



PGE Polska Grupa Energetyczna S.A.

Separate Financial Statements prepared in accordance with International Financial Reporting Standards for the year ended 31 December 2012.

TABLE OF CONTENTS

SEPARATE STATEMENT OF COMPREHENSIVE INCOME	3
SEPARATE STATEMENT OF FINANCIAL POSITION	4
SEPARATE STATEMENT OF CHANGES IN EQUITY	6
SEPARATE STATEMENT OF CHANGES IN EQUITY	7
SEPARATE STATEMENT OF CASH FLOWS.....	8
1. General information	9
2. The composition of the Management Board	9
3. Approval of financial statements.....	10
4. Going concern	10
5. Presentation currency.....	10
6. Statement of compliance with International Financial Reporting Standards.....	10
7. Significant values based on professional judgement and estimates.....	10
8. Change of estimates.....	11
9. New standards and interpretations, published, not effective yet.....	12
10. Accounting principles applied	13
11. Change of data presentation accounting principles	29
12. Revenues and expenses	33
13. Income tax	37
14. Discontinued operations	38
15. Property, plant and equipment	39
16. Investment property.....	41
17. Intangible assets.....	41
18. Shares in subsidiaries owned directly and indirectly	43
19. Inventories	44
20. Other short-term and long-term asset	45
21. Cash and cash equivalents	46
22. Assets classified as held for sale	46
23. Share capital and other equity.....	46
24. Earnings per share	50
25. Dividends paid and dividends declared	50
26. Lease	51
27. Deferred tax asset and liability	51
28. Employment benefits	52
29. Provisions	55
30. Contingent liabilities and receivables. Legal claims.	58
31. Other non-financial liabilities.....	59
32. Deferred income and government grants.....	60
33. Investment commitments.....	60
34. Information on related parties.....	61
35. Employment structure.....	64
36. Social Fund and other employee funds	64
37. Joint ventures	64
38. Financial instruments.....	65
39. Objectives and principles of financial risk management	75
40. Tax settlements	92
41. Significant events during the reporting period and subsequent events	93

SEPARATE STATEMENT OF COMPREHENSIVE INCOME

	Note	Period ended 31 December 2012	Period ended 31 December 2011 (restated)*
Revenues from sale of products and merchandise		10.129.170.836,48	9.889.873.778,14
Revenues from services rendered		466.630.008,16	239.571.736,71
Revenues from rent		8.460.268,07	8.447.699,64
Total sales revenue	12	10.604.261.112,71	10.137.893.214,49
Costs of goods sold	12	(10.085.579.956,69)	(9.786.839.457,18)
Gross profit on sales		518.681.156,02	351.053.757,31
Other operating revenues	12	184.802.097,36	5.637.326,55
Distribution and selling expenses		(12.413.214,04)	(17.330.146,20)
General and administrative expenses		(133.489.819,36)	(122.431.381,08)
Other operating expenses	12	(2.642.033,27)	(40.851.545,96)
Financial revenues	12	535.170.314,94	4.888.979.295,75
Financial expenses	12	(104.582.722,50)	(105.359.075,16)
Profit before tax		985.525.779,15	4.959.698.231,21
Corporate income tax	13	(201.528.036,71)	(406.142.745,51)
Net profit for the operating period		783.997.742,44	4.553.555.485,70
OTHER COMPREHENSIVE INCOME:			
Valuation of available-for-sale financial assets		776.959,84	304.073,35
Actuarial gains and losses		(1.913.083,11)	2.560.003,38
Other comprehensive income for the period, net		(1.136.123,27)	2.864.076,73
TOTAL COMPREHENSIVE INCOME		782.861.619,17	4.556.419.562,43
Earnings per share			
– basic earnings per share for the period		0,42	2,44
– basic earnings from continuing operations		0,42	2,44

* For information regarding comparative figures please refer to note 11 of these financial statements.

SEPARATE STATEMENT OF FINANCIAL POSITION

	Note	As at 31 December 2012	As at 31 December 2011 (restated)*	As at 31 December 2010 (restated)*
Non-current assets				
Property, plant and equipment	15	203.673.154,33	216.271.685,86	232.309.940,90
Intangible assets	17	6.686.990,35	17.537.679,88	18.449.262,65
Loans and receivables	38	3.627.204.177,93	4.783.678.775,23	612.964.747,62
Shares in subsidiaries	18	23.163.156.093,48	22.587.593.590,04	22.428.510.937,14
Available-for-sale financial assets	38	3.134.415,47	69.963.184,99	38.670.681,47
Total non-current assets		27.003.854.831,56	27.675.044.916,00	23.330.905.569,78
Current assets				
Inventories	19	505.525.187,41	32.466.376,39	30.894.612,86
Income tax receivables		-	-	4.130.551,60
Shares in subsidiaries	18	25.477.082,88	406.201.210,71	402.401.237,74
Short-term financial assets at fair value through profit or loss	38	5.525.764,99	-	-
Trade receivables	38	739.278.574,45	616.658.375,74	867.578.886,50
Other loans and financial assets	38	1.086.546.480,04	3.331.624.387,97	4.770.064.959,36
Available-for-sale short-term financial assets	38	36.717.211,14	39.067.211,14	1.724.482.916,13
Other current assets	20	34.350.658,38	94.672.215,85	660.934.034,35
Cash and cash equivalents	21	953.281.711,18	1.020.822.894,68	257.955.448,68
Total current assets		3.386.702.670,47	5.541.512.672,48	8.718.442.647,22
TOTAL ASSETS		30.390.557.502,03	33.216.557.588,48	32.049.348.217,00

* For information regarding comparative figures please refer to note 11 of these financial statements.

