009.326)**
Purchase of new companies	-	-	-	-	-	-	-	**-**	7.648	**7.648**
Sale of subsidiaries	-	-	-	-	-	-	-	**-**	(13.786)	**(13.786)**
Changes in accounting policy	-	-	-	-	-	-	19.435	**19.435**	7.465	**26.900**
Purchase of treasury shares	-	-	(229)	-	(350)	-	-	**(579)**	-	**(579)**
Settlement of purchase of additional stock in subsidiaries:	**-**	-	-	-	-	-	524.059	**524.059**	(3.638.734)	**(3.114.675)**
Value of the purchased non-controlling interst	-	-	-	-	-	-	*3.638.734*	***3.638.734***	*(3.638.734)*	**-**
The acquisition cost of shares and stocks in subsidiaries	-	-	-	-	-	-	*(3.114.675)*	***(3.114.675)***	-	***(3.114.675)***
Settlement of the merger of parent company with subsidiaries:	1.396.937	-	-	-	1.141.949	-	1.139.180	**3.678.066**	(3.370.151)	**307.915**
Share issue as a result of the merger	*1.396.937*	-	-	-	*1.141.949*	-	*(2.538.886)*	**-**	-	**-**
Transfer of non-controlling interest as a result of the merger	-	-	-	-	-	-	*3.370.151*	***3.370.151***	*(3.370.151)*	**-**
Acquired dividends attributable to non-controlling shareholders before merger	-	-	-	-	-	-	*307.915*	***307.915***	-	**307.915**
As at 31 December 2010	**18.697.837**	**(1.081)**	**(229)**	**945**	**6.727.589**	**49.779**	**11.483.867**	**36.958.707**	**595.958**	**37.554.665**

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

Consolidated financial statements for the year ended 31 December 2011 prepared in accordance with IFRS (all thousand amounts in thousand PLN)

CONSOLIDATED STATEMENT OF CASH FLOWS

	Year ended 31 December 2011	Year ended 31 December 2010 *(restated)**
Cash flows – operating activities		
Profit before tax related to discontinued operations	**2.159**	**29.671**
Profit for the period	**6.165.394**	**4.240.153**
Adjustments for:		
Share of profit from associates accounted for under the equity method	(174.373)	(227.019)
Depreciation and amortization	2.710.556	2.655.210
Interest and dividend, net	75.011	253.505
Profit / loss on investment activities	(1.984.792)	(84.256)
Change in receivables	110.823	170.978
Change in inventories	(214.778)	180.616
Change in liabilities, excluding loans and bank credits	1.140.338	141.759
Change in prepayments and accruals	(648.806)	649.810
Change in provisions	557.482	(642.586)
Income tax paid	(796.930)	(852.003)
Other	(72)	95.122
Net cash from operating activities	**6.942.012**	**6.610.960**
Cash flow from investing activities		
Disposal of property, plant and equipment and intangible assets	37.354	56.729
Purchase of property, plant and equipment and intangible assets	(4.518.973)	(4.522.439)
Purchase/ disposal of investment property	2.798	-
Disposal of financial assets	3.334.150	180.032
Purchase of financial assets and increase in share capital in Group companies	(2.438.657)	(3.307.940)
Purchase/ disposal of subsidiaries after deduction of acquired cash	26.037	(10.397)
Dividends received	229.423	134.566
Interest received	1.625	991
Loans repaid	401	4.900
Loans granted	(894)	(715)
Other	80	(4.001)
Net cash from investing activities	**(3.326.656)**	**(7.468.274)**

Consolidated financial statements for the year ended 31 December 2011 prepared in accordance with IFRS (all amounts in thousand PLN)

	Year ended 31 December 2011	Year ended 31 December 2010 *(restated)**
Cash flow from financing activities		
Proceeds from the share issue	-	(579)
Proceeds from bank credits and issue of bonds	1.460.750	458.135
Repayment of bank credits, bonds and finance lease	(2.311.732)	(2.829.388)
Dividends paid (including dividend paid to the State Treasury)	(1.410.533)	(1.580.104)
Interest paid	(72.663)	(161.644)
Other	22.865	1.819
Net cash flow from financing activities	**(2.311.313)**	**(4.111.761)**
Net change of cash and cash equivalents	**1.304.043**	**(4.969.075)**
Effect of foreign exchange rate changes	15.114	4.073
Cash and cash equivalents at the beginning of the period	**2.736.859**	**7.705.934**
Cash and cash equivalents at the end of period, including	**4.040.902**	**2.736.859**
Restricted cash	188.561	105.910
Attributed to discontinued operations	1.906	5.025

* 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 2011 ("consolidated financial statements", "financial statements") the parent company is seated in Warsaw, 2 Mysia Street.

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

Core operations of the Group companies are as follows:

- production of electricity,
- distribution of electricity,
- wholesale 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 2011 to 31 December 2011.

Consolidated financial statements for the year ended 31 December 2011 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 2011	Parent company as at 31 December 2011	Share of Group entities as at 31 December 2010	Parent company as at 31 December 2010
	Segment: wholesale				
1.	PGE Polska Grupa Energetyczna S.A. *Warszawa*	The Parent Company of the Group			
2.	ELECTRA Deutschland GmbH *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*	91,04%	PGE Polska Grupa Energetyczna S.A	91,03%	PGE Polska Grupa Energetyczna S.A
		7,88%	PGE Obrót S.A.	7,88%	PGE Obrót S.A.
		0,02%	PGE Energia Odnawialna S.A.	0,02%	PGE Energia Odnawialna S.A.
4.	PGE Elektrownia Opole S.A. *Bełchatów*	93,25%	PGE Polska Grupa Energetyczna S.A	85,00%	PGE Polska Grupa Energetyczna S.A
5.	Przedsiębiorstwo Energetyki Cieplnej sp. z o.o. *Zgierz*	50,97%	PGE Górnictwo i Energetyka Konwencjonalna S.A.	50,97%	PGE Górnictwo i Energetyka Konwencjonalna S.A.
6.	PWE Gubin sp. z o.o. *Sękowice*	100,00%	PGE Polska Grupa Energetyczna S.A.	100,00%	PGE Polska Grupa Energetyczna S.A.
	Segment: renewable energy				
7.	PGE Energia Odnawialna S.A. *Warszawa*	100,00%	PGE Polska Grupa Energetyczna S.A.	100,00%	PGE Polska Grupa Energetyczna S.A.
8.	Elektrownia Wiatrowa Kamieńsk sp. z o.o. *Kamieńsk*	100,00%	PGE Energia Odnawialna S.A.	100,00%	PGE Energia Odnawialna S.A.
9.	Elektrownia Wiatrowa Resko sp. z o.o. *Czymanowo*	100,00%	PGE Energia Odnawialna S.A.	100,00%	PGE Energia Odnawialna S.A.
10.	Biogazownia Łapy sp. z o.o. *Warszawa*	100,00%	PGE Energia Odnawialna S.A.	100,00%	PGE Energia Odnawialna S.A.
11.	Biogazownia Wożuczyn sp. z o.o. *Warszawa*	100,00%	PGE Energia Odnawialna S.A.	100,00%	PGE Energia Odnawialna S.A.
12.	Elektrownia Wiatrowa Turów sp. z o.o. *Warszawa*	100,00%	PGE Energia Odnawialna S.A.	100,00%	PGE Energia Odnawialna S.A.
13.	Elektrownia Wiatrowa Gniewino sp. z o.o. *Czymanowo*	100,00%	PGE Energia Odnawialna S.A.	100,00%	PGE Energia Odnawialna S.A.
14.	Elektrownia Wiatrowa Baltica-1 sp. z o.o. *Warszawa*	95,00%	Elektrownia Wiatrowa Gniewino sp. z o.o.	-	-
		5,00%	Elektrownia Wiatrowa Resko sp. z o.o.	-	-

Consolidated financial statements for the year ended 31 December 2011 prepared in accordance with IFRS (all amounts in thousand PLN)

	Entity	Share of Group entities as at 31 December 2011	Parent company as at 31 December 2011	Share of Group entities as at 31 December 2010	Parent company as at 31 December 2010
15.	Elektrownia Wiatrowa Baltica-2 sp. z o.o. *Warszawa*	95,00%	Elektrownia Wiatrowa Gniewino sp. z o.o.	-	-
		5,00%	Elektrownia Wiatrowa Resko sp. z o.o.	-	-
16.	Elektrownia Wiatrowa Baltica-3 sp. z o.o. *Warszawa*	95,00%	Elektrownia Wiatrowa Gniewino sp. z o.o.	-	-
		5,00%	Elektrownia Wiatrowa Resko sp. z o.o.	-	-
17.	Bio-Energia S.A. *Warszawa*	100,00%	PGE Energia Odnawialna S.A.	99,65%	PGE Energia Odnawialna S.A.
	EO Baltica sp. z o.o. *Warszawa*	-	-	100,00%	PGE Energia Odnawialna S.A.
	Segment: distribution				
18.	PGE Dystrybucja S.A. *Lublin*	89,91%	PGE Obrót S.A.	89,91%	PGE Obrót S.A.
		10,05%	PGE Polska Grupa Energetyczna S.A.	10,05%	PGE Polska Grupa Energetyczna S.A.
	Segment: retail sail				
19.	PGE Obrót S.A. *Rzeszów*	99,31%	PGE Polska Grupa Energetyczna S.A.	99,31%	PGE Polska Grupa Energetyczna S.A.
	Segment: other				
20.	EXATEL S.A. *Warszawa*	94,938%	PGE Polska Grupa Energetyczna S.A.	94,938%	PGE Polska Grupa Energetyczna S.A.
		0,537%	PGE Inwest sp. z o.o.	0,537%	PGE Inwest sp. z o.o.
		0,137%	PGE Obrót S.A.	0,137%	PGE Obrót S.A.
		0,001%	PGE Dystrybucja S.A.	0,001%	PGE Dystrybucja S.A.
21.	MEGA sp. z o.o. *Miłocin*	75,01%	PGE Energia Odnawialna S.A.	-	-
22.	ELBIS sp. z o.o. *Rogowiec*	100,00%	PGE Górnictwo i Energetyka Konwencjonalna S.A.	100,00%	PGE Górnictwo i Energetyka Konwencjonalna S.A.
23.	MEGAZEC sp. z o.o. *Bydgoszcz*	100,00%	PGE Górnictwo i Energetyka Konwencjonalna S.A.	100,00%	PGE Górnictwo i Energetyka Konwencjonalna S.A.
24.	ELBEST sp. z o.o. *Bełchatów*	91,19%	PGE Górnictwo i Energetyka Konwencjonalna S.A.	100,00%	PGE Górnictwo i Energetyka Konwencjonalna S.A.
		7,60%	PGE Dystrybucja S.A.		
		1,12%	PGE Obrót S.A.		
		0,09%	PGE Energia Odnawialna S.A.		
	BESTUR sp. z o.o. *Bełchatów*	-	-	100,00%	PGE Górnictwo i Energetyka Konwencjonalna S.A.
	Przedsiębiorstwo Handlowo-Usługowe GLOBAL - TUR sp. z o.o. *Bogatynia*	-	-	100,00%	PGE Górnictwo i Energetyka Konwencjonalna S.A.
	Centrum Szkolenia i Rekreacji „Energetyk" sp. z o.o. *Krasnobród*	-	-	99,50%	PGE Obrót S.A.
25.	Energoserwis - Kleszczów sp. z o.o. *Kleszczów*	51,00%	ELBIS sp. z o.o.	51,00%	ELBIS sp. z o.o.

Consolidated financial statements for the year ended 31 December 2011 prepared in accordance with IFRS (all amounts in thousand PLN)

	Entity	Share of Group entities as at 31 December 2011	Parent company as at 31 December 2011	Share of Group entities as at 31 December 2010	Parent company as at 31 December 2010
26.	Niepubliczny Zakład Opieki Zdrowotnej MegaMed sp. z o.o. *Bełchatów*	97,40%	PGE Górnictwo i Energetyka Konwencjonalna S.A	97,40%	PGE Górnictwo i Energetyka Konwencjonalna S.A
		2,60%	PGE Elektrownia Opole S.A.	2,60%	PGE Elektrownia Opole S.A.
27.	ELMEN sp. z o.o. *Rogowiec*	100,00%	ELBIS sp. z o.o.	100,00%	ELBIS sp. z o.o.
28.	EnBud sp. z o.o. w likwidacji *Czymanowo*	100,00%	PGE Energia Odnawialna S.A.	100,00%	PGE Energia Odnawialna S.A.
29.	Dychowskie Przedsiębiorstwo Eksploatacji Elektrowni ELDEKS sp. z o.o. *Dychów*	100,00%	PGE Energia Odnawialna S.A	100,00%	PGE Energia Odnawialna S.A
30.	ESP Usługi sp. z o.o. w likwidacji *Warszawa*	100,00%	PGE Energia Odnawialna S.A.	100,00%	PGE Energia Odnawialna S.A.
31.	Budownictwo Hydroenergetyka - Dychów sp. z o. o *Dychów*	100,00%	PGE Energia Odnawialna S.A.	100,00%	PGE Energia Odnawialna S.A
32.	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.
33.	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.
34.	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.
35.	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.
36.	NOM sp. z o.o. *Warszawa*	100,00%	EXATEL S.A.	100,00%	EXATEL S.A.
37.	Energo-Tel S.A. *Warszawa*	51,10%	EXATEL S.A.	51,10%	EXATEL S.A.
		48,90%	NOM sp. z o.o.	48,80%	NOM sp. z o.o.
38.	RAMB sp. z o.o. *Bełchatów*	100,00%	PGE Górnictwo i Energetyka Konwencjonalna S.A.	100,00%	PGE Górnictwo i Energetyka Konwencjonalna S.A.
39.	Przedsiębiorstwo Transportowo Sprzętowe BETRANS sp. z o.o. *Rogowiec*	98,65%	PGE Górnictwo i Energetyka Konwencjonalna S.A.	100,00%	PGE Górnictwo i Energetyka Konwencjonalna S.A.
		1,16%	PGE Dystrybucja S.A.		
		0,17%	PGE Obrót S.A.		
		0,01%	PGE Energia Odnawialna S.A.		
	Przedsiębiorstwo Transportowe ELTUR-TRANS sp. z o.o. *Bogatynia*	-	-	100,00%	PGE Górnictwo i Energetyka Konwencjonalna S.A.
40.	Przedsiębiorstwo Wulkanizacji Taśm i Produkcji Wyrobów Gumowych BESTGUM POLSKA sp. z o.o. *Rogowiec*	100,00%	PGE Górnictwo i Energetyka Konwencjonalna S.A.	100,00%	PGE Górnictwo i Energetyka Konwencjonalna S.A.
41.	ELECTRA Bohemia s.r.o. *Czechy*	100,00%	PGE Polska Grupa Energetyczna S.A.	100,00%	PGE Polska Grupa Energetyczna S.A.

Consolidated financial statements for the year ended 31 December 2011 prepared in accordance with IFRS (all amounts in thousand PLN)

	Entity	Share of Group entities as at 31 December 2011	Parent company as at 31 December 2011	Share of Group entities as at 31 December 2010	Parent company as at 31 December 2010
42.	Przedsiębiorstwo Transportowo-Usługowe ETRA sp. z o.o. *Białystok*	100,00%	PGE Dystrybucja S.A	100,00%	PGE Dystrybucja S.A
43.	Przedsiębiorstwo Produkcyjno-Handlowe EKTO sp. z o.o. *Białystok*	100,00%	PGE Dystrybucja S.A.	100,00%	PGE Dystrybucja S.A.
44.	Energetyczne Systemy Pomiarowe sp. z o.o. *Białystok*	100,00%	PGE Dystrybucja S.A.	100,00%	PGE Dystrybucja S.A.
	Zakład Energetyczny Białystok Pracownia Projektowa ENSPRO sp. z o.o. *Białystok*	-	-	100,00%	PGE Dystrybucja S.A.
45.	EPO sp. z o.o. *Opole*	50,00%	PGE Elektrownia Opole S.A.	50,00%	PGE Elektrownia Opole S.A.
46.	Zakład Obsługi Energetyki sp. z o.o. *Zgierz*	100,00%	PGE Dystrybucja S.A.	100,00%	PGE Dystrybucja S.A.
47.	PGE Serwis sp. z o.o. w likwidacji *Warszawa*	100,00%	PGE Polska Grupa Energetyczna S.A.	100,00%	PGE Polska Grupa Energetyczna S.A.
48.	PGE Systemy S.A. *Warszawa*	100,00%	PGE Polska Grupa Energetyczna S.A.	100,00%	PGE Polska Grupa Energetyczna S.A.
49.	PGE Inwest sp. z o.o. *Warszawa*	100,00%	PGE Polska Grupa Energetyczna S.A.	100,00%	PGE Polska Grupa Energetyczna S.A.
50.	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.
51.	PGE Energia Jądrowa S.A. *Warszawa*	100,00%	PGE Polska Grupa Energetyczna S.A.	100,00%	PGE Polska Grupa Energetyczna S.A.
52.	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.

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 31 March 2011, Przedsiębiorstwo Transportowe ELTUR-TRANS Sp. z o.o. merged with Przedsiębiorstwo Transportowo Sprzętowe BETRANS Sp. z o.o.,
- The merger of ELBEST sp. z o.o. of Rogowiec (acquiring company) with: BESTUR sp. z o.o. of Bełchatów, Przedsiębiorstwo Handlowo – Usługowe Global Tur sp. z o.o. of Bogatynia, Energetyk SPA sp. z o.o. of Iwonicz – Zdrój, Centrum Szkolenia i Rekreacji „Energetyk" sp. z o.o. of Krasnobród and Przedsiębiorstwo Produkcyjno–Usługowe Media–Serwis Dychów sp. z o.o. of Dychów (acquired companies) was registered on 29 April 2011,
- On 13 June 2011 following special purpose companies were established: 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. Share capital of each company amounts to PLN 800 thousand. EO Baltica sp. z o.o. acquired 95% and Elektrownia Wiatrowa Resko sp. z o.o. 5% of the share capital of each of the companies. Companies were registered in the National Court Register on 22 July 2011, 9 August 2011 and 4 August 2011, respectively.
- On 31 September 2011 division of the company ELBEST sp. z o.o. was registered. As a result of the division an organized part of the company was separated in the form of a transportation company and transferred to Przedsiębiorstwo Transportowo Sprzętowe BETRANS Sp. z o.o. In result of the division the share capital of ELBEST sp. z o.o. was decreased and the share capital of PTS BETRANS sp. z o.o. was increased.

- On 11 October 2011 the General Shareholders' Meeting of Mega sp. z o.o. approved an agreement with creditors, which was approved by court on 19 October 2011. As a result of the agreement the receivables of PGE Energia Odnawialna S.A. were converted into stock of this company, which resulted in taking over of Mega sp. z o.o.
- On 2 November merger of Elektrownia Wiatrowa Gniewino sp. z o.o. (the taking over company) with EO Baltica sp. z o.o. (the acquired company) was registered.
- On 29 December 2011 the Company Zakład Energetyczny Białystok Pracownia Projektowa ENSPRO sp. z o.o. was sold.