SEPARATE STATEMENT OF FINANCIAL POSITION

	Note	As at 31 December 2012	As at 31 December 2011 (restated)*	As at 31 December 2010 (restated)*
Equity				
Share capital	23	18.697.608.290,00	18.697.837.270,00	18.697.837.270,00
Revaluation reserve		-	(776.959,84)	(1.081.033,19)
Treasury shares	23	-	(228.980,00)	(228.980,00)
Reserve capital	23	9.687.595.759,72	8.553.142.587,71	6.727.589.161,87
Other capital reserves	23	49.779.301,47	49.779.301,47	49.779.301,47
Retained earnings	23	861.550.573,04	4.635.391.119,99	3.120.609.283,60
Total equity		29.296.533.924,23	31.935.144.339,33	28.594.505.003,75
Long-term liabilities				
Long-term provisions	29	22.201.544,00	18.784.020,00	21.410.634,89
Deferred tax liability	27	66.241.647,18	31.454.687,52	8.648.447,54
Total long-term liabilities		88.443.191,18	50.238.707,52	30.059.082,43
Short-term liabilities				
Trade liabilities	38	478.992.036,52	423.572.941,06	973.071.576,01
Short-term financial liabilities at fair value through profit or loss	38	148.385,56	-	-
Interest-bearing loans, borrowings, bonds and lease	38	142.784.887,31	-	2.011.131.664,61
Other short-term financial liabilities	38	4.047.626,77	4.480.627,10	25.040.486,57
Other short-term non-financial liabilities	31	46.656.874,71	45.016.801,33	36.123.238,22
Income tax liabilities		69.614.882,00	318.174.214,00	-
Deferred income and government grants	32	36.171.908,63	286.614,01	4.787.872,02
Short-term provisions	29	227.163.785,12	439.643.344,13	374.629.293,39
Total short-term liabilities		1.005.580.386,62	1.231.174.541,63	3.424.784.130,82
Total liabilities		1.094.023.577,80	1.281.413.249,15	3.454.843.213,25
TOTAL LIABILITIES AND EQUITY		30.390.557.502,03	33.216.557.588,48	32.049.348.217,00

* For information regarding comparative figures please refer to note 11 of these financial statements.

**PGE Polska Grupa Energetyczna S.A.**

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

("Translation of the document originally issued in Polish")

SEPARATE STATEMENT OF CHANGES IN EQUITY

for the period ended 31 December 2012

	Share capital	Revaluation reserve	Treasury shares	Reserve capital	Other capital reserves	Retained earnings	Total
As at 1 January 2012 (restated)*	18.697.837.270,00	(776.959,84)	(228.980,00)	8.553.142.587,71	49.779.301,47	4.635.391.119,99	31.935.144.339,33
Profit for the period	-	-	-	-	-	783.997.742,44	783.997.742,44
Other comprehensive income	-	776.959,84	-	-	-	(1.913.083,11)	(1.136.123,27)
Total comprehensive income for the period	-	776.959,84	-	-	-	782.084.659,33	782.861.619,17
Retained earnings distribution	-	-	-	1.134.453.172,01	-	(1.134.453.172,01)	-
Dividend	-	-	-	-	-	(3.421.472.034,27)	(3.421.472.034,27)
Redemption of Treasury shares	(228.980,00)	-	228.980,00	-	-	-	-
As at 31 December 2012	18.697.608.290,00	-	-	9.687.595.759,72	49.779.301,47	861.550.573,04	29.296.533.924,23

* For information regarding comparative figures please refer to note 11 of these financial statements.

Applied accounting principles (policies) and explanatory notes are an integral part of the financial statements

SEPARATE STATEMENT OF CHANGES IN EQUITY

for the period ended 31 December 2011

	Share capital	Revaluation reserve	Treasury shares	Reserve capital	Other capital reserves	Retained earnings	Total
As at 1 January 2011 (restated)*	18.697.837.270,00	(1.081.033,19)	(228.980,00)	6.727.589.161,87	49.779.301,47	3.120.609.283,60	28.594.505.003,75
Profit for the period	-	-	-	-	-	4.553.555.485,70	4.553.555.485,70
Other comprehensive income	-	304.073,35	-	-	-	2.560.003,38	2.864.076,73
Total comprehensive income for the period	-	304.073,35	-	-	-	4.556.115.489,08	4.556.419.562,43
Retained earnings distribution	-	-	-	1.825.553.425,84	-	(1.825.553.425,84)	-
Dividend	-	-	-	-	-	(1.215.780.226,85)	(1.215.780.226,85)
As at 31 December 2011 (restated)*	18.697.837.270,00	(776.959,84)	(228.980,00)	8.553.142.587,71	49.779.301,47	4.635.391.119,99	31.935.144.339,33

* For information regarding comparative figures please refer to note 11 of these financial statements.