Apart from the above mentioned transformations, during the reporting period and after the balance sheet date following events occurred:

- On 25 May 2011 PGE Energia Odnawialna S.A. entered into a conditional purchase agreement with Spanish Gamesa Energia S.A.U. to purchase 100% shares in the company Pelplin sp. z o.o. According to the terms of the agreement PGE Energia Odnawialna S.A. will become a 100%-shareholder of the company after the investment is commissioned, which is planned for the first half of year 2012.
- On 28 September 2011 PGE Energia Odnawialna S.A. concluded another conditional purchase agreement with Spanish company Gamesa Energia S.A.U. concerning purchase of 100% shares in Żuromin sp. z o.o.. According to the terms of the agreement PGE Energia Odnawialna S.A. will become a 100%-shareholder after the investment is commissioned, which is planned for the second quarter of year 2012.
- On 27 October 2011 PGE Polska Grupa Energetyczna S.A. concluded an agreement with the Minister of the State Treasury to repurchase a non-controlling package of shares in companies: PGE Elektrownia Opole S.A. (82.479 shares constituting 8,25% of the company's share capital), PGE Górnictwo i Energetyka Konwencjonalna S.A. (44.087 shares constituting 0,0068% of the company's share capital), PGE Dystrybucja S.A. (24.423 shares constituting 0,0025% of the company's share capital), PGE Obrót S.A. (96 shares constituting 0,0019% of the company's share capital). The total value of the agreement amounts to PLN 101.448 thousand.
- On 27 October 2011 the Extraordinary Shareholders' Meeting of the Company PGE Serwis sp. z o.o. seated in Warsaw adopted resolutions to dismiss and appoint a liquidator.
- On 31 October 2011 the Extraordinary Shareholders' Meeting of the Company EnBud sp. z o.o. seated in Czymanowo adopted resolutions to dismiss and appoint a liquidator.
- On 2 January 2012 merger of PGE Energia Odnawialna S.A. (the taking over company) with Elektrownia Wiatrowa Kamieńsk sp. z o.o. and Dychowskie Przedsiębiorstwo Eksploatacji Elektrowni ELDEKS sp. z o.o. (the acquired companies) was registered.
- On 2 January 2012 the division of Przedsiębiorstwo Transportowo Sprzętowe BETRANS sp. z o.o. and transfer of the part of its assets to ELBEST sp. z o.o. were registered.
- On 1 February 2012 PGE Dom Maklerski S.A. (a brockerage house) was established. Until the date of preparation of these financial statements the company has not yet been registered in the National Court Register.

2.2. Influence of changes in the structure of the Group on consolidated financial statements

A takeover of Mega sp. z o.o.

In October 2011, the conversion of indebtedness of Mega sp. z o.o. to PGE Energia Odnawialna S.A. amounting to gross PLN 8.190 thousand was registered. In result of the conversion PGE Energia Odnawialna S.A. obtained control over Mega sp. z o.o. and its share in the share capital represents 75,01%.

Both the previous value of the investment in Mega sp. z o.o. amounting to PLN 500 thousand, and the indebtedness converted into capital, were covered by impairment allowances due to impairment of assets. Additionally, as at the date of the takeover the fair value of assets and liabilities was determined. In result of the valuation the fair value of net assets amounted to negative PLN 34 million.

Due to low fair value of assets of the newly acquired entity, the difference between the carrying amount of the investment and the acquired net assets of Mega sp. z o.o. was recorded in the position of other operating expenses in the value of PLN 26 million. The part attributable to non-controlling shareholders in the amount of negative 8 million was directly recorded as a decrease of equity.

Sale of Enspro sp. z o.o.

Until the sale of Enspro sp. z o.o. in year 2011, the Group reported profit generated by Enspro in amount of PLN 100 thousand in the consolidated statement of the comprehensive income. Gross profit on sale of this entity amounted PLN 420 thousand.

Other changes

As described in Note 2.1 of these consolidated financial statements, during the reporting period certain PGE Group companies merged with companies that were not included in the consolidated financial statements. The above mentioned mergers caused in total decrease of retained earnings attributable to the Parent Company by PLN 3.126 thousand and decrease in share capital attributable to non-controlling shareholders by PLN 32 thousand.

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

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

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

In the period from 1 January 2011 to 31 December 2011 following changes in composition of the Management Board took place:

- on 5 January 2011 the Supervisory Board adopted a resolution for the dismissal of Vice-President for Financial matters – Mr. Wojciech Topolnicki,
- on 16 March 2011 the Supervisory Board adopted a resolution of the dismissal of Vice-President for Operational matters – Mr. Marek Trawiński,
- on 16 March 2011 the Supervisory Board adopted a resolution for the appointment of Vice-President for Financial matters – Mr. Wojciech Ostrowski, effective 17 March 2011,
- on 16 March 2011 the Supervisory Board adopted a resolution for the appointment of Vice-President for Operational matters – Mr. Paweł Skowroński, effective 17 March 2011.
- on 14 December 2011 the Supervisory Board accepted resignation of Mr. Tomasz Zadroga from the position of the President of the Management Board and appointed Mr. Paweł Skowroński to act as the President of the Management Board.
- on 14 December 2011 the Supervisory Board adopted a resolution to dismiss Vice-President for Operational matters – Mr. Marek Szostek.

As at 31 December 2011, the composition of the Management Board was as follows:

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

On 1 March 2012 the Supervisory Board of the Company adopted a resolution to appoint Mr. Krzysztof Kilian as President of the Management Board, and Mrs. Bogusława Matuszewska as a Vice-President of the Management Board.

Therefore as at the date of signing these financial statements, 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 Skowroński – 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 approved and signed by the Management Board 12 March 2012.

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 Company 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.

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:

ELECTRA Deutschland 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 unfavourable future event is probable, the Group recognizes a provision in the appropriate amount. If the occurrence of unfavourable 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 agreements 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 agreements 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 Regulation Office and on a number of significant assumptions, some of which are outside the control of the Group.

An unfavourable 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 adopted actuarial assumptions. The influence of change in estimates on the value of provisions and statement of comprehensive income is presented in detail in Note 34 and Note 35 of these consolidated 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. The influence of the change of estimations is presented in Note 21 of these consolidated financial statements.
- In accordance with IFRS 16 Group companies verify the economic useful life of property, plant and equipment and the resulting amortization rates. The influence of changes of estimates is presented in Note 21 of these 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 2011:

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

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

- Amendments to IFRS 7 *Financial instruments: Disclosures* effective for periods starting 1 July 2011.

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

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

Amended IAS 19 introduces a new presentation of actuarial gains and losses in the statement of comprehensive income. In accordance with accounting principles applied by the Company all actuarial gains and losses are recognized in net profit for the period. Amended IAS 19 regulates, that the actuarial gains and losses relating to provisions for post-employment benefits are recognized in other comprehensive income. In the case of significant changes in actuarial assumptions in the following periods, amended IAS 19 might have a significant impact on costs and net financial result presented by the Group. If the Group applied the amended IFRS 19 to these financial statements, the consolidated gross profit for the year ended 31 December 2011 would decrease by approx. PLN 63.227 thousand.

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

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

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. oraz 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 2009-2011 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.

Consolidated financial statements for the year ended 31 December 2011 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-financial positions, 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 positions, 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 2011	31 December 2010
USD	3,4174	2,9641
EUR	4,4168	3,9603

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 fixed assets under construction after the date of transition to IFRS are measured at cost of acquisition or cost of manufacturing.

After recognition as an asset, an item of property, plant and equipment 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 asset 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 asset's 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	18	20 – 40
Machinery and equipment	14	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: 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: 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 entity and recognized in non-current assets, with an economic useful life exceeding one year intended to be used by the company, in particular:
  - copyrights, concessions, licenses (including computer software),
  - patents, trademarks, utility and decorative designs, computer software,
  - know-how, i.e. equivalent value of information related to knowledge on industry, trade, science or organization,
- development costs,
- goodwill excluding internally generated goodwill.

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

- purchase price and attributable costs, such as import duties and non-refundable purchase taxes, after deducting trade discounts and rebates, and

- any directly attributable cost of preparing the asset for its intended use: costs of employee benefits, professional fees and costs of testing whether the asset is functioning properly.

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

The cost of an internally generated intangible asset, except for development costs, are not capitalized and are recorded in 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	2	3 -5
Costs of finished developed works	2	3 -5
Other	10	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 is recognized in financial income or expense in the statement of comprehensive income.

12.10.3 Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are classified as current assets, if their maturity does not exceed 12 months from the balance sheet date. Loans and receivables with maturity exceeding 12 months are classified as non-current assets. If the time value of money 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 financial result 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 made. 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.
The Group verifies concluded and binding agreements in order to identify embedded derivatives.

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

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

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

According to IAS 39, the 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 Allowance Plan (NAP) and acquired otherwise. EUA received gratuitously under the NAP are recognized in the records at the beginning of the period for which they were assigned, at fair value effective as at the date of initial recognition. EUA received 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 allowances 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 usufructs 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 Labour 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 for entitled retirees, as at the day when the amended protocol to the Inter-corporate Collective Labor Agreement became effective, was recognized in full in the statement of comprehensive income for the year ended 31 December 2005. The cost of past employment, relating to present employees, being future retirees, is recognized on a straight-line basis over the average period until the benefits become vested. The provision is estimated by an actuary. The provision is recognized as an 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. Actuarial gains and losses are recognized in profit or loss.

12.20.4 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 coal 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.

12.20.5 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, companies offset the purchased and received free of charge EUA and/or CER, ERU reported in assets existing as at the date of balance sheet redemption and provision for missing allowances.

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. 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. 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 is 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. Leases

A finance lease is a lease that transfers substantially all the risks and rewards incidental to ownership of an asset. Title may or may not eventually be transferred. At the commencement of the lease term, the lessees 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 are 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 agreements 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 in fixed prices, 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.

As a consequence of the judgment which was disadvantageous for the Group due to acceptance of the appeal filed by the President of the Energy Regulatory Office, as described in Note 45.1 of these financial statements, the Group corrected its revenues from LTC compensation for 2008-2010 to the amount of prepayments received and annual corrections identified in the decisions of the President of the Energy Regulatory Office. Such an adjustment was not made for the 2008 revenues recognized at the Elektrownia Rzeszów, for which an advantageous decision was issued by the Court of Appeals.

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 impairment allowances, except from write offs related to financial operations or reflected in cost of goods sold,
- acquiring or disposal of assets and cash free of charge, including donations,
- due and obtained compensations, penalties and other expenses not relating to core operations.

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 a non-current asset, 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 recognition of greenhouse gas emission allowances and presentation of selected positions of assets, liabilities, revenues and expenses. The purpose of these changes is a more reliable and accurate presentation of particular economic events and assets and liabilities of the Group.

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

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

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

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

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

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

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

Consolidated financial statements for the year ended 31 December 2011 prepared in accordance with IFRS (all amounts in thousand PLN)

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Period ended 31 December 2010 *(published)*	Change in presenting revenues, expenses and adjustment of CO_2	Period ended 31 December 2010 *(restated)*
Operating activities			
Sales of finished foods and merchandise with excise tax	*19.758.510*	*9.681*	*19.768.191*
Excise tax	*(451.932)*	*-*	*(451.932)*
Revenues from sale of products and merchandise	19.306.578	9.681	19.316.259
Revenues from services rendered	805.398	(14.716)	790.682
Revenues from lease	30.276	-	30.276
Revenues from LTC compensations	334.213	-	334.213
Total sales revenue	**20.476.465**	**(5.035)**	**20.471.430**
Costs of goods sold	(14.071.540)	(180.840)	(14.252.380)
Gross profit on sales	**6.404.925**	**(185.875)**	**6.219.050**
Other operating revenues	666.403		666.403
Distribution and selling expenses	(1.527.718)	(7.910)	(1.535.628)
General and administrative expenses	(950.702)	157.688	(793.014)
Other operating expenses	(407.575)	-	(407.575)
Financial revenues	422.115	(27.029)	395.086
Financial expenses	(558.217)	27.029	(531.188)
Share of profit of associate	227.019	-	227.019
Profit before tax	**4.276.250**	**(36.097)**	**4.240.153**
Corporate income tax	(673.400)	6.858	(666.542)
Net profit	**3.602.850**	**(29.239)**	**3.573.611**
Discontinued operations			
Profit for the period on discontinued operations	24.237	-	24.237
Net profit for the operating period	**3.627.087**	**(29.239)**	**3.597.848**
Other comprehensive income for the period, net	**1.837**	-	**1.837**
TOTAL COMPREHENSIVE INCOME	**3.628.924**	**(29.239)**	**3.599.685**
Net profit attributable to:			
- equity holders of the parent company	3.014.120	(23.851)	2.990.269
- non-controlling interest	612.967	(5.388)	607.579
Total comprehensive income attributable to :			
- equity holders of the parent company	3.015.957	(23.851)	2.992.106
- non controlling interest	612.967	(5.388)	607.579

Consolidated financial statements for the year ended 31 December 2011 prepared in accordance with IFRS (all amounts in thousand PLN)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	As at 31 December 2010 *(published)*	Adjustment of valuation of financial instruments	Change in presenting upward adjustment	Change in presenting assets held for sale	Adjustment of CO_2	As at 31 December 2010 *(restated)*
Current assets						
Inventories	1.090.549	-	-	-	-	1.090.549
Emission rights	-	-	-	-	2.625.535	2.625.535
Income tax receivables	29.976	-	-	-	-	29.976
Trade receivables	2.094.506	-	(475.915)	-	-	1.618.591
Other loans and financial assets	796.663	-	-	-	-	796.663
Available-for-sale short-term financial assets	130.924	(50.673)	-	-	-	80.251
Other current assets	445.809	-	475.915	-	(168.810)	752.914
Other current assets	2.730.423	-	-	-	-	2.730.423
Assets classified as held for-sale	-	-	-	7.572	-	7.572
Current assets related to discontinued operations	10.095	-	-	-	-	10.095
Total current assets	**7.328.945**	**(50.673)**	**-**	**7.572**	**2.456.725**	**9.742.569**
Assets classified as held-for-sale	7.572	-	-	(7.572)	-	-

Consolidated financial statements for the year ended 31 December 2011 prepared in accordance with IFRS (all amounts in thousand PLN)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (continued)

	As at 31 December 2010 *(published)*	Adjustment of valuation of financial instruments	Change in presenting upward adjustment	Adjustment of CO_2	As at 31 December 2010 *(restated)*
Equity (attributable to equity holders of the parent)					
Share capital	18.697.837	-	-	-	18.697.837
Revaluation reserve	(1.081)	-	-	-	(1.081)
Treasury shares	(229)	-	-	-	(229)
Foreign exchange differences from translation of foreign entities	945	-	-	-	945
Reserve capital	6.727.589	-	-	-	6.727.589
Other capital reserves	49.779	-	-	-	49.779
Retained earnings	11.609.114	(50.673)	-	(74.574)	11.483.867
Non-controlling interest	598.819	-	-	(2.861)	595.958
Total equity	**37.682.773**	**(50.673)**	**-**	**(77.435)**	**37.554.665**
Long-term liabilities					
Interest-bearing bank credits, loans, bonds and lease	1.804.429	-	-	-	1.804.429
Other liabilities	14.403	-	-	-	14.403
Provisions	3.072.295	-	-	289.940	3.362.235
Deferred tax liabilities	1.194.763	-	-	(18.164)	1.176.599
Deferred income and government grants	1.112.553	-	-	-	1.112.553
Long-term liabilities related to discontinued operations	1.366	-	-	-	1.366
Total long-term liabilities	**7.199.809**	**-**	**-**	**271.776**	**7.471.585**

Consolidated financial statements for the year ended 31 December 2011 prepared in accordance with IFRS (all amounts in thousand PLN)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (continued)

	As at 31 December 2010 *(published)*	Adjustment of valuation of financial instruments	Change in presenting upward adjustment	Adjustment of CO_2	As at 31 December 2010 *(restated)*
Short-term liabilities					
Trade liabilities	986.301	-	(6.077)	-	980.224
Financial liabilities at fair value through profit or loss	41.165	-	-	-	41.165
Interest-bearing loans and borrowings	914.956	-	-	-	914.956
Other short-term financial liabilities	1.259.478	-	6.077	-	1.265.555
Other short-term non-financial liabilities	1.396.213	-	-	-	1.396.213
Income tax liabilities	218.158	-	-	-	218.158
Deferred income	100.157	-	-	-	100.157
Short-term provisions	1.668.640	-		2.262.384	3.931.024
Short-term liabilities related to discontinued operations	6.289	-	-	-	6.289
Total short-term liabilities	**6.591.357**	**-**	**-**	**2.262.384**	**8.853.741**

Consolidated financial statements for the year ended 31 December 2011 prepared in accordance with IFRS (all amounts in thousand PLN)

CONSOLIDATED STATEMENT OF CASH FLOWS

	Year ended 31 December 2010 *(published)*	Change in presenting upward adjustment and adjustment of CO_2	Year ended 31 December 2010 *(restated)*
Cash flows – operating activities			
Profit before tax related to discontinued operations	29.671	-	29.671
Profit before tax related to continuing operations	4.276.250	(36.097)	4.240.153
Adjustments for:			
Share of profit from associates accounted for under the equity method	(227.019)	-	(227.019)
Depreciation and amortization	2.655.210	-	2.655.210
Interest and dividend, net	253.505	-	253.505
Profit / (loss) on investment activities	(84.256)	-	(84.256)
Change in receivables	170.978	-	170.978
Change in inventories	180.616	-	180.616
Change in liabilities excluding loans and bank credits	141.759	-	141.759
Change in prepayments and accruals	28.552	621.258	649.810
Change in provisions	(57.425)	(585.161)	(642.586)
Income tax paid	(852.003)	-	(852.003)
Other	95.122	-	95.122
Net cash from operating activities	**6.610.960**	**-**	**6.610.960**

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

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

Changes in presenting business segments

During the reporting period the Group indroduced changes in presenting results achieved by particular segments and assigned assets and liabilities. According to the new presentation policy consolidation adjustments recognized at the level of the Parent Company are not assigned to particular business segments but presented separately, and they reconcile segment values to consolidated values of the Group. The above mentioned change and updates to accounting policy are described in Note 13 of these financial statements and resulted in data restatement.