SEPARATE STATEMENT OF CASH FLOWS

	Period ended 31 December 2012	Period ended 31 December 2011 (restated)*
Cash flow from operating activities		
Profit before tax	985.525.779,15	4.959.698.231,21
Adjustments for:		
Depreciation and amortization	19.271.740,40	23.419.023,92
Interest and dividend, net	(339.826.047,45)	(3.088.050.974,49)
Profit/ loss on investment activities	(20.125.507,27)	(1.633.628.436,50)
Change in receivables	(154.716.796,50)	254.237.832,87
Change in inventories	(473.058.811,02)	(1.571.763,53)
Change in liabilities, excluding loans and bank credits	55.129.059,40	(538.158.844,15)
Change in prepayments and other non-financial assets	75.045.151,72	22.061.220,49
Change in provisions	(211.423.866,01)	65.547.933,85
Income tax paid	(437.089.602,00)	(61.703.560,40)
Other	89.490.537,13	(52.788.928,19)
Net cash from operating activities	(411.778.362,45)	(50.938.264,92)
Cash flow from investing activities		
Disposal of property, plant and equipment and intangible assets	382.451,22	6.877.952,95
Purchase of property, plant and equipment and intangible assets	(5.767.383,38)	(10.700.008,13)
Disposal of financial assets	15.282.248.272,70	12.181.350.862,17
Purchase of financial assets	(12.235.572.829,86)	(11.683.200.799,68)
Dividends received	3.485.128,63	3.386.853.915,23
Interest received	344.772.710,38	242.224.829,34
Loans repaid	202.098.995,93	774.218,85
Loans granted	(3.000.000,00)	(4.000.000,00)
Other	42.674.063,95	-
Net cash from investing activities	3.631.321.409,57	4.120.180.970,73
Cash flow from financing activities		
Proceeds from the issue of shares	-	-
Proceeds from loans, bank credits and issue of bonds	142.784.887,31	5.053.001.300,00
Repayment of loans, bank credits, bonds and finance lease	-	(7.081.450.154,58)
Dividends paid	(3.421.662.317,07)	(1.217.687.893,56)
Interest paid	(75.797,49)	(63.285.672,09)
Other	(5.798.850,60)	-
Net cash flow from financing activities	(3.284.752.077,85)	(3.309.422.420,23)
Net change of cash and cash equivalents	(65.209.030,73)	759.820.285,58
Effect of foreign exchange rate changes	(632.797,00)	1.261.907,00
Cash and cash equivalents at the beginning of the period	1.018.203.537,85	258.383.252,27
Cash and cash equivalents at the end of period, including	952.994.507,12	1.018.203.537,85

* For information regarding comparative figures please refer to note 11 of these financial statements.

APPLIED ACCOUNTING PRINCIPLES (POLICY) AND EXPLANATORY NOTES

1. General information

PGE Polska Grupa Energetyczna S.A. ("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. Company is seated in Warsaw.

Company PGE S.A. is the Parent Company of PGE Capital Group ("PGE CG", "PGE Group") and prepares consolidated financial statements in accordance with International Financial Reporting Standards ("IFRS"). Pursuant to Art. 45 item 1b of the Accounting Act dated 29 September 1994, General Shareholders' Meeting dated 3 August 2010 decided to prepare the separate financial statements in accordance with IFRS.

Core operations of the Company comprise:

- activities of central and holding companies, excluding financial holdings,
- activities of financial holdings,
- guidance over effectiveness management,
- rendering of other services related to the above mentioned activities,
- sale of electricity.

Business activities are conducted under appropriate concessions.

These separate financial statements ("separate financial statement", "financial statement") have been prepared for the period ended 31 December 2012 and include comparative figures for the period ended 31 December 2011.

2. The composition of the Management Board

As at 1 January 2012 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.

In the period from 1 January 2012 until the date of preparation of these financial statements following changes in composition of the Management Board took place:

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

As at the balance sheet date and the day of preparation of 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 Smoleń – the Vice-President of the Management Board,
- Mr. Piotr Szymanek – the Vice-President of the Management Board.

3. Approval of financial statements

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

4. Going concern

These financial statements were prepared under the assumption that the Company will continue to operate as a going concern for the foreseeable future. As at the date of the approval of these financial statements, there is no evidence indicating that the Company will not be able to continue its business activities as a going concern.

5. Presentation currency

The presentation currency of the financial statements is Polish zloty („PLN”).

6. Statement of compliance with International Financial Reporting Standards

These financial statements was prepared in accordance with International Financial Reporting Standards approved by the European Union („EU”).

International Financial Reporting Standards comprise standards and interpretations, approved by the International Accounting Standards Board („IASB”) and International Financial Reporting Interpretation Committee („IFRIC”).

7. Significant values based on professional judgment and estimates

In the process of applying accounting rules with regards to the below issues, the most significant, apart from accounting estimates, was the professional judgment of the management, which influenced the values presented in the 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. Estimated economic useful life of assets is subject to verification at least once a year.

Recoverable amount of shares in subsidiaries

The electric energy market, which is the basic field of business activities of the Company, 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 there are impairment indicators specified in IAS 36 *Impairment of Assets*, the Company estimates the recoverable amount of an item of shares owned.

The Company's impairment analysis of cash generating units is based on a number of significant assumptions, some of which are outside the control of the Company. 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 Company.

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 former employees of the Company, medical benefits) were estimated on the basis of actuarial methods.

Other provisions and contingent liabilities

In accordance with IAS 37 on recognition and measurement of provisions and contingent liabilities, the Company estimates the probability of occurrence of potential liabilities. If the occurrence of unfavorable future event is probable, the Company recognizes a provision in the appropriate amount. If the occurrence of unfavorable future event is estimated by the Company 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 could make the above assumption inappropriate.

Recognition of financial instruments

Non-derivative financial instruments with defined payment dates or determinable maturity they are classified as held-to-maturity assets applying the classification of IAS 39. For making this, the intention and possibility of holding these assets to maturity are evaluated.

Impairment allowance on receivables

As at the balance sheet date the Company assess whether there is an objective proof for 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 allowance to the amount of the present value of planned cash flows.

8. Change of estimates

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

- Change of adopted actuarial assumption. The influence of change in estimates on the value of provisions and statement of comprehensive income is presented in detail in note 28 of these financial statements.
- Provisions are liabilities of uncertain timing or amount. During the reporting period the Company changed its estimates regarding the basis and amounts of some provisions. Changes of estimates are presented in note 29 of these financial statements.

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

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

- IFRS 9 *Financial Instruments* (with amendments) – effective for periods starting 1 January 2015.
- Transitional amendments to IFRS 10, IFRS 11 and IFRS 12 – effective for periods starting 1 January 2015.
- Amendments to IFRS 1 *First-time Adoption of International Financial Reporting Standards* (issues related to government loans) – effective for the periods starting 1 January 2013
- Amendments to different IFRS – effective for the periods starting 1 January 2013.
- Amendments to IFRS 10 *Consolidated Financial Statements*, IFRS 12 *Disclosure of interests in other entities* and IAS 27 *Separate financial statements* (issues related to investments in entities) – effective for the periods starting 1 January 2014.