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Information on business segments

Period ended 31 December 2011	Segment: Conventional energy	Segment: Renewable energy	Segment: Wholesale	Segment: Distribution	Segment: Retail sale	Other activities	Consolidation adjustments	Total continued operations
Revenues								
Revenues from sales to external	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)	**-**
Revenues from sales inter-segment	1.970	2.361	121.601	-	-	47.952	(173.884)	**-**
Total revenues from segments	**13.551.824**	**533.990**	**10.356.249**	**5.253.010**	**12.501.412**	**1.878.312**	**(15.963.443)**	**28.111.354**
Result								
EBIT *)	**2.988.987**	**86.952**	**180.906**	**705.279**	**124.211**	**35.373**	**22.772**	**4.144.480**
EBITDA **)	**4.526.768**	**214.409**	**204.417**	**1.619.265**	**133.842**	**150.056**	**6.279**	**6.855.036**
Net financial revenues (expenses)								1.846.541
Share profit of associates								174.373
Profit (loss) before tax								**6.165.394**
Income tax								(1.194.484)
Net profit (loss) for the reporting year								**4.970.910**
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	8.409.183	82.224	508.628	1.644.197	1.648.791	352.234	(29.776)	12.615.481
Trade liabilities	704.296	18.229	441.106	203.559	613.283	187.093	(1.050.394)	1.117.172
Unallocated liabilities								3.856.718
Total liabilities								**17.589.371**
Other information on business segments								
Capital expenditure	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 and impairment allowances	1.537.781	127.457	23.511	913.986	9.630	114.682	(16.491)	2.710.556
Other non-monetary expenses	3.321.320	7.697	62.326	199.038	1.160.557	47.092	7.925	4.805.955

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

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Period ended 31 December 2010 *(restated)*	**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	2.330.198	487.021	4.681.387	638.005	11.497.748	803.811	33.260	**20.471.430**
Revenues from sales between segments	9.958.942	155.512	7.066.468	4.393.675	966.846	953.934	(23.495.377)	**-**
Revenues from sales inter-segment	1.574	5.783	81.031	-	-	46.886	(135.274)	**-**
Total revenues from segments	**12.290.714**	**648.316**	**11.828.886**	**5.031.680**	**12.464.594**	**1.804.631**	**(23.597.391)**	**20.471.430**
Result								
EBIT *)	**2.925.397**	**135.277**	**199.905**	**533.461**	**204.472**	**93.319**	**57.405**	**4.149.236**
EBITDA **)	**4.426.029**	**264.955**	**228.930**	**1.407.883**	**213.519**	**213.372**	**43.236**	**6.797.924**
Net financial revenues (expenses)								(136.102)
Share profit of associates								227.019
Profit (loss) before tax								**4.240.153**
Income tax								(666.542)
Net profit (loss) for the reporting year								**3.573.611**
Assets and liabilities								
Assets of the segments excluding trade receivables	29.279.206	1.697.060	943.762	13.486.256	233.867	1.035.712	(272.664)	46.403.199
Trade receivables	972.478	55.977	873.881	630.751	1.484.505	288.588	(2.687.589)	1.618.591
Shares in associates	-	-	-	-	-	-	-	1.408.465
Unallocated assets								4.449.736
Total assets								**53.879.991**
Liabilities of the segment excluding trade liabilities	7.854.432	85.308	1.518.099	463.960	1.083.607	260.069	(42.170)	11.223.305
Trade liabilities	574.950	37.596	253.081	984.236	1.155.070	160.181	(2.184.890)	980.224
Unallocated liabilities								4.121.797
Total liabilities								**16.325.326**
Other information on business segments								
Capital expenditure	3.901.127	191.844	20.665	1.054.043	24.554	178.426	(47.626)	5.323.033
Impairment allowances on financial and non-financial assets	(19.363)	263	426	55	1.661	3.589	(17.048)	(30.417)
Amortization, depreciation and impairment allowances	1.500.632	129.678	29.025	874.421	9.047	120.053	(14.168)	2.648.688
Other non-monetary expenses ***)	2.988.437	1.353	20.151	22.761	171.854	13.431	(10.679)	3.207.308

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

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

*****) Non-cash changes of provisions for inter alia: retirement benefits, recultivation, CO_2 emission rights, jubilee awards, employee tariff.**

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Information on geographical areas

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	50.999.988	52.305	-	51.052.293
Unallocated assets	7.655.276	-	-	7.655.276
Investments in associates	55.062	-	-	55.062
Total assets	**58.710.326**	**52.305**	**-**	**58.762.631**

Period ended 31 December 2010.

Revenues	Domestic market	EU countries	Other countries	Total
Revenues from continuing operations	19.882.196	572.098	17.136	20.471.430
Revenues from the area	**19.882.196**	**572.098**	**17.136**	**20.471.430**

Other information on the area	Domestic market	EU countries	Other countries	Total
Assets of the area	48.019.086	2.704	-	48.021.790
Unallocated assets	4.436.009	13.727	-	4.449.736
Investments in associates	1.408.465	-	-	1.408.465
Total assets	**53.863.560**	**16.431**	**-**	**53.879.991**

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15. Revenues and expenses

15.1. Sales revenues

	Period ended 31 December 2011	Period ended 31 December 2010 *(restated)*
Revenues from operating activities		
Sales of finished goods and merchandise with excise tax	*27.402.134*	*19.768.191*
Excise tax	*(459.311)*	*(451.932)*
Revenues from sale of finished goods and merchandise	26.942.823	19.316.259
Revenues from sale of services	697.591	790.682
Revenues from lease	31.430	30.276
Revenues from LTC compensations	439.510	334.213
Total sales revenues	**28.111.354**	**20.471.430**

Significant increase of revenues from sale of finished goods and merchandise for the period ended 31 December 2011 as compared to period ended 31 December 2010 results mainly from changes in electricity trade model in the PGE Group, which are described in Note 45.7 of these financial statements.

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 2011	Period ended 31 December 2010 *(restated)*
Depreciation/ amortization	2.710.556	2.648.688
Materials and energy	3.874.131	3.854.185
External services	2.547.869	2.562.787
Taxes and charges	2.359.606	2.289.768
Personnel expenses	4.259.821	4.063.140
Other cost by kind	290.209	240.104
Total costs by type	**16.042.192**	**15.658.672**
Change in inventories	(2.712)	(10.981)
Cost of products and services for the entity's own needs	(866.472)	(849.746)
Distribution and selling expenses	(1.638.068)	(1.535.628)
General and administrative expenses	(819.308)	(793.014)
Cost of merchandise and materials sold	7.905.155	1.783.077
Cost of goods sold	**20.620.787**	**14.252.380**

In the current period the Company changed the method of presentation of the costs of employment relating to civil law contracts for management, which were recognized in the position of personnel expenses within costs by type. Previously mentioned costs were recognized in the posision of personnel expenses, currently they are presented in the position of other costs by type. The costs relating to comparative period are also presented in other costs by type.

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15.3. Other operating revenues and expenses

	Period ended 31 December 2011	Period ended 31 December 2010
Other operating revenues		
Profit on disposal of property, plant and equipment	14.988	12.311
Reversal of impairment allowances for receivables	52.637	23.021
Reversal of impairment allowances for other assets	2.203	17.537
Provisions reversed	41.401	356.931
Compensations, penalties and fines received	445.814	158.257
Grants received	15.219	10.116
Taxes refunded	2.991	11.024
Court fees refunded	2.894	2.272
Redemption of liabilities	252	407
Assets acquired free of charge	1.361	1.828
Re-invoiced revenues	14	15
Surpluses / disclosures of assets	10.746	15.687
Profit on subsidiaries disposal	407	27.858
Revenues from illegal energy consumption	5.954	7.609
Other	27.103	21.530
Total operating revenues	**623.984**	**666.403**

In year 2011 the position of compensations, penalties and fines received includes mainly accrued and received fines from Alstom consortium. The issue is described in Note 45.11 of these financial statements.

Other operating expenses		
Adjustment of settlement related to LTC compensation	1.037.632	-
Impairment allowances raised for receivables	42.259	58.840
Impairment allowances raised for other assets	16.590	4.461
Loss on disposal of property, plant and equipment and intangible assets	3.400	8.508
Provisions raised	222.345	121.432
Donations granted	4.943	6.367
Compensation paid	2.647	7.995
Court fees paid	5.954	5.877
Liquidation of damages/ removal of failures	82.423	108.331
Scrapping of non-current assets	35.327	54.931
Forgiveness of receivables	4.868	3.009
Costs of social activities	5.304	6.528
Compensations resulting from shares not received	-	8.336
Write off on goodwill	26.027	-
Other	22.976	12.960
Total other operating expenses	**1.512.695**	**407.575**

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.

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15.4. Financial revenues and expenses

	Period ended 31 December 2011	Period ended 31 December 2010 *(restated)*
Financial revenues		
Financial revenues from financial instruments	**2.296.211**	**372.809**
Dividends	4.290	8.437
Interest revenue	223.524	321.571
Revaluation/ reversal of impairment allowances	4.428	15.350
Profit on disposal of investments	1.997.607	3.649
Exchange gains	66.362	23.802
Other financial revenues	**8.186**	**22.277**
Discount rate adjustment	440	74
Interest on statutory receivables	1.726	4.363
Provisions reversed	5.285	12.777
Other	735	5.063
Total financial revenues	**2.304.397**	**395.086**

Profit on disposal of investment presented in the table above relates mainly to the sale transaction of the company Polkomtel S.A. The issue is described in detail in Note 45.6 of these financial statements.

	Period ended 31 December 2011	Period ended 31 December 2010 *(restated)*
Financial expenses		
Financial expenses from financial instruments	**262.610**	**338.108**
Interest expenses	131.735	253.481
Revaluation	8.457	3.772
Impairment losses	2.467	25.448
Loss on disposal of investments	169	186
Exchange losses	119.782	55.221
Other financial expenses	**195.246**	**193.080**
Interest expenses (effect of discount unwinding)	183.184	180.478
Interest paid relating to state liabilities	945	2.457
Provisions created	5.862	3.809
Other	5.255	6.336
Total financial expenses	**457.856**	**531.188**

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

	Period ended 31 December 2011	Period ended 31 December 2010 *(restated)*
Included in cost of goods sold:	**2.643.474**	**2.573.587**
Property, plant and equipment depreciation	2.585.940	2.525.246
Impairment allowances on property, plant and equipment	12.390	4.730
Intangible assets amortization	43.420	43.482
Impairment allowances on intangible assets	516	-
Other	1.208	129
Included in distribution and selling expenses:	**18.813**	**15.203**
Property, plant and equipment depreciation	15.467	12.655
Impairment allowances on property, plant and equipment	389	-
Intangible assets amortization	2.957	2.548
Included in general and administrative expenses:	**45.011**	**55.598**
Property, plant and equipment depreciation	38.095	45.814
Impairment allowances on property, plant and equipment	144	303
Intangible assets amortization	6.772	9.238
Other	-	243
Included in other operating expenses:	**5.325**	**1.209**
Property, plant and equipment depreciation	3	229
Impairment allowances on property, plant and equipment	4.641	1
Intangible assets amortization	681	-
Other	-	979
Included in other operating revenues:	**-**	**17.048**
Impairment allowances on property, plant and equipment	-	17.048
Included in change in inventories, goods, prepayments and accruals	**2.203**	**1.930**
Included in costs of products and services for the entity's own use	**1.054**	**2.373**

16. Employee benefits expenses

	Period ended 31 December 2011	Period ended 31 December 2010 *(restated)*
Payroll	3.147.980	3.014.043
Social security expenses	569.826	549.757
Retirement and pensions costs	20.407	9.553
Jubilee awards and allowances	90.678	75.214
Other post-employment benefits	32.233	47.078
Other payroll-related expenses	398.697	367.495
Total employee benefits expenses:	**4.259.821**	**4.063.140**
Included in costs of goods sold	3.381.959	3.197.799
Included in distribution and selling expenses	274.808	233.584
Included in general and administrative expenses	450.131	479.114
Included in costs of products and services for the entity's own use	153.217	143.753
Change in inventories	(294)	8.890

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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 2011 and 31 December 2010 are as follows:

	Period ended 31 December 2011	Period ended 31 December 2010 *(restated)*
Statement of comprehensive income		
Current income tax	*996.769*	*718.742*
Current income tax expense	1.017.133	712.520
Previous periods' current income tax adjustments	(20.364)	6.222
Deferred tax related to temporary differences originated and reversed	197.715	(52.200)
Income tax expense presented in the consolidated statement of comprehensive income	**1.194.484**	**666.542**
Income tax expenses presented in discontinued operations	**455**	**5.434**
Other comprehensive income		
Deferred income tax on realized profit / (loss) from financial assets available for sale	71	19

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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 2011 and 31 December 2010 is as follows:

	Period ended 31 December 2011	**Period ended 31 December 2010** *(restated)*
Profit before tax from continued operations	**6.165.394**	**4.240.153**
Profit before tax from discontinued operations	**2.159**	**29.671**
Profit before tax	**6.167.553**	**4.269.824**
Income tax according to Polish statutory tax rate of 19%	1.171.835	811.266
Previous periods current income tax adjustments	(20.364)	6.222
Costs not recognized as tax-deductible costs	60.316	77.415
Non-taxable revenues	(63.787)	(103.908)
Reversal of the deferred tax assets write-offs	-	(130.648)
Other	46.939	11.629
Tax at effective tax rate amounting to 19,4% [2010: 15,7%]	**1.194.939**	**671.976**
Income tax (expense) as presented in statement of comprehensive income	1.194.484	666.542
Income tax attributable to discontinued operations	455	5.434

The effective tax rate of 15,7% in 2010 resulted mainly from the reversal of write-offs revaluating the value of deferred income tax of provision for recultivation of excavations in lignite mines. Until year 2010 brown coal mines incorporated in PGE Group recognized deferred tax asset related to raise of provision for recultivation of post-exploitation grounds, as these costs were expected to be incurred after the end of mine exploitation. As a result of merger of minining companies with energy producers within PGE Górnictwo i Energetyka Konwencjonalna S.A. future costs of recultivation have been recognized as probable tax gains. Therefore during the previous reporting period ended 31 December 2010 the Group reversed a write off of deferred tax asset in the amount of PLN 130 million.

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17.2. Deferred tax disclosed in consolidated statement of financial position

Components of deferred tax liability

	As at 31 December 2011	**As at 31 December 2010** *(restated)*
1996-2000 investment relief	997	921
Difference between tax value and carrying value of property, plant and equipment	1.609.978	1.520.852
Accrued interest on deposits, loans granted, bonds and receivables	78.081	31.385
Difference between tax value and carrying value of other financial assets	3.614	601
Difference between tax value and carrying value of financial liabilities	10.012	24.967
Current period revenues unrealized for tax purposes	144.730	11.458
Difference between tax value and carrying value of energy origin units of ownership	37.128	36.576
Revenues from accrued LTC compensations	588.597	423.392
Upward valuation of revenues	132.073	183.026
CO_2 emission rights	544.978	466.778
Other	114.373	24.323
Gross deferred tax liability	**3.264.561**	**2.724.279**

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Components of deferred tax asset

	As at 31 December 2011	As at 31 December 2010 *(restated)*
Difference between tax value and carrying calueof property, plant and equipment	96.987	118.116
Current period costs not realized for tax purpose	128.147	5.099
Provisions for employee benefits	386.747	390.825
Provisions for recultivation of excavations and recultivation of ash storages	193.615	163.187
Accrued employee bonuses	16.404	21.046
Difference between tax value and carrying value of financial assets	19.331	41.841
Difference between tax value and carrying value of financial liabilities	30.490	20.455
Difference between tax value and carrying value of inventories	27.474	25.094
Payroll and other employee benefits	33.114	18.259
Tax losses	1.485	-
Energy infrastructure acquired free of charge and connection payments received	167.201	183.151
Provision due to CO_2 emission	588.972	546.261
Other provisions	65.028	58.107
Provision for energy origin units	120.128	106.418
Compensations from reversal of LTC	208.152	48.220
Other	93.611	88.222
Gross deferred tax asset	**2.176.886**	**1.834.301**
Impairment allowances on tax asset	(445)	-
Net deferred tax asset	**2.176.441**	**1.834.301**
After off-set of balances at the Group companies' level the deferred tax of the Group is presented as:		
Deferred tax asset	**296.387**	**286.621**
Deferred tax liability	**(1.384.507)**	**(1.176.599)**

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18. Non-current assets classified as held for sale

Property, plant and equipment comprise mainly power generating assets of PGE Energia Odnawialna S.A. of value of PLN 20 million and social holiday resorts of PGE Dystrybucja S.A. of value of PLN 7 million. Stock and shares classified as held for sale comprise packages of stock and shares in companies excluded from the consolidated financial statements of PGE Group.

	As at 31 December 2011	As at 31 December 2010
Assets		
Intangible assets	72	-
Property, plant and equipment	30.301	3.028
Stock and shares classified as held for sale	2.694	4.544
Assets classified as held for sale	**33.067**	**7.572**
Liabilities directly associated with non-current assets classified as held for sale	**-**	**-**
Net assets/liabilities classified as held for sale	**33.067**	**7.572**

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19. Discontinued operations

During the year ended 31 December 2011 the parent company and key subsidiaries did not discontinue any significant operations. However, a "Non-core" Programme is being implemented at PGE Group (as described in Note 45.42 to these financial statements), whereunder assets which are not closely related to core business are sold.

As discontinued operations the Group has disclosed in the consolidated statement of comprehensive income for the year ended 31 December 2011 the financial results of:

- subsidiary, which was sold during the reporting period, namely: Pracownia Projektowa ENSPRO Sp. z o.o.
- subsidiary, which as at 31 December 2011 met the group criteria of entities for sale, according to the definition contained in IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations, namely:* Budownictwo Hydroenergetyka - Dychów Sp. z o.o.,

In the consolidated financial statements the result on sales of subsidiaries amounted to PLN 420 thousand.

The table below presents amounts related to operations, which during the reporting period met criteria of discontinued operations:

	Revenues	Expenses	Profit before tax	Income tax	Net profit
BH Dychów Sp. z o.o.	95.378	93.343	2.035	431	1.604
PP ENSPRO Sp. z o.o.	1.005	881	124	24	100
Total	**96.383**	**94.224**	**2.159**	**455**	**1.704**

The participation of shareholders of the parent company in the net result attributable to discontinued operations amounted to PLN 1.703 thousand, in 2011.

The amounts relating to discontinued operations in 2010 were as follows:

	Revenues	Expenses	Profit before tax	Income tax	Net profit
PW Agtel Sp. z o.o.	8.472	8.668	(196)	-	(196)
GKS Bełchatów S.S.A.	8.990	7.142	1.848	-	1.848
TG BEWA Sp. z o.o.	43.725	41.688	2.037	391	1.646
Energo-Inwest Broker S.A.	28.018	21.036	6.982	1.397	5.585
BH Dychów Sp. z o.o.	80.146	78.287	1.859	389	1.470
PP ENSPRO Sp. z o.o.	2.076	1.795	281	54	227
POEE	89.609	72.749	16.860	3.203	13.657
Total	**261.036**	**231.365**	**29.671**	**5.434**	**24.237**

The participation of shareholders of the parent company in the net result attributable to discontinued operations amounted to PLN 17.165 thousand, in 2010.

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Assets and liabilities related to discontinued operations and presented in the statement of financial position as at 31 December 2011 are assets and liabilities of Budownictwo Hydroenergetyka - Dychów Sp. z o.o.

	BHE Dychów
Assets	**25.008**
Intangible assets	8
Property, plant and equipment	3.684
Deferred tax assets	385
Tangible assets related to the discontinued operations	**4.077**
Inventories	127
Trade receivables	16.198
Other loans and financial assets	44
Other current assets	2.656
Cash and cash equivalents	1.906
Current assets related to the discontinued operations	**20.931**
Liabilities	**18.581**
Long-term provisions	615
Other liabilities	52
Long-term liabilities related to discontinued operations	**667**
Trade liabilities	9.758
Short-term bank credits and loans	1.500
Other financial liabilities	399
Other non-financial liabilities	4.473
Deferred tax liabilities	129
Deferred income	434
Provisions	1.221
Short-term liabilities related to discontinued operations	**17.914**

As at 31 December 2010 total assets of companies related to the discontinued operations, namely: Budownictwo Hydroenergetyka Dychów Sp z o.o. and Pracownia Projektowa ENSPRO Sp z o.o. amounted to PLN 35.717 thousand and the sum of its liabilities amounted to PLN 28.215 thousand.

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 2011, assets assigned to the social fund in the Group amounted to PLN 182.007 thousand and as at 31 December 2010, PLN 180.772 thousand.