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

- Amendments to IFRS 1 *First-time Adoption of International Financial Reporting Standards* (issues related to hyperinflation and the dates) – effective for the periods starting 1 January 2013.
- Amendments to IFRS 7 *Financial Instruments: Disclosures* – effective for the periods starting 1 January 2013.
- Amendments to IAS 1 *Presentation of Financial Statements* – effective for the periods starting 1 July 2012.
- Amendments to IAS 12 *Income taxes – Deferred Tax: Recovery of Underlying Assets* – effective for the periods starting 1 January 2013.
- Amendments to IAS 32 *Financial Instruments: Presentation* – effective for the periods starting 1 January 2014.
- IFRS 10 *Consolidated Financial Statements* – effective for the periods starting 1 January 2014.
- IFRS 11 *Joint Agreements* – effective for the periods starting 1 January 2014.
- IFRS 12 *Disclosure of Interests in Other Entities* – effective for the periods starting 1 January 2014.
- IFRS 13 *Fair Value Measurement* – effective for the periods starting 1 January 2013.
- Amended IAS 19 *Employee Benefits* – effective for the periods starting 1 January 2013.
- Amended IAS 27 *Separate Financial Statements* – effective for the periods starting 1 January 2014.
- Amended IAS 28 *Investments in Associates and Joint Venture* – effective for the periods starting 1 January 2014.
- IFRIC 20 *Stripping Costs in the Production Phase of a Surface Mine* – effective for the periods starting 1 January 2013.

The Company decided on the early application of the amended IAS 19. The impact of changes in accounting principles is presented in note 11.

The influence of new regulations on future financial statements of the Company

The new IFRS 9 introduces fundamental changes to classifying, presenting and measuring of financial instruments. These changes will possibly have material influence on future financial statements of the Company. At the date of preparation of these financial statements IFRS 9 is not yet approved by the

European Union and as a result its impact on the future financial statements of PGE S.A. is not yet determined.

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

10. Accounting principles applied

The most significant accounting principles applied are presented below.

10.1 Property, plant and equipment

Property, plant and equipment are assets:

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

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 purchase price including all costs directly attributable to the purchase and bringing the asset into use. The cost of an item of property, plant and equipment includes 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 date of acquisition of assets or as at the date of transition into IFRS, assets and all its significant components of different economic useful life are indentified. If costs of entire overhauls, inspections or replacement of main parts are significant, they are also identified as components.

If the initial value of spare parts and service equipment is significant and their economic useful life exceeds one year, they are recognized as separate assets. Other spare parts and service equipment is recognized as inventories and in the Statement of Comprehensive Income as at the date of its usage excluding costs of replacement of parts within overhauls. The level of significance is verified at least at the end of each financial 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 reflects 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 month after completion the inspection/overhaul until the beginning of the next overhaul/inspection.

Spare parts and maintenance equipment classified as property, plant and equipment are depreciated over the remaining economic useful life of the related item (i.e. from the purchase date of the part 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	Applied total depreciation periods in years
Buildings and structures	24	2-52
Machinery and equipment	>2	1-39
Vehicles	<1	1-10
Other	>3	1-15

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 the test performed indicates an impairment of the assets, 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 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.

10.2 Investment property

The Company 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 recognized at acquisition price or cost of manufacturing including transaction costs. 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. 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 are recognized in profit or loss in the period of the derecognition.

Transfers to investment property are 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.

10.3 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.

As at the date of initial recognition of an intangible asset, it is measured initially at acquisition or production cost with respect to development costs. 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 Company assesses whether the useful life of intangible assets is definite or indefinite. If the useful life is definite, the Company estimates the length of the 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 Company 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;
- 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	Applied amortization period in years
Acquired patents and licenses	<1	1-13
Costs of finished developed works	0	5
Other	3	2-10

10.4 Research and development costs

All intangible assets internally generated by the Company 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 Company can demonstrate all of the following:

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

10.5 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 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.

10.6 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).

Held to maturity investments

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

Financial assets at fair value through profit or loss

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

- It is classified as held-for-sale. A financial asset is classified as held-for-sale if it:
 - 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,
 - 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.

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.

Available-for-sale financial assets

All other financial assets are accounted 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 are recognized in profit or loss on the date that the Company's right to receive payment is established.

When a decline in the fair value of an available-for-sale financial asset has been recognized in other comprehensive income and there is objective evidence that the asset is impaired, the cumulative loss that had been recognized in other comprehensive income shall be transferred to profit or loss even though the financial asset has not been derecognized. The amount of the cumulative loss that is removed from revaluation reserve and recognized in profit or loss shall be the difference between 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.

Shares owned by the Company for which it is not possible to reliably determine the fair value are valued at cost. If there is any indication of impairment of these assets, the impairment loss is calculated as the difference between the carrying amount of financial assets and the present value of estimated future cash flows discounted using a current market return rate for similar financial assets.

Shares and stocks in wholly or partially owned subsidiaries, jointly controlled entities and associates

Subsidiaries are those companies whose financial and operational policies the Company can control in order to gain advantage of their operations. This involves holding the majority of total votes in decision-making bodies of these organizations. To determine whether the Company has control over the given organization, existence and impact of potential voting rights that can be realized or converted at any time.

A jointly controlled entity is an organization in which the division of control over the business as specified in the agreement requires unanimity of controlling parties with respect to strategic financial and operational decisions.

An associate is a business organization, including a partnership (such as a civil partnership) upon which the investor has significant influence and which is not a wholly or partially owned subsidiary. "Significant influence" is defined in IAS as the power to participate in the financial and operating policy decisions of the investee but is not control over those policies.