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21. Property, plant and equipment

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**

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31 December 2010	Land	Buildings and construction	Machinery and equipment	Vehicles	Other property, plant and equipment	Construction in progress	Total
Gross book value							
Opening balance	**191.919**	**21.232.633**	**23.997.864**	**324.109**	**495.619**	**5.200.405**	**51.442.549**
Direct purchase	546	13.953	19.999	1.002	88.796	5.097.990	**5.222.286**
Transfer from construction in progress	11.480	936.621	1.954.163	45.814	32.877	(2.980.955)	**-**
Sales/ disposals	(1.552)	(42.688)	(27.682)	(6.522)	(29.824)	(248)	**(108.516)**
Transfer between groups	(16.429)	(148)	17.656	(940)	(139)	-	**-**
Donations and transfers free of charge	19	6.666	(88)	-	(465)	-	**6.132**
Scrapping	(2.005)	(56.386)	(495.884)	(1.728)	(5.840)	(245)	**(562.088)**
Transfer to discontinued operations	-	(970)	(3.963)	-	(3.654)	-	**(8.587)**
Other changes in values	848	(1.214)	(44.211)	3.520	(23.681)	41.267	**(23.471)**
Closing balance	**184.826**	**22.088.467**	**25.417.854**	**365.255**	**553.689**	**7.358.214**	**55.968.305**
***Depreciation and impairment* allowances**							
Opening balance	**15.998**	**4.474.661**	**7.546.991**	**136.577**	**308.313**	**14.345**	**12.496.885**
Depreciation for the period	3.390	981.658	1.524.019	33.534	45.646	-	**2.588.247**
Increase of impairment allowances	-	7.006	847	436	20	706	**9.015**
Decrease of impairment l allowances	-	(15.346)	(5.024)	-	-	(659)	**(21.029)**
Sales/ disposals	(307)	(13.941)	(15.539)	(6.105)	(7.666)	-	**(43.558)**
Transfers between groups	(2.949)	17	3.457	(436)	(89)	-	**-**
Donations and transfers free of charge	-	(2)	(99)	-	(455)	-	**(556)**
Scrapping	(114)	(23.821)	(455.053)	(1.601)	(5.154)	-	**(485.743)**
Transfer to discontinued operations	-	(348)	(2.135)	-	(2.272)	-	**(4.755)**
Other changes in values	63	13.102	(14.680)	1.710	(12.577)	-	**(12.382)**
Closing balance	**16.081**	**5.422.986**	**8.582.784**	**164.115**	**325.766**	**14.392**	**14.526.124**
Opening balance net book value	**175.921**	**16.757.972**	**16.450.873**	**187.532**	**187.306**	**5.186.060**	**38.945.664**
Closing balance net book value	**168.745**	**16.665.481**	**16.835.070**	**201.140**	**227.923**	**7.343.822**	**41.442.181**

During the period ended 31 December 2011, the Group entities included in the values of property, plant and equipment and construction in progress expenses related to external financing in the amount of PLN 40.193 thousand (PLN 44.402 thousand during the year ended 31 December 2010).

Block nr 14 in PGE PGE Górnictwo i Energetyka Konwencjonalna Oddział Elektrownia Bełchatów

In the current reporting period company PGE Górnictwo i Energetyka Konwencjonalna S.A. Oddział Elektrownia Bełchatów completed the construction of block 858 MW. Block was commissioned in September 2011. The value of commissioned property, plant and equipment amounted PLN 4.286 million.

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 amortization rates. In result of the review part of the amortization rates was updated. The change resulted in decrease of the annual amortization cost by PLN 29.181 thousand.

The recoverable amount of property, plant and equipment of production companies

As at 31 December 2011 the carrying value of property, plant and equipment owned by production entities from the segment of conventional energy amounted to almost PLN 27 billion and accounted for 45% of consolidated assets of PGE Group.

During the period ended 31 December 2011 there were no significant changes in the economic environment of production companies operating in Poland. Nevertheless, taking into consideration variable situation on financial markets for a particular time in the second half of year 2011 the carrying amount of net assets was higher than the capitalization of the Company.

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 2011. 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 2012 - 2030.

The key assumptions influencing revaluation of 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 economic connections between these entities;
- the adopted assumptions on fluctuations of electricity prices in the years 2012-2030, including influence of settlements in the system of covering stranded costs in accordance with the Act on covering the costs incurred by producers in connection with the early termination of long-term contracts for sale of power and electricity and the costs purchase of CO_2 emission allowances.
- the adopted number of CO_2 emission limits 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 a proportional reduction of limits as compared to the allocation for the year 2012 was assumed, from 47% in year 2013 to 0% in year 2020 and subsequent years;
- maintenance of production capacities resulting from reconstruction investments.
- the adopted after tax weighted average cost of capital in the range of 7,1%-9,6%;
- compensations received by entitled producers resulting from earlier termination of long-term contracts.

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 performed as at 31 December 2011 it occurred that the income-based value of property, plant and equipment tested is higher that the carrying value, therefore there is no need for impairment losses.

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 ca PLN 13 billion and represents almost 23% of the total consolidated assets. Their recoverable amount depends on the tariff granted by the Energy Regulation 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 result of works described above the Regulatory Value of Assets for distribution entity of PGE Group was defined. In some cases this value is lower than the carrying amount of property, plant and equipment of appropriate branch. Nevertheless, the impairment tests performed indicated that as at the date of preparation of these consolidated financial statements, there is no need to revaluate the carrying value of appropriate property, plant and equipment.

Other property, plant and equipment of other companies in PGE Group

During the reporting period the Group made an impairment write offs on property, plant and equipment of assets held for liquidation as a consequence of withdrawal from exploitation block nr 4 in PGE Górnictwo i Energetyka Konwencjonalna S.A. Oddział Zespół Elektrowni Dolna Odra in amount of PLN 14 million and chosen investments within the area of wind energy in the amount of PLN 3 million. During the reporting period ended 31 December 2011 PGE Group companies did not make any other significant updates of the values of property, plant and equipment.

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22. Investment property

	2011	2010
Opening balance as at 1 January	**24.959**	**25.431**
Increase of value	14.688	538
Depreciation	(1.131)	(835)
Decrease of value	(5.230)	(175)
Closing balance as at 31 December	**33.286**	**24.959**

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 regarding the materiality related to the consolidated financial statements as a whole.

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23. Intangible assets

31 December 2011	Developed costs	Goodwill	Licenses and patents		Other intangible assets	Non-commissioned intangible assets	Total
			Total	Including computer software			
<u>Gross book value</u>							
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 write offs							
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**
<u>Net book value</u>							
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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31 December 2010	Development costs	Goodwill	Licenses and patents		Other intangible assets	Non-commissioned intangible assets	Total
			Total	Including computer software			
Gross book value							
Opening balance	**11.746**	**-**	**274.612**	**203.624**	**121.013**	**16.641**	**424.012**
Direct purchase	2.285	9.952	8.891	8.891	30.079	49.539	100.746
Transfer of non-commissioned intangible assets	-	-	32.757	18.549	7.926	(40.683)	-
Sales/ disposals	-	-	(1.469)	(1.469)	(101)	-	(1.570)
Transfers between groups	-	-	33.505	33.505	(33.505)	-	-
Donations and transfers free of charge	-	-	-	-	6.689	-	6.689
Scrapping	-	-	(5.952)	(4.687)	(58)	-	(6.010)
Other changes of values	-	-	(1.817)	(1.996)	(5.837)	166	(7.488)
Closing balance	**14.031**	**9.952**	**340.527**	**256.417**	**126.206**	**25.663**	**516.379**
Amortization and impairment write offs							
Opening balance	**10.281**		**172.843**	**135.453**	**87.322**	**231**	**270.677**
Amortization for the period	1.532	-	47.413	31.418	6.323	-	55.268
Sales/ disposals	-	-	(952)	(952)	(9)	-	(961)
Transfers between groups	-	-	18.892	18.892	(18.892)	-	-
Scrapping	-	-	(5.734)	(4.677)	(84)	-	(5.818)
Other changes of values	-	-	(724)	1.021	(4.692)	-	(5.416)
Closing balance	**11.813**	**-**	**231.738**	**181.155**	**69.968**	**231**	**313.750**
Net book value							
Opening balance	**1.465**	**-**	**101.769**	**68.171**	**33.691**	**16.410**	**153.335**
Closing balance	**2.218**	**9.952**	**108.789**	**75.262**	**56.238**	**25.432**	**202.629**

The Goodwill presented in the table above relates mainly to the purchase of following companies: Przedsiębiorstwo Energetyki Cieplnej Sp. z o.o. seated in Zgierz and Elektrownia Wiatrowa Resko sp. z o.o.

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24. Leasing

24.1. Operating lease liabilities the Group as the lessee

As at 31 December 2011 and as at 31 December 2010 the future minimum lease payments related to irrevocable lease agreements are as follows:

	Future liabilities as at	
	31 December 2011	**31 December 2010** *(restated)*
Less than 1 year	337	456
Between 1 and 5 years	1.171	1.344
More than 5 years	2.947	3.215
Total lease payments	**4.455**	**5.015**

Additionally the Group entities incur costs related to a perpetual usufruct of land. The value of these costs for the year ended 31 December 2011 amounted to PLN 13.777 thousand.

24.2. Operating lease receivables – the Group as a lessor

The PGE Group companies have signed agreements with PSE-Operator 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 finance lease and lease agreement with option to purchase

As at 31 December 2011 and as at 31 December 2010, the future minimum lease payments related to these agreements and current value of minimum net lease payments are as follows:

	31 December 2011		31 December 2010	
	Minimal payments	Current value of payments	Minimal payments	Current value of payments
Less than 1 year	4.540	3.930	4.462	3.870
Between 1 and 5 years	5.662	5.098	7.099	6.495
More than 5 years	713	678	-	-
Total minimum lease payments	**10.915**	**9.706**	**11.561**	**10.365**
Less financial expenses	(1.209)	-	(1.196)	-
Current value of minimum lease payments, including:	**9.706**	**9.706**	**10.365**	**10.365**
Short-term	3.930	3.930	3.870	3.870
Long-term	5.776	5.776	6.495	6.495

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

	31 December 2011		31 December 2010	
	Minimal payments	Current value of payments	Minimal payments	Current value of payments
Less than 1 year	1.058	825	741	613
Between 1 and 5 years	1.821	1.578	945	843
More than 5 years	-	-	-	-
Total minimum lease payments	**2.879**	**2.403**	**1.686**	**1.456**
Less financial expenses	(476)	-	(230)	-
Current value of minimum lease payments, including:	**2.403**	**2.403**	**1.456**	**1.456**
Short-term	825	825	613	613
Long-term	1.578	1.578	843	843

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25. Investment in associated accounted for using the equity method

	Polkomtel	PEC Bogatynia*	Atex	Swe-Pol Link*	TOTAL
Share in voting rights	21,85%	34,93%	43,83%	49,00%	
	Telecommunication services	Transmission, distribution and turnover of heat	Control and monitoring systems	Transmission of electricity	
As at 31 December 20101					
Share of statement of financial position in associate:					
Current assets (short-term)	-	1.701	-	28.268	29.969
Non-current assets (long-term)	-	8.372	-	277.060	285.432
Short-term liabilities	-	(520)	-	(39.356)	(39.876)
Long-term liabilities	-	(74)	-	(235.730)	(235.804)
Share of net assets	**-**	**9.479**	**-**	**30.242**	**39.721**
Goodwill	-			15.341	15.341
Shares in associate in the statement of financial position	**-**	**9.479**	**-**	**45.583**	**55.062**
Period ended 31 December 2011					
Share of revenue of the associate	858.950	4.599	4.915	75.389	943.853
Share of profit (loss) of the associate:	**168.148**	**(261)**	**709**	**5.777**	**174.373**

	Polkomtel	PEC Bogatynia	Atex	Swe-Pol Link	TOTAL
Shares in associated as at 31 December 2010	**1.349.540**	**9.741**	**13.787**	**35.397**	**1.408.465**
Share of revenue of the associate	1.733.053	5.492	8.120	50.792	1.797.457
Share of profit (loss) of the associate in 2010:	**223.889**	**176**	**1.048**	**1.906**	**227.019**

* Prior to audit

Share of revenues and profit of companies Polkomtel S.A. and Atex sp. z o.o. is reported for the period until the moment of sale of these companies or the moment of fulfillment of the definition of assets held for sale according to IFRS 5.

The issue of sale of Polkomtel S.A. is described in 45.6 of these financial statements.

Atex sp. z o.o. was sold in December 2011. Gross profit on sale of this entity in the consolidated financial statements amounted PLN 994 thousand.

Goodwill of SwePol Link AB

In periods before the balance sheet date the parent company made prepayments for transmission services to Vattenfall Aktiebolag („VAB"). These prepayments were related to an execution of Restructuring Agreement signed by PGE S.A. and VAB on 28 May 2003 and were associated with a purchase of SwePol Link AB shares as well as a construction and exploitation of a permanent electricity link between Polish and Swedish electric system. Taking into consideration the character of transactions mentioned above, in the consolidated financial statements prepared in accordance with IFRS a part of the prepayments made is presented as the cost of purchase of shares in an associate and the other part is presented as a loan. Increased cost of shares acquisition in SwePol Link AB, due to clearing of prepayments, was recognized as goodwill after constituting 49% of the share capital and amounted to PLN 57.244 thousand.

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

26. Joint ventures

During the reporting periods ended 31 December 2011 and 31 December 2010 the Group did not participate in any significant joint ventures.

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27. Inventories

	31 December 2011			31 December 2010		
	Historical cost	**Impairment allowances**	**Net realizable value**	**Historical cost**	**Impairment allowances**	**Net realizable value**
Materials	985.676	(139.796)	845.880	790.493	(130.439)	660.054
Finished goods	5.205	(19)	5.186	37.508	(19)	37.489
Semi-products and work in progress	57.549	-	57.549	42.863	-	42.863
Energy origin units of ownership	385.649	(20)	385.629	342.521	-	342.521
Merchandise	8.789	(830)	7.959	6.918	(718)	6.200
CO_2 emission rights	3.744	(620)	3.124	1.634	(212)	1.422
Total	**1.446.612**	**(141.285)**	**1.305.327**	**1.221.937**	**(131.388)**	**1.090.549**

Impairment allowances on inventories as at 1 January 2011	**(131.388)**
Impairment allowances created	(24.291)
Impairment allowances reversed	7.232
Impairment allowances used	9.865
Other	(2.703)
Impairment allowances on inventories as at 31 December 2011	**(141.285)**

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.

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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 gratuitously under the National Allowance Plan (NAP) and acquired otherwise. EUA received gratuitously under the NAP are recognized in the records at the beginning of the period for which they were assigned, at fair value effective as at the date of initial recognition. EUA received free of charge are registered in correspondence with deferred income. Purchased allowances are presented at purchase price.

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

	EUA		CER/ERU		Total
	Amount	Value	Amount	Value	Value
As at 1 January 2011	**49.289**	**2.524.238**	**2.103**	**101.297**	**2.625.535**
Purchase	2.575	128.435	13.972	595.407	723.842
Allocation within NAAP	53.889	2.926.123	-	-	2.926.123
Impairment	(49.348)	(2.540.510)	(7.837)	(368.002)	(2.908.512)
Reclassification to/from inventories	-	-	-	-	-
As at 31 December 2011	**56.405**	**3.038.286**	**8.238**	**328.702**	**3.366.988**

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29. Other short-term and loan-term assets

Other long-term assets

	31 December 2011	31 December 2010
Prepayments for property, plant and equipment under construction	194.080	217.790
Prepayments for the purchase of stock	198.150	-
Other prepayments	47.927	46.642
Total other long-term financial assets	**440.157**	**264.432**

The prepayments for the purchase of stock comprise prepayments reported by PGE Energia Odnawialna S.A. for the purchase of stock in Żuromin sp. z o.o. and Pelplin sp. z o.o. Other prepayments comprise mainly of acquired right of perpetual usufruct that is presented in a similar way as an operating lease in accordance with the accounting policies of the PGE Group.

Other short-term assets

	31 December 2011	31 December 2010 *(restated)*
Deferred expenses		
Tax on civil law transactions	75.300	76.784
Property and tort insurance	28.207	20.339
IT services	4.441	3.634
Real estate tax settled in time	-	488
Other costs deferred	49.977	37.989
Other short-term assets		
VAT receivable	89.190	75.096
Excise tax receivable	19.045	16.727
Other tax receivables	6.534	131
Advances for deliveries of property, plant and equipment, and intangible assets	12.520	20.743
Prepayments for deliveries	208	271
Upward valuation of sales	502.397	475.915
Dividends receivable	146.443	
Other short-term assets	12.794	24.797
Total other short-term assets	**947.056**	**752.914**

Tax on civil law transactions presented in the above table relates to acquisitions realized by the PGE Group (described in Note 45.5 of these financial statements).

The revaluation of sales comprises estimation of sales of the electric energy not read from the meters as at the balance sheet date.

The issue of the dividends receivable is described in the Note 45.10 of these financial statements.

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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 2011 amounted to PLN 4.052.238 thousand (as at 31 December 2010, amounted to PLN 2.730.423 thousand).

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

	As at 31 December 2011	As at 31 December 2010
Cash on hand and cash at bank	429.435	652.458
Overnight deposits	138.684	749.139
Short-term deposits	3.484.119	1.328.826
Total	**4.052.238**	**2.730.423**
Cash and cash equivalents presented in the statement of cash flows	**4.040.902**	**2.736.859**
Credit limits at disposal	1.621.419	1.195.974

The difference between the value of cash and cash equivalents presented in the statement of financial position and the one presented in the statement of cash flows results mainly from interests accrued for but not received as at balance sheet date, foreign exchange differences from cash and cash equivalents as well as cash attributed to discontinued operations in amount of PLN 1.906 thousand (please refer to the note 19 to these consolidated financial statements).

Restricted cash is related mainly to the Mine Liquidation Trust and Mine Recultivation Trust amounted to PLN 188.561 thousand as at 31 December 2011 and PLN 100.746 thousand as at 31 December 2010.

Furthermore, apart from cash and cash equivalents presented in the table above, there were also included cash treated as collateral of settlements with PGE S.A. and Warsaw Commodity Clearing House (described in detail in note 42.5 to these consolidated financial statements).

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31. Share capital and other equity

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

31.1. Share capital

	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**

	As at 31 December 2010
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, excluding treasury shares acquired for the purpose of their redemption, are paid up.

Ownership structure of the Company of the balance sheet date is presented below:

	State Treasury	Other Shareholders	Total
As at 1January 2011	**69,29%**	**30,71%**	**100,00%**
As at 31 December 2011	**69,29%**	**30,71%**	**100,00%**

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

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

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%.

31.2. Rights of the shareholders

Rights of the State Treasury

The Company is the parent company of PGE Group, to which State Treasury holds special rights, as long as it remains a shareholder of the Company.

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

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

Moreover, 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 Chairman of the Supervisory Board is appointed by the General Shareholders' Meeting out of the list of candidates submitted by the State Treasury. The State Treasury will hold the mentioned right until its shareholding in the Company will be not less than 20%.

Furthermore, based on the Company's Articles of association, the State Treasury holds 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 with the use of the Management Board. This right can be executed by the State Treasury regardless the voting right during appointing other members of the Supervisory Board.