The shares and stocks in wholly and partially owned subsidiaries and in associates held by the organization are measured at historical cost of acquisition. If there is objective proof of impairment of these assets, the amount of impairment is measured as the difference between the carrying value of the asset and the estimated fair value.

10.7 Non-current assets held for sale and discontinued operations

Long-lived assets or a disposal group classified as held for sale are measured at the lower of its carrying amount and fair value less costs to sell. Non-current asset or disposal group are classified as held for sale if its carrying amount will be recovered principally through a sale transaction rather than continuing use. The condition is considered to be met, if only the sale is highly probable and the asset or disposal group held for sale is available for immediate sale in its present condition.

Revenues and expenses of discontinued operations are presented separately from revenues and expenses of continuing operations in the statement of comprehensive income for all periods presented, disclosing information to the level of post-tax profit. A single amount of the post-tax profit or loss of discontinued operations is disclosed in the statement of comprehensive income.

Tangible and intangible assets classified as held for sale are not depreciated.

10.8 Impairment of non-financial non-current assets

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

Recoverable amount is defined as the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use. Recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. If the carrying value is higher than the recoverable value, an impairment loss is recorded. When estimating the value in use of an asset, future cash flows are discounted to the present value using a discount rate before tax, which represents current market estimates of time value of money and risk relevant to an asset. Impairment losses applicable to assets used in continuing operations are reflected in costs relating to the function of impaired assets.

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

10.9 Embedded derivatives

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

The Company verifies concluded and binding agreements in order to identify embedded derivatives.

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

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

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

According to IAS 39, the 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 purchase or sale contracts for non-financial items 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 Company assesses at initial recognition whether the embedded derivative is to be a recognized as separate instrument.

10.10 Derivatives and hedging instruments

The Company 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 or a hedge instrument 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.

10.11 Treasury shares

Treasury shares purchased are recognized at cost and decrease equity. Profit or loss on purchase, sale, issue or redemption of shares is not recognized in the statement of comprehensive income. The difference between carrying amount and purchase price is recognized in reserve capital.

10.12 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 purchased. The Company may also recognize in profit or loss other kinds of materials, for which a store is not maintained, if quarterly inventory counts of unused materials and appropriate adjustment of costs is made.

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

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

10.13 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 Company 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.

Receivable allowances are recognized as other operating expenses or financial expenses, depending on the nature of the receivable.

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

10.14 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.

10.15 Other assets and prepayments

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

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

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

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

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

Purchased perpetual usufruct of land is recognized as an operating lease in accordance with IAS 17. The value of perpetual 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.

10.16 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 Articles of Association as registered in the Court Register. Declared, but not contributed, share capital contributions are recognized as outstanding share capital contributions.

10.17 Provisions

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

Provisions are 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:

Provision for 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 the Corporate Collective Labor Agreement (Zakładowy Układ Zbiorowy Pracy) or other legal regulations. These liabilities result from employees' rights acquired during the employment period. The provision raised is recognized as an operating expense in the amount corresponding with accrued future employees' benefits.

Provision for Cash equivalent related to energy tariff for employees in the energy industry

Based on the Inter-Corporate Collective Labor Agreement (Ponadzakładowy Układ Zbiorowy Pracy) amended in 2005, the Company is obliged to pay a so called "energy tariff", to former employees of the energy industry. Due to the above, since December 2005 the Company raises an appropriate provision. The provision is estimated by the actuary. The cost of creating of the provision is charged to operating expenses.

Retirement and pension benefits and jubilee benefits

According to the institutional defined remuneration system the employees of the Company are entitled to receive jubilee, retirement and pension benefits. Jubilee benefits are paid after an employee has worked for a specified period of time. Retirement and pension benefits are paid once when the employee retires or becomes a pensioner. The amount of benefits paid depends on the period of service and the average remuneration of the employee. The Company recognizes a provision for future obligations relevant to retirement and pension benefits and jubilee benefits for the purpose of assigning costs to the periods in which they are incurred. According to IAS 19 jubilee benefits are classified as other long-term employee benefits, whereas the retirement and pension benefits are classified as post-employment benefits. The present value of these obligations is measured by an independent actuary at each balance sheet date. The 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 the statement of comprehensive income.

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

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

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

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

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

10.18 Profit-based payments for employees benefits and special funds

According to Polish industry practice, shareholders may distribute the entity's profit as employee benefits, such as: an allocation to the Social Fund (ZFŚS) or employee profit share. 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.

10.19 Liabilities

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

Trade and other liabilities are stated at the amount due. When the effect of the time value of money is 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 Company's normal operating cycle,
- it is held primarily for the purpose of being traded;
- it is due to be settled within twelve months after the balance sheet date; or
- the entity does not have an unconditional right to defer settlement of the liability for at least twelve months after the balance sheet date.

All other liabilities are classified as non-current.

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

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

If the value of liabilities relating to annual bonuses, "barbórka", miner day as at the date of their initial recognition is certain, the liabilities are classified as employee benefit liabilities. If the value is estimated, it is presented as other provisions.

10.20 The Social Fund

The Company 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 legal title to the Funds' assets, however the Funds are the beneficiaries.

10.21 Deferred income

Deferred income is recognized under the principle of prudence and matching 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
- Property, plant and equipment and intangible assets acquired free of charge. Deferred income is amortized to other operating income settled in line with the depreciation charges on these 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, income is recognized in proportion to depreciation of the asset.
- EUA allocated to the Company free of charge under the National Allocation Plans (NAP). The emission allowances are recognized at fair value as at the date of their initial recognition. During the reporting period EUA are amortized in equal installments to the respective positions of the Statement of comprehensive income.