Additionally, in case when the mandate of a member of the Supervisory Board expires and in 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 gather the 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 Shareholders' Meeting adopted a resolution introducing changes into restrictions on voting rights of existing shares. Voting right was limited meaning that no shareholder can exercise 10% of the total number of voting rights during the Shareholders' Meeting. Although 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 be applicable. The above mentioned restriction does not apply to the State Treasury and other shareholders, who operate with the State Treasury under agreement for joint exercise of voting rights. The restriction is effective until the shareholding owned by the State Treasury is below 5%.

Right of the State Treasury regarding Company's operations

Based on the act of 18 March 2010 on special rights the Minister of the Treasury and their performance in certain capital companies or holding companies operating in the sectors of electricity, oil and gaseous fuels (Journal of Laws No 65, dated 21 April 2010, item. 404) the Minister of the Treasury has the right to object 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 a significant importance for 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 aim or discontinuance of exploitation of the company's asset, which is a component of critical infrastructure,
- change of a core competence of a company,

- sale or lease of a company or its organized part or establishment of limited law property,
- approval of material and financial plan, investment plan, or long-term strategic plan,
- movement of a company's office abroad

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

The new act introduces a function of attorney to critical infrastructure. The attorney 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 in year 2010 22,898 treasury shares with a book value of PLN 579 thousand. The value of each share was based on the valuation made for the needs of the merger. This acquisition of shares was transacted for the purpose of their redemption. Treasury shares shall be redeemed pursuant to a resolution of the General Meeting of Shareholders, through of lowering of the share capital.

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.

In 2010 the reserve capital of the Parent Company increased mainly due to the settlement of the earlier merger of parent company with previously consolidated subsidiaries. Therefore changes in reserve capital were recognized in correspondence with retained earnings and equity attributable to non-controlling interest.

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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 2011	As at 31 December 2010 *(restted)*
Amounts included in retained earnings that cannot be distributed by the parent:		
Retained earningds of subsidiaries, attributable to equity holders of the parent, including consolidation adjustments	8.970.477	8.516.302
8% of the value of the parent company's statutory profit to be allocated to reserve capital as specified in the Comercial Code	-	-
Other retained earnings of the parent company not subject to distribution	(73.769)	(73.333)
Retained earnings of the parent subject to distribution	4.556.115	3.040.898
Total retained earnings presented in the consolidated financial statements of the parent attributable to equity holders of the parent	**13.452.823**	**11.483.867**

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 2011, 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 2011 there were no other restrictions on payment of dividends.

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31.6. Equity attributable to non-controlling interests

	Period ended 31 December 2011	Period ended 31 December 2010 *(restated)*
Opening balance	**595.958**	**7.669.933**
Share of profit of subsidiaries	36.519	607.579
Dividends divided by subsidiaries	(26.904)	(673.996)
Change in accounting policy	-	7.465
Purchase of new companies	(8.676)	7.648
Sale of subsidiaries	(1)	(13.786)
Transfer of non-controlling interests to equity attributable to shareholders of parent company	-	(3.370.151)
Purchase of non-controlling interest by the Group	(182.472)	(3.638.734)
Inclusion of new companies to the Group as a result of mergers of subsidiaries	(32)	-
Closing balance	**414.392**	**595.958**

Purchase of non-controlling shares during the year ended 31 December 2010 relates mainly to purchases of shares of PGE Górnictwo i Energetyka Konwencjonalna S.A., PGE Obrót S.A., and PGE Dystrybucja S.A. by the Company. Transfer of non-controlling interest to capital allocated to equity holders of the parent is a consequence of merger of the parent company with PGE Górnictwo i Energetyka S.A. and PGE Energia S.A. as well as other mergers under the Consolidation Program.

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.

The table below presents the division of equity attributable to non-controlling shareholders from particular business segments of PGE Group.

	As at 31 December 2011	As at 31 December 201 *(restated)*
Conventional energy	292.143	468.002
Renewable energy	-	45
Wholesale	-	-
Distribution	98.249	96.202
Retail sale	1.546	2.344
Other activities	22.454	29.365
Total equity of non-controlling shareholders	**414.392**	**595.958**

The value of equity attributable non-controlling shareholders in the segment of retail sale and distribution was adjusted in order to eliminate capital connections between PGE Obrót S.A. and PGE Dystrybucja S.A.

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32. Earnings per share

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

The Company calculates diluted earnings per share by dividing profit or loss attributable to ordinary equity holders of the parent entity (after deduction of interest on redeemable convertible preference shares) by the weighted average number of shares outstanding during the period (adjusted on 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.

	Year ended 31 December 2011	**Year ended 31 December 2010** *(restated)**
Net profit on continuing operations	4.970.910	3.573.611
Net profit on discontinued operations	1.704	24.237
Net profit, attributed to	**4.972.614**	**3.597.848**
- shareholders of the parent company	4.936.095	2.990.269
- non-controlling interest	36.519	607.579
Net profit attributable to ordinary equity holders of the Company used to calculate diluted earnings per share	**4.936.095**	**2.990.269**
Number of ordinary shares at the beginning of reporting period	1.869.760.829	1.730.090.000
Number of ordinary shares at the end of 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**	**1.776.646.943**

* Ordinary shares as at the beginning and the end of reporting period do not include treasury shares acquired by the parent company for redemption.

The merger of PGE Polska Grupa Energetyczna S.A. with PGE Górnictwo i Energetyka S.A. and PGE Energia S.A. was registered on 31 August 2010. As a result of the merger the parent company issued shares for the previous shareholders of merged companies. According to IAS 33.21 shares issued as a result of merger were recognized as at the effective date of transfer of the subsidiaries' assets and liabilities to PGE Polska Grupa Energetyczna S.A.

The merger with PGE Electra S.A. on 31 December 2010 had no impact on the amount of the Company' share capital.

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33. Dividends paid and dividends declared

	Dividends paid from the profit for the year ended		
	31 December 2011	31 December 2010	31 December 2009
Cash dividends from ordinary shares			
Dividends paid from retained earnings	-	1.215.345	1.335.330
Dividends paid from other capital reserves	-	-	-
Total cash dividends from ordinary shares	**-**	**1.215.345**	**1.335.330**
Cash dividends per share (in PLN)	-	**0,65**	**0,71**

Dividend in 2010 from the profit for 2009

On 31 August 2010, the merger of PGE Polska Grupa Energetyczna S.A. with PGE Górnictwo i Energetyka S.A. and PGE Energia S.A. was concluded. In these financial statements as dividend paid from company's capital were presented the relevant amounts related to merged companies. Therefore to calculate the DPS ratio the number of shares after increase of share capital related to the merger was used. Dividend per share paid by the parent company without considering the impact of the merger amounted to PLN 0,76.

Dividend in 2011 from the profit for 2010

On 29 June 2011 General Shareholders' Meeting decided to allocate the amount of PLN 1.215.345 thousand of net profit from the year 2010 to pay dividend. Dividend as described in the resolutions adopted by the General Shareholders' Meeting on 29 June 2011 was paid on 30 September 2011.

Until the debut on Warsaw Stock Exchange PGE Polska Grupa Energetyczna S.A. was subject to provisions related to an obligatory distribution of profit paid by sole-shareholders companies of the State Treasury, which amounts to 15% of the Company's gross financial result reflected in the statutory financial statements less current corporate income tax. According to IFRS such payments are recognized as payments of a dividend to a shareholder and reflected as a change in equity. Since December 2009 the Company is no longer obliged to pay distribution from profit. However, the Company has presented an adjustment of distribution from profit from previous periods amounting to PLN 435 thousand in the position of dividends in the consolidated statement of changes in equity for the period ended 31 December 2011.

Dividend from the profit for 2011

During year 2011 the Company made no advance payments of dividends from profit for the year 2011. These financial statements were prepared before profit distribution and calculation of the amount of dividend.

The Management Board of the Company recommends dividend in the amount of PLN 2.468.084 (PLN 1,32 per share), constituting 50% of the net profit reported in the consolidated financial statements for the year ended 31 December 2011.

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34. Employments benefits

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 Labour 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 Labour 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 allocates 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:

Year ended 31 December 2011

	Retirement, pension and other benefits provisions	Coal allowance	Energy tariff	Social Fund	Medical care	Total
As at 1 January 2011	**332.308**	**124.176**	**526.198**	**216.925**	**37.054**	**1.236.661**
Present employment 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)**
Past employment costs	-	-	9.895	-	-	**9.895**
Discount rate adjustments	(6.733)	(2.771)	(21.169)	(6.336)	(1.104)	**(38.113)**
Interest costs	17.395	6.658	32.814	11.520	2.020	**70.407**
Other changes	(573)	-	1.398	(538)	(12)	**275**
As at 31 December 2011	**329.903**	**118.867**	**528.658**	**211.519**	**37.723**	**1.226.670**
Short-term	**56.944**	**8.144**	**23.613**	**10.083**	**1.811**	**100.595**
Long-term	**272.959**	**110.723**	**505.045**	**201.436**	**35.912**	**1.126.075**

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Year ended 31 December 2010

	Retirement, pension and other benefits provisions	Coal allowance	Energy tariff	Social Fund	Medical care	Total
As at 1 January 2010	**338.702**	**117.323**	**443.761**	**196.790**	**35.126**	**1.131.702**
Present employment costs	13.652	1.044	9.642	3.157	668	**28.163**
Actuarial gains and losses excluding discount rate adjustment	(40.805)	325	(1.369)	(2.569)	(1.404)	**(45.822)**
Benefits paid	(14.676)	(6.983)	(16.675)	(5.439)	(1.200)	**(44.973)**
Past employment costs	-	-	9.897	-	-	**9.897**
Discount rate adjustments	13.630	5.606	40.346	12.444	2.093	**74.119**
Interest costs	19.631	6.861	31.910	11.488	2.071	**71.961**
Transfer to discontinued operations	(88)	-	(143)	(19)	-	**(250)**
Other changes	2.262	-	8.829	1.073	(300)	**11.864**
As at 31 December 2010	**332.308**	**124.176**	**526.198**	**216.925**	**37.054**	**1.236.661**
Short-term	**55.407**	**8.168**	**22.559**	**9.970**	**1.715**	**97.819**
Long-term	**276.901**	**116.008**	**503.639**	**206.955**	**35.339**	**1.138.842**

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

	31 December 2011	31 December 2010
Discount rate (%)	5,75	5,5
Expected inflation rate (%)	2,5	2,5
Employee turnover (%)	0,27-9,69	0,27-8,78
Expected salary growth rate (%)	2,0-5,1	0-7,0
Expected medical costs growth rate (%)	2,2-3,5	2,3-5,0
Expected Social Fund 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 9%,
- should the planned increase in the basis for estimations be higher by 1 p.p., the respective provisions would increase by ca. 9% and should the planned increase in the basis for estimations be lower by 1 p.p., relevant provisions would decrease by 7%.

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35. Provisions

Year ended 31 December 2011

	Post-employment benefits	Provisions for jubilee awards	Provisions for third parties 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	**1.236.661**	**781.541**	**350.293**	**91.529**	**2.875.058**	**18.932**	**930.166**	**95.441**	**563.336**	**350.302**	**7.293.259**
Costs of present employment	26.443	35.534	-	-	-	-	-	-	-	-	**61.977**
Actuarial gains and losses excluding discount rate adjustment	(25.114)	4.585	-	-	-	-	-	-	-	-	**(20.529)**
Costs of past employment	9.895	-	-	-	-	-	-	-	-	-	**9.895**
Revaluation of provision/ discount rate adjustments	(38.113)	(12.567)	-	-	-	-	79.500	-	-	-	**28.820**
Interest costs	70.407	39.477	17.361	-	-	-	53.875	1.977	-	-	**183.097**
Benefits paid/ provisions used	(53.784)	(89.353)	(763)	(4.037)	(2.908.512)	(4.802)	(4.028)	(12.769)	(1.100.390)	(253.461)	**(4.431.899)**
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	275	3.315	-	3.338	-	98	3.574	-	(365)	(2.785)	**7.450**
As at 31 December 2011	**1.226.670**	**762.532**	**408.333**	**127.679**	**3.099.855**	**13.926**	**1.102.039**	**84.649**	**633.290**	**391.768**	**7.850.741**
Short-term	**100.595**	**95.421**	**408.333**	**59.373**	**3.099.855**	**3.073**	**585**	**4.974**	**633.290**	**228.963**	**4.634.462**
Long-term	**1.126.075**	**667.111**	**-**	**68.306**	**-**	**10.853**	**1.101.454**	**79.675**	**-**	**162.805**	**3.216.279**

According to the current recultivation of final excavation plans, lignite mines of the Group estimate 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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Year ended 31 December 2010

(restated)	Post-employment benefits	Provisions for jubilee awards	Provisions for third parties 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 2010	**1.131.702**	**801.866**	**351.023**	**85.378**	**3.520.510**	**29.349**	**903.661**	**102.055**	**415.155**	**602.866**	**7.943.565**
Costs of present employment	28.163	43.803	-	-	-	-	-	-	-	-	**71.966**
Actuarial gains and losses excluding discount rate adjustment	(45.822)	(53.829)	-	-	-	-	-	-	-	-	**(99.651)**
Costs of past employment	9.897		-	-	-	-	-	-	-	-	**9.897**
Revaluation of provision/ discount rate adjustments	74.119	25.880	-	-	-	-	1.030		-	-	**101.029**
Interest costs	71.961	44.405	-	-	-	-	47.321	5.614	-	-	**169.301**
Benefits paid/ provisions used	(44.973)	(81.597)		(653)	(3.510.661)	(9.444)	(6.628)	(5.676)	(3.491)	(355.296)	**(4.018.419)**
Created during the year	-	-	109.883	47.366	2.865.209	24.530	36.443	1.997	152.032	406.943	**3.644.403**
Reversed	-	-	(110.613)	(34.937)	-	(22.667)	(52.136)	(8.549)	(360)	(301.627)	**(530.889)**
Transferred to discontinued operations	(250)	(713)	-	-	-	-	-	-	-	(1.101)	**(2.064)**
Other changes	11.864	1.726	-	(5.625)	-	(2.836)	475	-	-	(1.483)	**4.121**
As at 31 December 2010	**1.236.661**	**781.541**	**350.293**	**91.529**	**2.875.058**	**18.932**	**930.166**	**95.441**	**563.336**	**350.302**	**7.293.259**
Short-term	**97.819**	**92.297**	**350.293**	**61.238**	**2.532.165**	**3.614**	**4.057**	**17.744**	**563.336**	**208.461**	**3.931.024**
Long-term	**1.138.842**	**689.244**	**-**	**30.291**	**342.893**	**15.318**	**926.109**	**77.697**	**-**	**141.841**	**3.362.235**

35.1. 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.

35.2. Provisions for jubilee awards

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

35.3. Provisions for liability due to carbon dioxide emission rights

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

35.4. Provisions for third-party claims

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

35.5. Provision for legal disputes

Provisions for the use of land

Entities of the PGE Group raise provisions for damages related to a non-agreed usage of property. This issue mainly relates to distribution companies, which own distribution networks. As of the reporting date the provision amounted to ca. PLN 95,3 million. The provision is created to cover claims under court proceedings.

Claim of Tajfun Real Sp. z o.o.

In 2005, EXATEL S.A. filed a statement on termination of the Lease Agreement of Tajfun building in Warsaw, effective 1 August. Tajfun Real Sp. z o.o. filed to the Court of Arbitration at National Chamber of Commerce, a claim to establish that the Lease Agreement is binding for both parties until 31 July 2010 and related to the payment of the rent for August 2005. On 24 January 2006, Tajfun Real Sp. z o.o. terminated to lease agreement without the period of notice. By the verdict of 11 May 2007, the Supreme Court dismissed the further appeal of EXATEL S.A. related to the verdict of the Appeal Court in Warsaw of 8 November 2006 which confirmed that the Agreement on lease of the Tajfun building was binding until 31 July 2010. On 11 September 2007, Tajfun Real Sp. z o.o. filed to the Court of Arbitration at National Chamber of Commerce a claim for payment the rent for the period from September to January 2006. As at the balance sheet date the related provision amounted to PLN 13.631 thousand. The Management Board of EXATEL S.A. commenced actions aimed at conciliatory finishing of the dispute, in the form of an amicable settlement on the subject issue between EXATEL S.A. and Tajfun Real Sp. z o.o..

35.6. Provisions for costs of recultivation

Provision for recultivation of mine excavation

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

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

Provision for recultivation of ash storages

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

35.7. 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, which are going to be excluded from the production until year 2013. The obligation of scrapping and recultivation of the area results from „The integrated permission for running electric energy and heat energy producing installation" in which the restitution of the area was specified. The amount of created provision was established on the basis of expected scrapping expenses and was recognized on the debit side in initial value of property, plant and equipment. Depreciation of activated scrapping expenses which is calculated on the basis of the estimated economic useful life of an appropriate item of property, plant and equipment as well as change in provision value resulting from reversal of the discount as at the balance sheet date influence on financial result of the Group. As at the balance sheet date, the value of provision amounts to PLN 84,6 million.

35.8. Provision for energy origin units held for redemption

The companies from the Group raise provision for the amount of certificates of origin related to sales in the current or previous reporting periods, in amount of certificates not redeemed till the balance sheet date. The provision as at 31 December 2011 amounted to PLN 633,3 million.

35.9. Other provisions

Dispute concerning the scope of taxation with real estate tax

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

Dispute concerning the redemption of energy origin units of ownership

PGE Obrót S.A included in the Group is a party to proceedings against the Energy Regulatory Office, related to an obligation of redemption of energy units of origin – so called green and red certificates. As at 31 December 2011 the provision created to cover possible penalties amounted to PLN 28,5 million. The final value of possible penalties will depend on the results of the court proceedings and may be subject to change.

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Annual bonus

Employees of PGE Group are entitled to the "annual bonus" paid on the basis of the corporate collective labour agreement or regulations applicable to individual entities. As at 31 December 2011 created provisions amounted to PLN 71 million.

Provision for unused annual leave

The Group creates provision for employee benefits related to unused annual leave. As at 31 December 2011 the provision amounted to PLN 63,6 million.

Provision related to the Voluntary Leave Program

In the current reporting period, five PGE Group companies launched a Voluntary Leave Program (VLP). The total value of provisions and expenses reported in the consolidated statement of comprehensive income for the year ended 31 December 2011 amounted to PLN 94.987 thousand. As a result of the fact that companies have already started to pay compensations related to the VLP, the created provision was partially used and as at 31 December 2011 amounted to PLN 32.722 thousand. Additionally as at 31 December 2011 a liability on this account was recognized in amount of PLN 8.878 thousand. As at the date of preparation of these financial statement the other liabilities related to VLP amounted PLN 713 thousand.

Moreover, before the balance sheet date another Voluntary Leave Program was launched by PGE Górnictwo i Energetyka Konwencjonalna S.A.. Due to the fact that conditions described in IFRS 37 were not met, as at 31 December 2011 the liability was not recorded in the position of expenses in these financial statements.

36. Other non-financial liabilities

The non-financial liabilities for the years ended 31 December 2011 and 31 December 2010 are as follows:

	As at 31 December 2011	As at 31 December 2010
Liabilities from dividends	69.355	116.861
Excise tax	98.587	93.336
VAT tax	271.902	182.335
Liabilities from social insurances	232.712	226.147
Personal income tax	111.970	70.124
Environmental fees	126.720	116.853
Payroll	309.199	264.518
Third party payments related to future periods	80.351	117.533
Advances for deliveries	132.427	125.787
Other	66.532	82.719
Total	**1.499.755**	**1.396.213**

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

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37. Deferred income and government grants

Government grants	As at 31 December 2011	As at 31 December 2010
Redemption of loans from environmental funds	54.594	42.261
Grants received from NFEPWM	66.951	43.885
Grants from EU for CCS	219.307	67.739
Other government grants	24.928	21.747
Total deferred income, including:	**365.780**	**175.632**
Long-term	361.114	171.218
Short-term	4.666	4.414

Other deferred income	As at 31 December 2011	As at 31 December 2010
Property, plant and equipment acquired free of charge	130.410	131.990
Subsidies granted and connection fees	799.515	839.048
Lease income	2.987	3.269
Other deferred income	73.723	62.771
Total deferred income, including:	**1.006.635**	**1.037.078**
Long-term	894.184	941.335
Short-term	112.451	95.743

In May 2010, PGE Elektrownia Bełchatów S.A. (current name: PGE Górnictwo i Energetyka Konwencjonalna S.A.) entered into an agreement with the European Commission for co-financing of a demonstration project entitled "Construction of a Carbon Capture and Storage System", with a value of EUR 180 million. The funds obtained by Bełchatów Power Plant for co-financing the project will be allocated to one of the key components of the CCS system, i.e. the CO_2 capture component. The issue is described in Note 45.12 of these financial statements.

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

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38. Contingent liabilities and receivables. Legal claims

38.1. Contingent liabilities

Contingent liabilities	As at 31 December 2011	As at 31 December 2010
Guarantee for repayment of grants from environmental funds	220.891	126.348
Legal claims	12.184	8.598
Contractual fines and penalties	13.858	12.481
Employee claims	52.009	-
Compensations related to non-agreed usage of property	7.296	-
Other contingent liabilities	197.524	53.990
Total contingent liabilities	**503.762**	**201.417**

Guarantee for repayment of grants from environmental funds

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

Liabilities related to legal claims

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

Claims related to contractual fines and penalties

The contingent liability comprises mainly accrued contractual fines relating to delay in realization of the investment issued by the Mayor of the City and Municipality of Gryfino to Zespół Elektrowni Dolna Odra S.A. (currently PGE Górnictwo i Energetyka Konwencjonalna S.A.). In February 2012 the company committed to the Municipality of Gryfino to accomplish two investments of total value not less than PLN 7.733 thousand until the end of year 2015. Failure to realize investments included in the agreement will result in claims relating to contractual fines and penalties by the Municipality of Gryfino.

Employee claims

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

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

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

Other contingent liabilities

The other contingent liabilities comprise mainly the unsettled value of funds received by PGE Górnictwo i Energetyka Konwencjonalna S.A. on the basis of a signed agreement on financing of the demonstrative project under the name: "Construction of a Carbon Capture and Storage System" in the amount of PLN 184 million and the value of potential cash fines in the amount of almost PLN 13 million resulting from proceeding relating to environmental protection (breach of the conditions of disposal of sewage and deforestation in some PGE Group companies).

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 35.5 to these consolidated financial statements the relevant provision is created to cover claims under court proceedings. Moreover, there are disputes at an early stage in the Group as well as there is a possibility of increased number of disputes in the future.

Contractual liabilities related to the purchase of gas from PGNiG

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

Fulfilment of the so-called stock exchange commitment in 2010

As described in Note 45.7 of these financial statements, 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. According to Article 49a of that Act:

- a power company engaged in production of electricity is committed to sell not less than 15% of electricity produced in the given year on commodity exchanges or on a market operated by a regulated market operator,
- a power company entitled to receive funds to cover stranded costs under the Act of 29 June 2007 on the Terms of Coverage of Costs Generated at Producers in Relation to Early Termination of Long-Term Contracts of Sale of Power and Electricity is obliged to sell the electricity it produces, which is not covered by the above mentioned commitment, in a manner guaranteeing public and equal access to that electricity, through open tender, on a market operated by a regulated market operator or on commodity exchanges.

Article 19 of the Act of 8 January 2010 on Amendment of the Act - Energy Law and Amending Certain Other Acts of Law ("Energy Law Amendment Act") states that the provisions of Articles 49a(1) and (2) of the amended Act - Energy Law apply to electricity unsold until the date of entry into force of that Act, and the Act does not give a definition of "unsold electricity".

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 the Act - Energy Law do not apply to such electricity, pursuant to Article 19 of the Energy Law Amendment Act. Therefore, after 9 August 2010, i.e. after the date of entry into force of the above specified provisions of the amended Energy Law Act, companies were only selling energy unsold before the date of entry into force of the Energy Law Amendment Act via a commodity exchange or in a different way ensuring public and equal access to that energy. However, commencement of procedure by the President of the Energy Regulatory Office to impose a penalty on companies due to the difference in interpretation of "unsold electricity" definition cannot be ruled out. Administrative proceedings have not been initiated regarding the matter until the date of preparation of these financial statements.

38.3. Contingent receivables

As at balance sheet date, the Group has ca. PLN 54 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 45.4 and 45.9 of these financial statements.

38.4. Other legal claims and court issues

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

Since 2009 PGE Polska Grupa Energetyczna S.A. is a party to arbitration proceedings with Atel. The proceedings are held before the Court of Arbitration in Vienna. The subject of the arbitration proceeding is 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 amount 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.

Oral hearing, summarizing the outcome of written procedure, was held in Vienna on 12-16 September 2011. Witnesses of both parties as well as experts were interviewed during the hearing. The Tribunal did not give a ruling after the hearing. The arbitrators set the following deadlines for submission of *post hearing briefs:* 16 November 2011 (first round, the term eventually was postponed to 22 November at the request of both parts) and 17 January 2012 (second round). Each party submitted required documents in accurate time frame. In the documentation submitted by Atel, company presented new calculation of claim that is approx. EUR 168 million. Despite an additional date of a final hearing set for 18 February, did not take place.

On the basis of available information, to the best of its knowledge, PGE S.A. made a reasonable estimation of claims which be considered justified by the Arbitration Tribunal. The Company established a provision for the claim thus estimated, in the amount exceeding EUR 92 million (including the main amount of EUR 79 million). At the present stage of arbitration proceedings, it is not possible to foresee the outcome or to determine the final amount of compensation.

Legal issues related to the Consolidation Programme

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

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

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

In most cases under consideration in the first instance, the Regional Courts ruled to repeal the claim. In result of an appeal by some minority shareholders, the Court of Appeal legitimately ruled to dismiss all of the appeals. Currently, in relation to the cases against PGE Górnictwo i Energetyka Konwencjonalna S.A., PGE Elektrownia Opole S.A. and PGE S.A. further appeals were lodged to the Supreme Court.

The PGE Group is waiting for the decisions of Regoinal Courts and Courts of Appeal.

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

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

39. Future investment commitment

As at the balance sheet date, the Group was committed to incur capital expenditures on property, plant and equipment in the amount of PLN 4.212.251 thousand. These amounts relate to modernization of Group's assets and a purchase of machinery and equipment. Significant investment liabilities 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 3.202 billion;
- investment liabilities of PGE Dystrybucja S.A. of the total value of approx. PLN 431 thousand;
- the construction of installation for desulfurization of fumes and construction of biomass cauldron in PGE Górnictwo i Energetyka Konwencjonalna S.A. Oddział Zespół Elektrowni Dolna Odra for a total amount of PLN 47million.

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

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

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

40.1. Excise tax

For details on a possible excise tax refund for the years 2006-2008 for production entities please refer to note 45.4 of the consolidated financial statements.

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

Unfavorable in this subject are attempts to widen the subject of taxation by the local government units. One of them was an amendment to building legal regulations, to which definitions refers the real estate tax law. In result of the amendment the definition of the building was changed with an act of 23 April 2009 on the change to building law act and other acts. According to the new definition, the notion of a building also comprises installations and technical machinery used for exploitation of a particular building. The change in building law regulations has not come into force yet due to the submission the request by the President of Poland to the Constitutional Court to examine the compatibility of some regulations with the constitution, however not those related to the definition of a building. The Constitutional Court concluded that waiving the obligation to obtain a building permit is not in accordance with the Constitution and the regulations relating to the building permit are inextricably linked with the amendment, therefore the new amendment will not come into force. In result the regulations changing the definition of a building will neither come into force.

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

41. Information on related entities

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

41.1. Associates

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

	Sale to related parties	Purchase from related parties	Trade receivables from related parties	Trade liabilities towards related parties
Year 2011	28.638	29.054	873	36
Year 2010	45.442	31.143	5.570	7.015

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 related parties	Purchase from related parties	Trade receivables from related parties	Including overdue	Trade liabilities towards related parties	Including overdue
Year 2011	2.069.502	4.921.790	229.712	12.219	539.635	75
Year 2010	4.291.017	4.915.880	307.300	897	478.873	-

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.

Decreasing value of sales to State Treasury subsidiaries is related to a new energy trading scheme described in Note 45.7 of these financial statements.

Moreover, PGE Group closes significant transactions on the energy market via the Polish Power Exchange (TGE). 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 affiliates.

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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, PGE Elektrownia Opole S.A., PGE Energia Jądrowa S.A., PGE EJ1 sp. z o.o., Elektrowni Wiatrowej Kamieńsk sp. z o.o. and Exatel S.A.

	Year ended 31 December 2011	Year ended 31 December 2010
Short-term employee benefits (salaries and salary related costs)	21.014	40.738
Jubilee awards and retirement benefits	121	491
Post-employment and termination benefits	2.577	2.255
Total remuneration of key management personnel	**23.712**	**43.484**

	Year ended 31 December 2011	Year ended 31 December 2010
The Management Board of the Parent	2.662	3.725
The Supervisory Board of the Parent	373	648
The Management Boards – subsidiaries	19.205	32.147
The Supervisory Boards – subsidiaries	1.472	6.964
Total	**23.712**	**43.484**

* Values relating to Management Board and Supervisory Board of the parent company for year 2010 include also remuneration of Board Members of companies that merged with PGE Polska Grupa Energetyczna S.A. during year 2010, namely : PGE Górnictwo i Energetyka S.A., PGE Energia S.A. and PGE Electra S.A.

On 31 August 2010, 36 companies from core business line merged into 4 consortiums. The decrease of the number of Members of the Management Boards and Supervisory Boards of these companies resulted in a decrease of value of key management personnel remuneration presented in the above tables.

The remuneration of Management Board Members and Supervisory Board Members of the Group companies in the reporting period and the comparative period amounted PLN 23.133 thousand and PLN 21.476 thousand, respectively.

The above mentioned remuneration of Management Boards and Supervisory Boards of the subsidiaries include also the remuneration of Management Board Members of the parent company, who hold posts in boards of these companies, in the amount of PLN 4.595 thousand.

Details concerning the remuneration of the Management Board and the Supervisory Board of the parent company are presented in Note 1.7. of the Management report on PGE Group operations in 2011 financial year using cash basis.

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42. Financial instruments

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

Categories and classes of financial assets:	Position in the statement of financial position	Carrying amount 31 December 2011 Long-term	Carrying amount 31 December 2011 Short-term	Carrying amount 31 December 2011 Total	Carrying amount 31 December 2010 Long-term	Carrying amount 31 December 2010 Short-term	Carrying amount 31 December 2010 Total	Fair value 31 December 2011 Total	Fair value 31 December 2010 Total
1. Held-to-maturity investments									
2. Loans and receivables, including:									
(i) Trade receivables	a)	-	1.767.739	**1.767.739**	-	1.618.591	**1.618.591**	**1.764.435**	**1.615.074**
(ii) Deposits and investments		-	2.107.368	**2.107.368**	50	114	**164**	**2.107.368**	**164**
(iii) Other financial loans and receivables		321.895	675.807	**997.702**	406.938	795.936	**1.202.874**	**997.702**	**1.202.874**
▪ Bonds, bill and notes receivable acquired	b)	313.739	-	**313.739**	253.538	-	**253.538**	**313.739***	**253.538***
▪ Originated loans	b)	874	191.031	**191.905**	141.863	32.540	**174.403**	**191.905**	**174.403**
▪ Other financial receivables	b)	7.282	445.112	**452.394**	11.537	317.891	**329.428**	**452.394**	**329.428**
▪ LTC compensations	b)	-	39.664	**39.664**	-	445.505	**445.505**	**39.664**	**445.505**
Total loans and receivables:		**321.895**	**4.550.914**	**4.872.809**	**406.988**	**2.414.641**	**2.821.629**	**4.869.505**	**2.818.112**
3. Available-for-sale financial assets, including:									
(i) Shares in entities not quoted on active markets		98.422	5.309	**103.731**	90.622	68.327	**158.949**	**-**	**-**
(ii) Shares quoted on active markets		2.329	-	**2.329**	1.953	-	**1.953**	**2.329**	**1.953**
(iii) Investment funds' units		-	3.121	**3.121**	2.667	3.917	**6.584**	**3.121**	**6.584**
(iv) Other financial assets available for sale		-	2	**2**	-	8.007	**8.007**	**2**	**8.007**
Total available-for-sale financial assets:		**100.751**	**8.432**	**109.183**	**95.242**	**80.251**	**175.493**	**5.452**	**16.544**

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		Carrying amount						Fair value	
		31 December 2011			31 December 2010			31 December 2011	31 December 2010
Categories and classes of financial assets:	Position in the statement of financial position	Long-term	Short-term	Total	Long-term	Short-term	Total	Total	Total
4. Cash and cash equivalents		-	4.052.238	**4.052.238**	**-**	2.730.423	**2.730.423**	**4.052.238**	**2.730.423**
Financial assets not included in IAS 39									
Lease receivables	b)	1.578	825	**2.403**	843	613	**1.456**	**2.403**	**1.456**

* as described in note 43.6 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 the statement of financial position	Carrying amount 31 December 2011 Long-term	Short-term	Total	31 December 2010 Long-term	Short-term	Total	Fair value 31 December 2011 Total	31 December 2010 Total
1. Financial liabilities at fair value through profit or loss held for trading:									
(i) Derivatives		-	48.093	**48.093**	-	41.165	**41.165**	**48.093**	**41.165**
Total financial liabilities at fair value through profit or loss:		**-**	**48.093**	**48.093**	**-**	**41.165**	**41.165**	**48.093**	**41.165**
2. Financial liabilities at amortized cost:									
(i) Interest bearing loans and credits	a)	1.335.575	693.731	**2.029.306**	1.804.429	914.956	**2.719.385**	**2.032.614**	**2.728.942**
(ii) Trade liabilities		-	1.117.172	**1.117.172**	-	980.224	**980.224**	**1.115.226**	**978.478**
(iii) Other financial liabilities at amortized cost	b)	17.864	1.826.613	**1.844.477**	7.908	1.261.685	**1.269.593**	**1.380.293**	**1.269.593**
Total financial liabilities at amortized cost:		**1.353.439**	**3.637.516**	**4.990.955**	**1.812.337**	**3.156.865**	**4.969.202**	**4.528.133**	**4.977.013**
3. Other financial liabilities not included in IAS 39									
(i) Liabilities from finance lease and lease agreements with option of purchase	a)	5.776	3.930	**9.706**	6.495	3.870	**10.365***	**-**	**-**
Total other financial liabilities:		**5.776**	**3.930**	**9.706**	**6.495**	**3.870**	**10.365**	**-**	**-**

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"

* Liabilities from finance lease have been presented in 2010 in the position of other financial liabilities in the consolidated statement of financial position.

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42.2. Profit and loss account

	Assets and liabilities at fair value through profit or loss	Available-for-sale financial assets	Held-to-maturity financial assets	Loans and receivables	Financial liabilities at amortized cost	Total financial instruments by class
Year 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)**
Gains / (losses) on investment disposal	-	1.997.428	-	10	-	**1.997.438**
Total net profit / (loss)	**150.231**	**2.001.690**	**-**	**127.539**	**(235.481)**	**2.043.979**

(restated)	Assets and liabilities at fair value through profit or loss	Available-for-sale financial assets	Held-to-maturity financial assets	Loans and receivables	Financial liabilities at amortized cost	Total financial instruments by class
Year ended 31 December 2010						
Dividends	-	8.437	-	-	-	**8.437**
Gains / (losses) from interest	234.618	476	168	59.130	(226.302)	**68.090**
Gains / (losses) from foreign exchange	23.803	(1)	-	(21.528)	(33.693)	**(31.419)**
Reversal of Impairment allowances / increase of value	3	2.804	-	35.564	-	**38.371**
Creation of Impairment allowances / decrease of value	-	(19.838)	-	(64.758)	(3.464)	**(88.060))**
Gains / (losses) on investment disposal	16	3.376	(38)	109	-	**3.463**
Total net profit / (loss)	**258.440**	**(4.746)**	**130**	**8.517**	**(263.459)**	**(1.118)**

Additionally, during the year ended December 31, 2011, the Group has adjusted the amount of settlements relate to LTC compensation. The issue is described in note 45.1 of these financial statements.

During the period ended 31 December 2011, the amount of PLN 304 thousand, net of the effect 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 measured 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 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 the fair value cannot be measured reliably

Basic assets of the Company 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 Company 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 main position presented in stock and shares in entities not quoted on active markets were shares in AWSA Holland II, representing 62% of this kind of instruments.

42.4. Description of significant positions within particular classes of financial instruments

42.4.1 Loans and receivables

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

Trade receivables

Trade receivables amount to PLN 1.767.739 thousand and represents 36% 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.

Deposits

Deposits comprise mainly deposits reported by PGE Polska Grupa Energetyczna S.A. of value of PLN 2.101.027 thousand, which maturity falls in April 2012.

Other loans and financial receivables

A significant position in this position are Bond issued by Autostrada Wielkopolska S.A. of value of PLN 313.739 thousand, which represent 31% of the balance of other loans and receivables.

The value of loans comprise mainly a loan granted by PGE Polska Grupa Energetyczna S.A. to Vattenfall A.B in amount of PLN 188.992 thousand, which represent 19% of the presented position of other loans and financial receivables and is described in detail in Note 25 of these financial statement.

The above position includes also the compensations from Long-Term Contracts in amount of PLN 39.664 thousand, which represents 4% of the balance of other loans and financial receivables. The issue of compensations from Long-Term Contrats is described in detail in Note 45.1 of these financial statements.

Position other financial receivables represent 45% of balance of other loans and financial receivables.

On the value of other financial receivables comprise mainly receivables from fines and penalties related to the construction of energy block 858 MW in Elektrownia Bełchatów, which is described in detail in Note 45.11, and also receivables from the Central Brokerage House of PEKAO S.A. relating to cash equivalents received for the payment of dividend, constituting 46% and 15% of the balance of other financial receivables. Other significant positions are guarantee deposits on the electric energy market, receivables from sale of shares and stock, and receivables from deposits of total value of PLN 141.698 thousand, which represents 31% of balance of the other financial receivables.

42.4.2 Available-for-sale financial asstes

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. 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.

As at 31 December 2011, the shares of AWSA Holland II BV of the value of PLN 64.500 thousand are the most significant position of shares not quoted on active financial markets.

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

The most significant positions of financial instruments valued at fair value through the profit or loss are bonds, bills and notes. As at 31 December 2011, the Group did not recognize any financial assets at fair value through profit or loss.

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.

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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. As a result of the imposition of the IRS transactions on the hedged Nordic Investment Bank credit, the interest rate changed from variable to fix.

Hedge instruments owned by the Group are 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	(4.114)	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	(5.981)	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	(37.998)	Currency credit in the amount of USD 80 million, interest rate LIBOR 6m +0,86% margin; half-yearly payments
Total		**(48.093)**	

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 were concluded in September 2003 and 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 curve of market interest rates.