10.22 Lease

A finance lease is a lease that transfers substantially all the risks and rewards incidental to ownership of an asset. Title may or may not eventually be transferred. At the commencement of the lease term, the lessee 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 substance of the lease agreement. Minimum lease payments shall be 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 as financial expenses in the statement of comprehensive income throughout the lease term in the periods in which they are incurred.

An operating lease is a lease under which the lessor retains significant a 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.

10.23 Taxes

Corporate income tax in the statement of comprehensive income comprises actual fiscal charges for the reporting period calculated by the entity in accordance with regulations of the Corporate Income Tax Act and 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 is 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 Company reduces the carrying amount of a deferred tax asset to the extent that it is no longer probable that sufficient taxable profit will be available to allow the benefit of part or all of the 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 Company recognizes 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 are substantively enacted at the balance sheet date.

10.24 Revenues

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

In addition the Company is responsible for central purchasing of coal for the Group's power units and heat and power units. The margin realized on purchase and resale transactions is fixed in trade contracts and is recognized as revenue from services rendered.

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, margin on sale of coal, certificates of origin of energy from renewable energy sources, certificates of production of energy in high efficiency cogeneration plants, emission rights and rendered services relevant to core business operations based 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.

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 the revenues less revenue recognized in previous reporting periods. Depending on the class of transaction, the stage of completion of the transaction is recognized on the basis of:

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

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

10.25 Expenses

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 production of goods for the Company's own use,
- value of electricity sold and materials at purchase prices,
- impairment losses on property, plant and equipment, intangible assets,

- distribution and selling expenses as well as general and administrative expenses incurred in the reporting period (presented separately in the statement of comprehensive income).

Production costs that can be directly attributable to revenues recognized by the entity are recognized in profit or loss for the reporting period in which the revenues were recognized.

Production costs that can only be indirectly attributed to revenues or other economic benefits recognized by the Company, are recognized profit or loss in proportion they are 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.

10.26 Other operating revenues and expenses

Other operating expenses and revenues include in particular:

- profit or loss on disposal of property, plant and equipment and intangible assets,
- raising and reversing provisions, except from allowances 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.

10.27 Financial revenues and expenses

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

- disposal of financial assets,
- revaluation of financial instruments, except financial assets available for sale, the result of which is reflected in other comprehensive income,
- 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 the AFS portfolio,
- other items related relevant 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.

10.28 Statement of Cash flow

The statement of cash flows is prepared using the indirect method.

10.29 Operating segments

The Company does not recognize segments.

11. Change of data presentation and accounting principles

The Company early adopted revised IAS 19 *Employee Benefits* and changed the presentation of actuarial gains and losses on valuation of post-employment benefits as of 1 January 2012. According to the previous accounting policy of the Company, all actuarial gains and losses were recognized in net profit of the given period. The revised IAS 19 states that actuarial gains and losses for post-employment benefits are recognized as other comprehensive income.

Moreover, in 2012 PGE S.A. changed the principles (accounting policy) concerning valuation of shares and stocks in subsidiaries, jointly controlled entities and associates. Under the previous accounting policy, these assets were presented in the separate financial statements as assets available for sale and carried in accordance with IAS 39; consequently, the Company was unable to reverse the impairment adjustments of these assets. After updating the accounting policy, the Company values these assets according to IAS 27, i.e. at historical cost of acquisition. As a result of a change of policy, PGE S.A. reversed the impairment loss on the values of shares in two subsidiaries: Exatel S.A. and PGE Systemy S.A. Because the impairment triggers of these assets have disappeared in the preceding years, an adjustment has been made as at the beginning of the comparable period.

Therefore, the Company restated the data presented in the comparable statement of financial position, statement of comprehensive income, statement of changes in equity and cash flow statement. This restatement is presented in the following tables. Information presented in other notes to these financial statements has also been restated accordingly.

SEPARATE STATEMENT OF COMPREHENSIVE INCOME

	Period ended 31 December 2011 (approved data)	Change in the actuarial gains presentation	Period ended 31 December 2011 (restated)
Total sales revenue	10.137.893.214,49	-	10.137.893.214,49
Costs of goods sold	(9.784.114.589,81)	(2.724.867,37)	(9.786.839.457,18)
Gross profit on sales	353.778.624,68	(2.724.867,37)	351.053.757,31
Other operating revenues	5.637.326,55	-	5.637.326,55
Distribution and selling expenses	(17.325.321,11)	(4.825,09)	(17.330.146,20)
General and administrative expenses	(122.397.293,54)	(34.087,54)	(122.431.381,08)
Other operating expenses	(40.851.545,96)	-	(40.851.545,96)
Financial revenues	4.889.376.013,75	(396.718,00)	4.888.979.295,75
Financial expenses	(105.359.075,16)	-	(105.359.075,16)
Profit before tax	4.962.858.729,21	(3.160.498,00)	4.959.698.231,21
Corporate income tax	(406.743.240,13)	600.494,62	(406.142.745,51)
Net profit for the operating period	4.556.115.489,08	(2.560.003,38)	4.553.555.485,70
OTHER COMPREHENSIVE INCOME	304.073,35	2.560.003,38	2.864.076,73
TOTAL COMPREHENSIVE INCOME	4.556.419.562,43	-	4.556.419.562,43
Earnings per share	2,44	-	2,44



PGE Polska Grupa Energetyczna S.A.

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

("Translation of the document originally issued in Polish")

SEPARATE STATEMENT OF FINANCIAL POSITION

	As at 31 December 2011 (approved data)	Change in the shares valuation	As at 31 December 2011 (restated)
Non-current assets			
Property, plant and equipment	216.271.685,86	-	216.271.685,86
Intangible assets	17.537.679,88	-	17.537.679,88
Loans and receivables	4.783.678.775,33	-	4.783.678.775,33
Shares in subsidiaries	22.587.091.272,54	502.317,50	22.587.593.590,04
Available-for-sale financial assets	69.963.184,99	-	69.963.184,99
Deferred tax assets	4.326.865,50	(4.326.865,50)	
Total non-current assets	27.678.869.464,00	(3.824.548,00)	27.675.044.916,00
Current assets			
Inventories	32.466.376,39	-	32.466.376,39
Income tax receivables			
Shares in subsidiaries	217.877.247,47	188.323.963,24	406.201.210,71
Short-term financial assets at fair value through profit or loss	-	-	-
Trade receivables	616.658.375,74	-	616.658.375,74
Other loans and financial assets	3.331.624.387,97	-	3.331.624.387,97
Available-for-sale short-term financial assets	39.067.211,14	-	39.067.211,14
Other current assets	94.672.215,85	-	94.672.215,85
Cash and cash equivalents	1.020.822.894,68	-	1.020.822.894,68
Total current assets	5.353.188.709,24	188.323.963,24	5.541.512.672,48
TOTAL ASSETS	33.032.058.173,24	184.499.415,24	33.216.557.588,48



PGE Polska Grupa Energetyczna S.A.

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

("Translation of the document originally issued in Polish")

	As at 31 December 2011 (approved data)	Change in the shares valuation	As at 31 December 2011 (restated)
Equity			
Share capital	18.697.837.270,00	-	18.697.837.270,00
Revaluation reserve	(776.959,84)	-	(776.959,84)
Treasury shares	(228.980,00)	-	(228.980,00)
Reserve capital	8.553.142.587,71	-	8.553.142.587,71
Other capital reserves	49.779.301,47	-	49.779.301,47
Retained earnings	4.482.346.392,27	153.044.727,72	4.635.391.119,99
Total equity	31.782.099.611,61	153.044.727,72	31.935.144.339,33
Long-term liabilities			
Other liabilities	-	-	-
Provisions	18.784.020,00	-	18.784.020,00
Deferred tax liability	-	31.454.687,52	31.454.687,52
Total long-term liabilities	18.784.020,00	31.454.687,52	50.238.707,52
Total short-term liabilities	1.231.174.541,63	-	1.231.174.541,63
Total liabilities	1.249.958.561,63	31.454.687,52	1.281.413.249,15
TOTAL LIABILITIES AND EQUITY	33.032.058.173,24	184.499.415,24	33.216.557.588,48

SEPARATE STATEMENT OF CASH FLOWS

	Period ended 31 December 2011 (approved data)	Change in the actuarial gains presentation	Period ended 31 December 2011 (restated)
Cash flow from operating activities			
Profit before tax	4.962.858.729,21	(3.160.498,00)	4.959.698.231,21
Adjustments for:			
Depreciation and amortization	23.419.023,92	-	23.419.023,92
Interest and dividend, net	(3.088.050.974,49)	-	(3.088.050.974,49)
Profit/ loss on investment activities	(1.633.628.436,50)	-	(1.633.628.436,50)
Change in receivables	254.237.832,87	-	254.237.832,87
Change in inventories	(1.571.763,53)		(1.571.763,53)
Change in liabilities, excluding loans and bank credits	(538.158.844,15)	-	(538.158.844,15)
Change in prepayments and other non-financial assets	22.061.220,49	-	22.061.220,49
Change in provisions	62.387.435,85	3.160.498,00	65.547.933,85
Income tax paid	(61.703.560,40)	-	(61.703.560,40)
Other	(52.788.928,19)	-	(52.788.928,19)
Net cash from operating activities	(50.938.264,92)	-	(50.938.264,92)
Cash flow from investing activities			
Net cash from investing activities	4.120.180.970,73	-	4.120.180.970,73
Cash flow from financing activities			
Net cash flow from financing activities	(3.309.422.420,23)	-	(3.309.422.420,23)
Net change of cash and cash equivalents	759.820.285,58	-	759.820.285,58
Cash and cash equivalents at the beginning of the period	258.383.252,27	-	258.383.252,27
Cash and cash equivalents at the end of period	1.018.203.537,85	-	1.018.203.537,85

12. Revenues and expenses

12.1 Sales revenues

	Period ended 31 December 2012	Period ended 31 December 2011
Sales revenues		
Revenues from sale of finished goods and merchandise	10.129.170.836,48	9.889.873.778,14
Revenues from sale of services	466.630.008,16	239.571.736,71
Revenues from leases	8.460.268,07	8.447.699,64
Total sales revenues	10.604.261.112,71	10.137.893.214,49

12.2 Costs by type and functions

	Period ended 31 December 2012	Period ended 31 December 2011 (restated)
Cost by type		
Depreciation/amortization	19.271.740,40	23.415.270,76
Materials and energy	4.163.132,44	3.520.769,69
External services	46.974.276,22	56.246.323,16
Taxes and charges	9.306.260,44	9.492.447,68
Personnel expenses	70.087.702,65	65.484.204,06
Other costs by type	78.091.237,15	64.422.406,52
Total costs by type	227.894.349,30	222.581.421,87
Distribution and selling expenses	(12.413.214,04)	(17.330.146,20)
General and administrative expenses	(133.489.819,36)	(122.431.381,08)
Cost of merchandise and materials sold	10.003.588.640,79	9.704.019.562,59
Cost of goods sold	10.085.579.956,69	9.786.839.457,18

12.3 Depreciation costs and impairment losses in the Statement of comprehensive income

	Period ended 31 December 2012	Period ended 31 December 2011
Included in cost of goods sold:	9.197.750,02	10.485.219,45
Property, plant and equipment depreciation	7.461.484,88	8.027.159,43
Intangible assets amortization	1.736.265,14	2.458.060,02
Included in distribution and selling expenses:	688.025,38	1.993.060,58
Property, plant and equipment depreciation	543.908,74	1.424.474,45
Intangible assets amortization	144.116,64	568.586,13
Included in general and administrative expenses:	9.385.965,00	10.936.990,73
Property, plant and equipment depreciation	7.796.385,03	8.454.295,08
Intangible assets amortization	1.589.579,97	2.482.695,65