During the period ended 31 December 2011 the Group revaluated the fair value of IRS transaction and recognized the negative accrued valuation of the IRS transaction fair value amounting to PLN 6.928 thousand in the statement of comprehensive income. Furthermore, during the period the Group incurred the costs of swap payments accounting for PLN 16.019 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.

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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 2011.

Currency	Reference rate	Value of credit / loan as at reporting date		Due in the period:					
		In currency	In PLN	Until 1 year	From 1 to 2 years	From 2 to 3 years	From 2 to 3 years	From 2 to 3 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**	**653.855**	**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 loans and credits			**2.029.306**	**693.731**	**213.258**	**149.742**	**143.141**	**149.236**	**680.198**

Loans and credits drawn as at 31 December 2010.

Currency	Reference rate	Value of credit / loan as at reporting date		Due in the period:					
		In currency	In PLN	Until 1 year	From 1 to 2 years	From 2 to 3 years	From 2 to 3 years	From 2 to 3 years	Above 5 years
PLN	Variable	755.419	755.419	401.262	187.649	78.835	20.167	13.962	53.544
	Fixed	832.821	832.821	425.960	406.861	-	-	-	-
Total PLN		**1.588.240**	**1.588.240**	**827.222**	**594.510**	**78.835**	**20.167**	**13.962**	**53.544**
EURO	Variable	148.112	586.567	333	10.453	10.423	16.796	35.317	513.245
	Fixed	-	-	-	-	-	-	-	-
Total EURO		**148.112**	**586.567**	**333**	**10.453**	**10.423**	**16.796**	**35.317**	**513.245**
USD	Variable	108.153	320.578	44.916	44.462	44.462	44.462	38.533	103.743
	Fixed	-	-	-	-	-	-	-	-
Total USD		**108.153**	**320.578**	**44.916**	**44.462**	**44.462**	**44.462**	**38.533**	**103.743**
CHF	Variable	70.799	224.000	42.485	42.120	42.120	42.120	34.683	20.472
	Fixed	-	-	-	-	-	-	-	-
Total CHF		**70.799**	**224.000**	**42.485**	**42.120**	**42.120**	**42.120**	**34.683**	**20.472**
Total loans and credits			**2.719.385**	**914.956**	**691.545**	**175.840**	**123.545**	**122.495**	**691.004**

Among the borrowing items presented above, the Group presents 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 plant - with a carrying value of PLN 653.855 thousand as at December 31, 2011.
- investment credit facility taken out by PGE Elektrownia Opole S.A. from Bank PEKAO S.A. for financing construction of power units 1 to 4, with a carrying value of PLN 406.861 thousand as at December 31, 2011. The above mentioned investment facility is denominated in PLN, at a fixed interest rate, ultimately due for repayment on December 31, 2012.

As at December 31, 2011 the value of available overdraft facilities in current account amounted to PLN 1.609.719 thousand. Overdrafts in current account relating to the main Group entities are due for repayment until March 2012.

42.4.4.2 Liabilities from bonds issued

As at 31 December 2011 and 2010 the Group had no liabilities from bonds issued.

During year 2011 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 2011 bonds were subject to underwriting amounting to PLN 1,5 billion of 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 Powszecha 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 (bearer zero-coupon bonds with maturity of 1, 3 or 6 months but their maturity cannot exceed 6 months. The maturity of the last issue of bonds may be different (but not shorter than 7 days and not longer than 6 months); however the last issue maturity date cannot fall after the Programme maturity date.

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

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

As at 31 December 2011, the Company had no bonds issued within the programme above.

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

On 29 August 2011 Company signed an agency agreement with Pekao S.A. bank (acting as Agent, Paying Agent and Depository) and ING Bankiem Śląskim 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 2011, the Company had no bonds issued within the programme above.

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42.5. Collaterals for repayment 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 2011	**31 December 2010**
Property, plant and equipment[1)]	5.242.971	5.112.145
Inventories	23.220	8.220
Trade receivables[2)]	-	318.752
Cash	-	63.565
Other assets	73.080	33.943
Total assets being collaterals for repayment of liabilities	**5.339.271**	**5.536.625**

1) Including assets from finance lease
2) Including receivables subject to pledge and cession of rights

Tangible fixed assets presented in the table above are collaterals for repayment of drawn investment credit. As at 31 December 2011 and as at 31 December 2010 the most significant position is a collateral mortgage on the new block 858 MW constructed in PGE Górnictwo i Energetyka Konwencjonalna S.A. Oddział Elektrownia Bełchatów. The value of assets covered by the collateral amounted to PLN 4.662 million, but the mortgage has been established for the amount of EUR 195 million and the credit liabilities amounted to EUR 150 million as the balance sheet date.

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

As at 31 December 2011, apart from the assets mentioned above, 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). The amount of the deposit depends on the quantity and value of open items on electricity forward market. The cash balance maintained as a security deposit on the above mentioned account as at 31 December 2011 was PLN 190 million.

Moreover The PGE Group companies maintain cash balance at Nordea S.A. bank as a deposit securing payments of liabilities due to purchases of electric energy on POEE Warsaw Stock Exchange Energy Market (POEE WSE Energy Market) and the Companies' open positions on the market. As at 31 December 2011 the above mentioned cash balance amounted to almost PLN 78 million.

42.6. Issues related to financial instruments not applicable for the Group

During the reporting period ended 31 December 2011, there were no events in the Group that needed to be disclosed, such as:

- until the balance sheet date, the Group did not designate any financial instrument at fair value through profit or loss at initial recognition (IFRS 7, item 9, 10, 11),
- there was no reclassification of financial assets that might have changed the method of their measurement (IFRS 7, item 12),
- there were no collaterals held by the Group on any class of assets, which might have improved credit terms (IFRS 7, item 15), nor has the Company taken over any assets resulting from vindications of collaterals it held as security (IFRS 7, item 38),
- the Group has not issued any instruments that contain both a liability and an equity component (IFRS 7, item 17),
- the Group did not breach any provisions of credit agreements (IFRS 7, item 18),
- Group manages assets accumulated on the bank account of the mine liquidation trust; however it does not receive any income from this kind of trust activities (IFRS 7, item 20.c.ii),
- the Group does not apply hedge accounting,
- there were no financial assets acquired at a price significantly different from their fair value (IFRS 7, item 28).

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 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 authorities. 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, currency risk or merchandise 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 interest rate risk and currency 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 SA 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 the current period;
- 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 31.12.2011	Nominal value as at 31.12.2010
Financial assets exposed to interest rate risk	PLN	Fixed	2.110.326	7.458
		Variable	3.924.849	2.643.817
	Other currencies	Fixed	190.537*	422.103
		Variable	441.941	86.606
Financial liabilities exposed to interest rate risk	PLN	Fixed	409.681	832.821
		Variable	438.736	755.419
	Other currencies	Fixed	-	-
		Variable	1.228.982	1.172.310
Net exposure	PLN	Fixed	**1.700.645**	**(825.363)**
		Variable	**3.486.113**	**1.888.398**
	Other currencies	Fixed	**190.537**	**422.103**
		Variable	**(787.041)**	**(1.085.704)**

*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 are 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 Company 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 of 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:

		Currency position as at 31 December 2011							
	Total amount in statement of financial position in PLN	**EUR**		**USD**		**CHF**		**SEK**	
		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)	(318.328)	(57.443)	(208.707)	-	-
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)**	**(365.967)**	**(57.411)**	**(208.590)**	**345.189**	**170.870**	

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	Total amount in statement of financial position in PLN	Currency position as at 31 December 2010							
		EUR		USD		CHF		SEK	
		in currency	PLN	in currency	PLN	in currency	PLN	in currency	PLN
Financial assets									
Deposits and investment	164	-	-	-	-	-	-	-	-
Bonds, bills and notes receivable acquired	253.538	64.020	253.538	-	-	-	-	-	-
Trade receivables	1.618.591	4.535	17.958	554	1.643	27	86	74	33
Cash and cash equivalents	2.730.423	21.844	86.510	33	96	-	-	-	-
Originated loans	174.403	-	-	-	-	-	-	381.801	168.565
Other financial receivables	329.428	-	-	-	-	-	-	-	-
Shares in entities not quoted on active markets	158.949	-	-	-	-	-	-	-	-
Shares quoted on active markets	1.953	-	-	-	-	-	-	-	-
Other financial assets	14.591	-	-	-	-	-	-	-	-
Lease receivables	1.456	-	-	-	-	-	-	-	-
Compensations related to LTC	445.505	-	-	-	-	-	-	-	-
Financial liabilities								-	
Derivatives	(41.165)	-	-	(13.888)	(41.165)	-	-	-	-
Interest bearing loans and credits	(2.719.385)	(148.112)	(586.567)	(108.153)	(320.578)	(70.799)	(224.000)	-	-
Trade and other financial liabilities at amortized cost	(2.249.817)	(25.945)	(102.748)	(276)	(818)	(48)	(153)	(33.653)	(14.858)
Liabilities from finance lease and lease agreements with option of purchase	(10.365)	-	-	-	-	-	-	-	-
Net currency position	**(83.658)**	**(331.309)**	**(121.730)**	**(360.822)**	**(70.820)**	**(224.067)**	**348.222**	**153.740**	

43.4. Goods' 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 ownership of electricity from renewable sources ("green certificates") or from high efficiency cogeneration plants ("red certificates").

Due to the fact that most of the natural resources used by power generation plants and originate from Group-owned mines, 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 internal purchase of particular resources presented in the table below:

	Year 2011		Year 2010*	
Type of fuel	**Tonnage – external purchase (in thousand tons)**	**Cost of purchase (PLN million)**	**Type of fuel**	**Tonnage – external purchase (in thousand tons)**
Coal	7.316	1.966	6.468	1.661
Gas [m3 thousand]	611.987	501	553.478	401
Biomass	731	254	509	165
Fuel oil	78	174	55	88
Total		**2.895**		**2.315**

**restated*

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.

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 mine 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 have 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 2011 the three most significant customers accounted for ca. 11% of the trade receivables balance. In addition, receivables from sale of electricity to households account for ca. 19% of the trade receivables balance.
- Compensation to dissolvent of Long-Term Contracts described in note 45.1 of these consolidated financial statements.
- Deposits 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 9.036.633 thousand as at 31 December 2011.

43.6. Trade receivables

The terms of payments for trade receivables are usually 2-3 weeks, however in 2011 the Group received payments for receivables after 25 days on average. 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 2011		31 December 2010	
Geographical region/ country	**Receivables balance**	**Share %**	**Geographical region/ country**	**Receivables balance**
Poland	1.737.026	98,3%	1.586.047	98,0%
United Kingdom	8.816	0,5%	14.329	0,9%
Gremany	10.338	0,6%	6.388	0,4%
Czech Republic	2.008	0,1%	2.332	0,1%
Other	9.551	0,5%	9.495	0,6%
Total	**1.767.739**	**100,0%**	**1.618.591**	**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 equity and strong, stable market position in Poland. The most significant cash balances of the Group allocated in three banks accounted for ca. 61% as at 31 December 2011. Deposits are presented in the position of other loans and financial receivables in the statement of financial position and they were described in the Note 42.4.1. of these financial statements.

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 2011, trade receivables and shares in entities not quoted on active markets were subject to impairment allowances. The change in write offs' accounts 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 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
Year ended 31 December 2010 *(adjusted)*			
Impairment allowances as at 1 January	**(242.336)**	**(11.788)**	**(85.061)**
Impairment allowances used	17.382	-	-
Impairment allowances reversed	93.486	-	2.911
Impairment allowances created	(94.319)	-	(5.221)
Change in presentation	(5.843)	11.788	(33.221)
Impairment allowances as at 31 December	**(231.630)**	**-**	**(120.592)**
Value before the impairment allowances	1.850.221	174.403	279.541
Net value (carrying amount)	1.618.591	174.403	158.949

The majority of impairment allowances created by the Group during the reporting period relate mainly to trade receivables of energy companies from retail customers. Impairment allowances in companies of retail sale and distribution segment as at 31 December 2011 amounted to PLN 186.939 thousand (PLN 197.671 thousand in 2010). 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.

As described in note 25 to these financial statements in periods before the balance sheet date, the parent company made prepayments for transmission services to Vattenfall Aktiebolag („VAB"). As at 31 December 2011, the value of prepayments presented as a loan amounted to PLN 189 million in the statement of financial position. During the reporting period, the Company was working on the settlement of the status of the remaining prepayments after the expiry of the contract with the VAB. As at the day of preparation of these consolidated financial statements, The Company assesses that prepayments will be settled within 12 months from the balance sheet date. As a consequence there are no sufficient premises to create an impairment allowances on prepayment presented as a loan as the balance sheet date.

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There are no other significant receivables positions within the Group, except from trade receivables, that would be past due but not covered by a 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 2011						
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

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 2010						
Before the Impairment allowances	2.395.038	264.074	117.807	30.519	35.412	404.128
Impairment allowances	(11.249)	(6.487)	(4.227)	(4.936)	(23.239)	(375.375)
After Impairment allowances	2.383.789	257.587	113.580	25.583	12.173	28.753

As at 31 December 2011 more than 76% of the overdue trade receivables, other loans and receivables that were not covered with a 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 management within the Group – liquidity risk results from possible necessity of settlement of collateral derivative transactions, the 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) in the case of negative valuation of derivatives, which exceeds the limit allowed by the financial institution over the duration of a collateral transaction.
- Allocation of free cash of entities – the liquidity results from necessity of liquidation of financial assets owned, the market of which is characterized by low volume of turnover and/or relatively high discrepancy 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 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 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**

31 December 2010 *(restated)*	Less than 3 months	Between 3 and 12 months	Between 1 and 5 years	More than 5 years	Total
Interest bearing loans and credits	402.924	582.322	1.171.759	786.991	2.943.996
Trade and other financial liabilities at amortized cost	2.019.368	222.541	6.520	1.388	2.249.817
Liabilities from finance lease and lease agreements with an option of purchase	968	2.902	6.495	-	10.365
Derivatives	1.295	14.431	40.567	11.166	67.459
Total	**2.424.555**	**822.196**	**1.225.341**	**799.545**	**5.271.637**

43.13. Market risk – analysis of sensitivity

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.

Potential foreign exchange rates' changes were calculated on ±13,60% for EUR/PLN, ±23,35% for USD/PLN, ±18,50% for CHF/PLN and ±13,20% 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 on ±113 bp for WIBOR, ±83 bp for EURIBOR, ±63 bp for LIBOR USD and ±25 bp for LIBOR CHF.

In case of sensitivity analysis of interest rates' fluctuations, the effect of risk factors' changes were 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.

	31 grudnia 2011		Sensitivity analysis for currency risk as at 31 December 2011							
	Total amount in statement of financial position	Amount exposed to risk	EUR/PLN gross financial result		USD/PLN gross financial result		CHF/PLN gross financial result		SEK/PLN gross financial result	
Financial instruments by class	**PLN thousand**	**PLN thousand**	**Exchange rate EUR/PLN + 13,60%**	**Exchange rate EUR/PLN - 13,60%**	**Exchange rate USD/PLN + 23,35%**	**Exchange rate USD/PLN - 23,35%**	**Exchange rate CHF/PLN + 18,50%**	**Exchange rate CHF/PLN - 18,50%**	**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 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)**

	31 December 2010		Sensitivity analysis for currency risk as at 31 December 2010							
	Total amount in statement of financial position	Amount exposed to risk	EUR/PLN gross financial result		USD/PLN gross financial result		CHF/PLN gross financial result		SEK/PLN gross financial result	
Financial instruments by class	**PLN thousand**	**PLN thousand**	**Exchange rate EUR/PLN + 12,30%**	**Exchange rate EUR/PLN - 12,30%**	**Exchange rate USD/PLN + 20,30%**	**Exchange rate USD/PLN - 20,30%**	**Exchange rate CHF/PLN + 19,21%**	**Exchange rate CHF/PLN - 19,21%**	**Exchange rate SEK/PLN + 11,37%**	**Exchange rate SEK/PLN - 11,37%**
Trade receivables	1.618.591	19.720	2.209	(2.209)	334	(334)	17	(17)	4	(4)
Loans granted	174.403	168.565	-	-	-	-	-	-	19.169	(19.169)
Bonds, bills, notes receivable acquired	253.538	253.538	31.185	(31.185)	-	-	-	-	-	-
Cash and cash equivalents	2.730.423	86.606	10.641	(10.641)	20	(20)	-	-	-	-
Derivatives	(41.165)	(41.165)	-	-	(8.357)	8.357	-	-	-	-
Interest bearing loans and credits	(2.719.385)	(1.131.145)	(72.148)	72.148	(65.077)	65.077	(43.031)	43.031	-	-
Trade liabilities and other financial liabilities at amortized cost	(2.249.817)	(118.577)	(12.638)	12.638	(166)	166	(29)	29	(1.690)	1.690
Gross profit change			**(40.751)**	**40.751**	**(73.246)**	**73.246**	**(43.043)**	**43.043**	**17.483**	**(17.483)**

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:

	December 2011		Sensitivity analysis for interest rate risk as at 31December 2011							
			WIBOR		EURIBOR		LIBOR USD		LIBOR CHF	
Financial assets and liabilities	**Total amount in statement of financial position**	**Amount exposed to risk**	**gross financial result**		**gross financial result**		**gross financial result**		**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
Bonds issued	-	-	-	-	-	-	-	-	-	
Gross profit change			**25.542**	**(25.542)**	**(4.260)**	**4.260**	**(8.811)**	**8.811**	**(551)**	**551**

Financial assets and liabilities	31 December 2010 Total amount in statement of financial position PLN thousand	Amount exposed to risk PLN thousand	Sensitivity analysis for interest rate risk as at 31 December 2010: WIBOR gross financial result WIBOR + 105bp	WIBOR gross financial result WIBOR - 105bp	EURIBOR gross financial result EURIBOR+ 51bp	EURIBOR gross financial result EURIBOR - 51bp	LIBOR USD gross financial result LIBOR USD + 41bp	LIBOR USD gross financial result LIBOR USD - 41bp	LIBOR CHF gross financial result LIBOR CHF + 16bp	LIBOR CHF gross financial result LIBOR CHF - 16bp
Cash and cash equivalents	2.730.423	2.730.423	46.755	(46.755)	1.123	(1.123)	-	-	-	-
Derivatives	(41.165)	(41.165)	-	-	-	-	(5.675)	5.675	-	-
Interest bearing loans and credits	(2.719.385)	(1.886.564)	(20.887)	20.887	(2.965)	2.965	(1.608)	1.608	(1.146)	1.146
Bonds issued	-	-	-	-	-	-	-	-	-	-
Gross profit change			**25.868**	**(25.868)**	**(1.842)**	**1.842**	**(7.283)**	**7.283**	**(1.146)**	**1.146**

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.

Consolidated financial statements for the year ended 31 December 2011 prepared in accordance with IFRS (all amounts in thousand PLN)

44. Employment structure

Employment in the Group (in posts) as at balance sheet dates was as follows

	As at 31 December 2011	**As at 31 December 2010** _(restated)_
Total employees, including:	**44.317**	**45.383**
Mining and Production	21.693	22.314
Renewable Energetic	522	543
Wholesale turnover	350	371
Distribution	12.073	12.519
Retail sale	1.635	1.794
Other consolidated entities	8.044	7.842

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:

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

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 company and resulting compensations, annual adjustments of stranded costs and final adjustments was performed by the Group with the best of its knowledge in this area and with support of external experts.

As described below, the consequence of the verdict which was disadvantageous for the Group, due to acceptance of the appeal filed by the President of the Energy Regulatory Office, the Group corrected its estimated revenues from Long-Term Contracts compensation for 2008-2010 to the amount of prepayments received and annual corrections identified in the decisions of the President of the Energy Regulatory Office. Such an adjustment was not made for the 2008 revenues recognized at the Elektrociepłownia Rzeszów, for which an advantageous decision was issued by the Court of Appeals.

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

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

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

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

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

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

Verdicts given by the Court of Appeals in February and March 2012

In February and March 2012, the Court of Appeals issued different verdicts in three cases related to adjustment of stranded costs for 2008, issued for PGE GiEK S.A. Oddział Elektrociepłownia Rzeszów, PGE GiEK S.A. Oddział Elektrociepłownia Lublin-Wrotków and PGE GiEK S.A. Oddział Zespół Elektrowni Dolna Odra.

On 2 February 2012, the Court of Appeals issued a verdict on determining the amount of annual adjustment of stranded costs due to PGE GiEK S.A. Oddział Elektrociepłownia Rzeszów for 2008, dismissing the appeal of the President of the Energy Regulatory Office against the verdict of the CCP Court, which was considered unsubstantiated, and amended the decision of the President of the Energy Regulatory Office according to the company's demand. The value of the object of dispute was PLN 14.6 million. The verdict is valid; however, the President of the Energy Regulatory Office is still entitled to file a cassation complaint against this verdict to the Supreme Court.

On 7 March 2012, in a similar case, the Court of Appeals issued a verdict in which the appeal of the President of the Energy Regulatory Office against the verdict of the CCP Court was accepted with regard to determination of the amount of annual adjustment of stranded costs due to PGE GiEK S.A. Oddział Elektrociepłownia Lublin-Wrotków for 2008 and amended the ruling of the CCP Court through dismissing the producer's appeal. The verdict is valid; however, PGE GiEK S.A. is still entitled to file a cassation complaint against this verdict to the Supreme Court. The value of the object of dispute was PLN 26.7 million.

On 12 March 2012, in a similar case related to annual adjustment of stranded costs for 2008, determined by the President of the Energy Regulatory Office for PGE GiEK S.A. Oddział Zespół Elektrowni Dolna Odra, the Court of Appeals issued a verdict repealing the ruling of the CCP Court and referred it for reconsideration by the CCP Court. The value of the object of dispute was PLN 42.4 million.

Summary

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

PGE S.A., PGE Górnictwo i Energetyka Konwencjonalna S.A. and PGE Elektrownia Opole S.A. intend to take all measures prescribed by the law in order to obtain an advantageous resolution of the dispute, including filing of a cassation appeal to the Supreme Court. However, considering the disadvantageous decision of the Court of Appeals and an opinion of a legal advisor, the Management Board changed its estimations regarding further proceeding of the disputes with the President of the Energy Regulatory Office in respect of the value of adjustment of stranded costs for 2008-2010, and adjusted the accounts of compensation for Long-Term Contracts by an amount of PLN 1,037.6 million. This amount corresponds to the difference between revenues from Long-Term Contracts compensations recognized by PGE Group companies during 2008-2010 and the values arising from decisions received from the Energy Regulatory Office for these years, taking into account the successful verdict concerning the Elektrociepłownia Rzeszów.

The value of adjustment was recognized in the statement of comprehensive income under other operating expenses. After accounting for the deferred tax effect, as a result of accounts adjustment, consolidated net profit of PGE Group was decreased by PLN 840.5 million.

45.2. Program „Non-core"

In 2009, the "Conception of non-energy related assets management in PGE Group" was adopted. The purpose of this conception is to transparently separate core business activities from other activities and disposal and reorganization of mentioned assets.

It has been assumed, that the simplification of capital relations and organizational structures of PGE Group, as well as the unification of management standards will allow achieve the following effects:

- transparent of the business model of PGE Group (focus on core business activities),
- transparent of management of assets and expenses of energy entities,
- resources of energy entities will be discharged from engagement in non-energy related assets,
- reduction of services expenses not related to core business.

Within the realized Conception, there were non-energy related assets identified acting in the form of entities and areas not separated from the structures of core business entities and the process of disposal and reorganization of these assets was commenced within the PGE Group. Information about changes in the composition of consolidated subsidiaries that were sold or meet the criteria of IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* was presented in note 2 and 19 to these consolidated financial statements.

45.3. Sales of shares of Exatel S.A.

As at the date of preparation of the foregoing financial statements, PGE S.A. is preparing to the optimal method of disposal of shares of Exatel S.A.. The transaction is planned for second half of the year 2012. The sale of shares of Exatel S.A. is planned in accordance with the strategy implemented by the Company, which assumes focusing on the core and selling unrelated assets. The total value of assets of Exatel S.A. reported in the foregoing consolidated financial statements amounts to PLN 716.997 thousand (before consolidation adjustments).

45.4. Excise tax on electricity in energy production entities

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.

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

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

Furthermore, on 15 October 2009, the Supreme Administrative Court addressed the Constitutional Tribunal with a legal inquiry whether the provisions of the Tax Ordinance Act which are basis for the Group production companies to apply for an excise tax excess payment refund are complicate with the Constitution of the Republic of Poland. On November 29, 2010 the Constitutional Tribunal decided to discontinue the proceedings on assessing non-compliance with the Constitution of the legal regulation concerning overpayment. According to the Constitutional Tribunal the Tax Ordinance Act assumes a certain model of proceeding with overpaid tax and reasons substantiating reimbursement of such tax, and the fact of incurring the economic burden of tax is not recognized by the Act as a reason substantiating return of overpaid tax. On the other hand, the Supreme Administrative Court in a decision of February 3, 2011 presented a legal issue for resolving by the entire Economic Chamber of the Supreme Administrative Court on whether an amount of excise tax paid for sale of electricity qualifies as overpaid tax if the payer did not suffer a financial disadvantage for reason of making that payment. The Supreme Administrative Court adopted a resolution on 22 June 2011 in which it was concluded that in accordance with art. 72 par. 1 p. 1 of the Tax Ordinance it cannot be considered that company incurred the economic tax burden, as the Company recovered the total amount of tax. However the Supreme Administrative Court concluded additionally that the tax payer can claim return of the overpaid tax in the amount that was not transferred to the buyer of the energy and he can claim a compensation from the State Treasury on the civil way.

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

Moreover, there is a risk that if the production entities of the PGE Group receive the refund of the excise tax excess payment, civil and legal claims might be filed against these entities by electric energy buyers, which have been actually economically burdened with the excise tax in the past (i.e. based on unjustified enrichment accusation. In year 2011 there were no new claims of that kind. 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.

Due to mitigation of the risk limitation of the right to claim compensation civilly for damages suffered by power plants, heat and power stations of the Group and PGE Polska Grupa Energetyczna S.A. itself in relation to discrepancies between the Polish and European Union law, The Company and related entities brought proposal to common court to summon State Treasury to compromise.

Furthermore, in September 2009 the Company filed a motion related to an excess payment of the excise tax on imports and Intra-Community acquisition of electric energy in the period from January

2006 to February 2009. The Company states that the excess payment results from discrepancies between the Polish and Community law. In May 2010, the Company received a part of decisions refusing to grant a request to determine overpayment, and decisions determining the excise tax obligation for intra-Community purchases of electricity, against which the Company had lodged appeals. In December 2010, the Company received decisions from the Director of Customs Chamber, which fully supported the decisions of the first instance authority concerning excise tax on energy import in 2006. In October and November 2011 the Provincial Administrative Court in Warsaw decided that no overpayment can be identified here, as the whole amount of excise tax was reimbursed to the Company earlier on account of import. Taking into consideration the resolution of the Chamber of Commerce of the Supreme Administrative Court, it cannot be considered that company incurred the economic tax burden, as the Company recovered the total amount of tax. As the interest is considered, the Court concluded that a civil way is more appropriate. Sentences are illegitimate and the Company lodged cassation appeals to the Supreme Administrative Court. The total amount of claim is 54 million PLN plus interest charge.

45.5. 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 is to acquire 4.183.285.486 shares of the Company, representing 84,19% of its share capital. The purchase price of all shares representing 84,19% of share capital of the Company is PLN 7.529.913 thousand.

The buyer declared the guaranteed investment programme to be implemented in the Energa group within 10 years in amount of PLN 5 billion. Failure to comply will entail the contractual penalties to pay for the Seller. The total liability of the Buyer could not exceed PLN 1 billion. Moreover, PGE S.A. committed to maintaining control over the Company, to not restrict the core activities of the company and its main subsidiaries covering production, sales and distribution of the electricity and heat as well as to not changing the seat of the company. Moreover, PGE S.A. committed to placing shares to trading on the Warsaw Stock Exchange.

The transaction shall be effective after obtaining by PGE S.A. the consent to a concentration of capital by PGE S.A. from the President of the Office of Competition and Consumer ("the President of the Office") (condition precedent).

On 13 January 2011, the President of the Office for Competition and Consumer Protection issued a Decision preventing PGE S.A. from buying shares of Energa S.A.

Therefore, on 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 requests that the said decision be replaced 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.

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

Until date of preparation of these financial statements, the Competition and Consumer Protection Court has not yet issued a decision regarding appeal by PGE S.A. against the Decision of the President of the Office, preventing amalgamation of PGE S.A. with Energa S.A. The date of trial is set for 14 May 2012.

45.6. Sale of shares of Polkomtel S.A.

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

According to the agreement, the Company sold 4,479,191 ordinary shares of Polkomtel S.A. with a nominal value of PLN 100 per share, representing 21.85% of share capital of Polkomtel S.A., for the total price of PLN 3.289 million.

The total value of the transaction based on the company value was determined at PLN 18.1 billion. After the deduction of Polkomtel's debt and dividend, which Polkomtel paid in favour of its previous shareholders, the total payment amount is PLN 15.1 billion. A part of the dividend from Polkomtel S.A. for 2010 payable to PGE S.A. amounted to PLN 224 million and was paid on 29 July 2011.

On 24 October 2011 the Company received approval from the Office of Competition and Consumer Protection for the sale transaction of 100% shares of Polkomtel S.A. to Spartan Capital Holdings Sp. z o.o. The approval fulfilled the condition restricted in the preliminary contract.

The transfer of shares and payment occurred on 9 November 2011. In consolidated financial statements the Company realized net profit in amount of PLN 1.659 million on the above mentioned transaction. Net profit was recognized by the Company in November 2011.

After completion of the transaction and the acquisition of 100% of Polkomtel S.A. by Spartan Capital Holdings Sp. z o.o., PGE S.A. does not hold any shares of Polkomtel S.A.

45.7. Changes in the electricity trade model in the PGE Group

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

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

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

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

Changes in the electricity model resulted in increase of revenues and expenses presented by the PGE Group in the consolidated statement of comprehensive income.

The issue related to fulfillment of the obligation of sale of the produced energy on commodity Exchange in year 2010 is described in Note 38.2 of the foregoing financial statements.

45.8. Voluntary Leave Program

The purpose of the Voluntary Leave Program (VLP) is optimization of employment in the PGE Group and is directed to employees who have guarantee of employment on the basis of social contracts. Program is described in Note 35.8 of these financial statements.

45.9. Dispute concerning certificates of energy origin

As at the date of preparation of these financial statements, investigations are 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:

- fulfillment of biodegradability requirements by post-hydrolysis lignocellulose (Elektrownia Bełchatów);
- conformity with the definition of biomass by shea pulp (Zespół Elektrowni Dolna Odra) and qualification of this type of fuel as biomass for power generating purposes, i.e. no non-biodegradable substance contents and qualification as AGRO biomass

and withholds the decision to issue the certificates despite that it would issue certificates of origin for energy produced of both types of biomass in the preceding years.

In response to subsequent calls for clarification, the branches presented all the results of additional tests required by the Authority, as well as explanations and opinions of accredited laboratory testing authorities, confirming that the requirements had been met. The Energy Regulatory Office has not yet issued the outstanding Certificates of Energy Origin for 2011. Because the dispute has not been resolved, the Group did not recognize energy certificates of energy origin with a value of approximately PLN 101 million.

45.10. Issues related to payment of dividends at PGE Górnictwo i Energetyka Konwencjonalna S.A.

In June 2010, the Ordinary General Meetings of PGE Elektrownia Bełchatów S.A., PGE Kopalnia Węgla Brunatnego Bełchatów S.A., PGE Elektrownia Turów S.A., PGE Kopalnia Węgla Brunatnego Turów S.A., PGE Zespół Elektrowni Dolna Odra S.A. (these companies amalgamated with 8 other companies as at 1 September 2010 to form PGE Górnictwo i Energetyka Konwencjonalna S.A.) passed resolutions concerning distribution of net profit for the financial year 2009, allocating a certain part of net profit to payment of dividends. Dividend date was determined in these resolutions as 17 August 2010.

A group of minority shareholders appealed against these resolutions to regional courts of competent jurisdiction in the part concerning determination of dividend date and requested that the resolutions be declared invalid or repealed. Pursuant to the courts' decisions to grant injunctive relief, dividend payments out of net profits were withheld in 2010 at PGE Elektrownia Turów S.A., PGE Kopalnia Węgla Brunatnego Turów S.A. and PGE Zespół Elektrowni Dolna Odra S.A. The aggregate amount of such withheld payments of dividends by these companies was PLN 634,971 thousand. In the case of PGE Elektrownia Bełchatów S.A., the decision to grant injunctive relief through withholding payments of dividend was issued after the dividend pay date determined by the Ordinary General Meeting.

In 2011, valid judgments were given in proceedings before the Courts of Appeals to determine some of the dividend resolutions at PGE Elektrownia Turów S.A., PGE KWB Turów S.A., PGE Elektrownia Bełchatów S.A. and PGE Zespół Elektrowni Dolna Odra S.A. as null and void with respect to the determined dividend date. PGE Górnictwo i Energetyka Konwencjonalna S.A. filed cassation complaints against all the valid court rulings given to its disadvantage. Proceedings are still pending with respect to appeals against the dividend resolutions of PGE Kopalnia Węgla Brunatnego Bełchatów S.A. Pursuant to valid rulings and cancellation of injunctive relief, PGE Górnictwo i Energetyka Konwencjonalna S.A. was obliged to pay dividend for 2009 to former shareholders of PGE Elektrownia Turów S.A., PGE Kopalnia Węgla Brunatnego Turów S.A., PGE Zespół Elektrowni Dolna

Odra S.A. and PGE Elektrownia Bełchatów S.A., according to the balances of shares registers as at the date of passing resolutions on payment of dividend.

Those dividends were paid in 2011 and, as specified above, PGE Elektrownia Bełchatów S.A. paid nearly the whole amount of dividend in 2010 to shareholders entered in the shares register as at the date specified in the dividend resolution, i.e. according to the legal situation before issuance of a valid court ruling. Out of the amount of PLN 1,431,000 thousand gross, which was allocated to dividend payment, shareholders of that entity had not received only PLN 947 thousand net before the date of granting injunctive relief. Therefore, the company requested the shareholders who had not been entitled to receive such payments in the existing legal situation to return the amount of excessive payment. The total of such returnable amounts was PLN 146,832 thousand gross, exclusive of delay penalties (presented under other short-term assets in the statement of financial position). On 6 February 2012, PGE Górnictwo i Energetyka Konwencjonalna S.A. received a return of dividend from the State Treasury in the amount of PLN 145,768 thousand, with interest charged on that amount.

The issues discussed above, related to corrections of dividend payments in subsidiaries, did not affect the values presented in the consolidated statement of comprehensive income of PGE Group.

45.11. Delay in commissioning of the 858MW power plant at the Elektrownia Bełchatów (Bełchatów Power Plant) and contractual penalties charged in this respect

On 30 April 2011, the deadline for completion of the 858MW power unit construction project at the PGE Górnictwo i Energetyka Konwencjonalna S.A. Oddział Elektrownia Bełchatów expired, as determined in the contract between PGE Górnictwo i Energetyka Konwencjonalna S.A. and a consortium of Alstom companies (ALSTOM Power Systems SA - France, ALSTOM Power sp. z o.o. - Poland, and ALSTOM Power Systems GmbH - Germany). The unit was commissioned in September 2011. The value of tangible assets put into operation was PLN 4,286 million.

In November 2011, PGE Górnictwo i Energetyka Konwencjonalna S.A. called the Alstom consortium of companies to pay the contractual penalties for failing to meet the project completion deadline. As a result of negotiations conducted between the company and members of the Alstom consortium, an arrangement was signed on 22 December 2011 concerning payment of penalties. Under that arrangement, delay penalties amounted to PLN 229,627 thousand and EUR 22,229 thousand. These penalties were recognized in the statement of comprehensive income under other operating incomes. At the same time, under the arrangement, the Alstom consortium of companies extended the defects liability period from 24 months to 36 months for plant and equipment. The arrangement closed the issue of repayment of claimed project delay damages.

In compliance with the arrangement, penalties were settled until 31 December 2011 in the amount of PLN 125,194 thousand and EUR 7,917 thousand. As at the balance day, the Group presents receivables from the Alstom consortium of companies in the amount of PLN 104,433 thousand and EUR 14,318 thousand under other financial receivables. After the balance date and before the date of preparation of these financial statements, penalties were additionally settled in the amount of PLN 38,976 thousand and EUR 6,812 thousand.

The above mentioned accounts were settled through cash payments and offsetting the invoices issued by Alstom companies. According to the arrangement, a certain part of penalties should also be settled through deduction from subsequent invoices issued by Alstom or, if such deduction is not feasible, through cash payment of the outstanding part until 1 April 2013 at the latest.

45.12. Carbon capture and storage installation

Preparatory works have been carried out at PGE Górnictwo i Energetyka Konwencjonalna S.A. since 2007 on building a CCS (*carbon capture and storage*) installation. The project is innovative in the context of the global energy sector and shall bring benefits for protection of the environment through significant reduction of CO_2 emissions to the atmosphere. Carbon capture efficiency of the contemplated system will exceed 80%, meaning that the installation will capture CO_2 at a rate of approximately 1.8 million Mg per year. The CCS system will be integrated with the 858 MW power unit at the Oddział Elektrownia Bełchatów (branch Bełchatów Power Plant).

The project is covered by co-funding with Community funds under the *European Energy Programme for Recovery (EEPR*). Pursuant to the agreement signed with the European Commission in 2010 for co-financing of that project, the company received a subsidy in the amount of EUR 180,000 thousand.

Under the grant, the company received an advance payment of EUR 45,000 thousand in 2011, as well as reimbursement of funds arising from settlement of eligible costs incurred until 1 November 2010 in the amount of EUR 10,232 thousand.

The company takes action to obtain additional funds from such sources as the Norwegian Financial Mechanism and "NER 300" (*New Entrant Reserve* of CO_2 emission allowances for new market players) support mechanism within the European Union Emissions Trading Scheme.

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

…………………………..

Mr. Krzysztof Kilian
President of the
Management Board

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Mrs. Bogusława Matuszewska
Vice-President of the
Management Board

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Mr. Wojciech Ostrowski
Vice-President of the
Management Board

……………………...

Mr. Paweł Skowroński
Vice-President of the
Management Board

…………………………..

Mr. Piotr Szymanek
Vice-President of the
Management Board