12.4 Employee benefits expenses

	Period ended 31 December 2012	Period ended 31 December 2011
Payroll	50.087.812,68	51.546.305,16
Social security expenses	7.442.412,13	6.023.688,62
Retirement and pensions costs	2.495.326,58	2.527.033,06
Jubilee awards and allowances	985.387,50	655.551,00
Other employee benefits	9.076.763,76	4.731.626,22
Total employee benefits expenses:	70.087.702,65	65.484.204,06
Included in costs of goods sold	17.770.327,37	15.980.502,74
Included in distribution and selling expenses	3.494.980,95	6.148.085,43
Included in general and administrative expenses	48.822.394,33	43.335.615,89

12.5 Other operating revenues

	Period ended 31 December 2012	Period ended 31 December 2011
Profit on disposal of property, plant and equipment	110.186,17	3.813.350,72
Reversal of impairment allowance for receivables	5.409.215,61	50.809,54
Provisions reversed	174.956.809,73	700.288,58
Compensations, penalties and fines received and accrued	1.469.000,58	3.006,84
Grants received	2.465.393,92	918.365,87
Taxes refunded	224.674,47	54.986,19
Court fees refunded	31.538,53	17.806,00
Surpluses / disclosures of assets	-	410,00
Other	135.278,35	78.302,81
Total other operating revenues	184.802.097,36	5.637.326,55

Revenues from provision reversed relate mainly to dispute with Alpiq Holding described in note 30.4.

12.6 Other operating expenses

	Period ended 31 December 2012	Period ended 31 December 2011
Impairment allowance raised for receivables	1.519.670,22	622.470,69
Provisions raised	-	39.483.985,59
Compensations paid	650,00	2.093,20
Donations granted	1.000.000,00	112.115,62
Court fees paid	106.881,00	29.064,55
Forgiveness of receivables	-	78.345,64
Scrapping of non-current assets	14.816,66	454.212,89
Other	15,39	69.257,78
Total other operating expenses	2.642.033,27	40.851.545,96

12.7 Financial revenues

	Period ended 31 December 2012	Period ended 31 December 2011
Financial revenue from financial instruments	497.200.382,59	4.888.001.133,43
Dividends	437.356,00	2.847.154.575,23
Interest income	467.824.629,22	361.642.291,36
Reversal of impairment allowance	5.526.707,60	12.783,54
Profit on disposal of investments	23.411.689,77	1.630.269.385,12
Exchange gains	-	48.922.098,18
Other financial revenue	37.969.932,35	978.162,32
Discount rate adjustment	-	43.506,00
Provisions reversed	37.953.952,53	74.870,00
Interest on statutory receivables	12.902,53	148,51
Other	3.077,29	859.637,81
Total financial revenues	535.170.314,94	4.888.979.295,75

Financial revenues recorded by the Company in the current year are mainly a result of received interest on bonds issued by subsidiaries and interest resulted from investing cash.

Profit on disposal of investments gained in 2012 relates mainly to the sale of minority interest in Towarowa Gielda Energii S.A. and in 2011 the sale of shares in Polkomtel S.A.

12.8 Financial expenses

	Period ended 31 December 2012	Period ended 31 December 2011
Financial expenses from financial instruments	102.925.091,86	80.722.681,73
Interest expenses	6.246.396,80	80.721.739,12
Impairment allowance	528.221,00	-
Impairment losses	64.780.897,71	942,61
Exchange losses	31.369.576,35	-
Other financial expenses	1.657.630,64	24.636.393,43
Interest expenses, including the effect of discount unwinding	1.171.089,00	18.673.838,07
Provisions raised	-	5.322.536,66
Interest paid relating to statutory liabilities	61,00	28.596,00
Other	486.480,64	611.422,70
Total financial expenses	104.582.722,50	105.359.075,16

Impairment of investment recognized in 2012 relates mainly to impairment of shares of AWSA Holland II BV. This matter was explained in note 38.4.3 of these financial statements.

13. Income tax

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

	Period ended 31 December 2012	Period ended 31 December 2011
Statement of comprehensive income		
<i>Current income tax</i>	166.474.579,00	384.008.326,00
Current income tax expense	170.342.721,00	391.949.763,00
Previous periods' current income tax adjustments	(3.868.142,00)	(7.941.437,00)
 <i>Deferred income tax</i>		
Related to temporary differences originated and reversed	35.053.457,71	22.134.419,51
 Income tax expense presented in the statement of comprehensive income	201.528.036,71	406.142.745,51
 Statement of financial position		
 <i>Deferred income tax</i>		
Deferred income tax on unrealized profit / (loss) on financial assets available for sale	182.249,84	71.325,85
Tax on provisions for post-employment benefits	(448.747,89)	600.494,62
 Tax loss/gain recognized in equity	(266.498,05)	671.820,47

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 years ended 31 December 2012 and 31 December 2011 is as follows:

	Period ended 31 December 2012	Period ended 31 December 2011
Profit before tax	985.525.779,15	4.959.698.231,21
Income tax according to Polish statutory tax rate of 19%	187.249.898,00	942.342.664,00
Previous periods current income tax adjustments	(3.868.142,00)	(7.941.437,00)
Costs not recognized as tax-deductible costs	16.388.667,73	13.206.690,77
Non-taxable provisions and impairment allowance raised	12.655.371,36	11.666.210,85
Other	3.733.296,37	1.540.479,92
Non-taxable income	(40.126.823,88)	(541.469.911,98)
Dividends	(83.097,64)	(540.959.369,29)
Reversal of non-taxable provisions and impairment allowance	(38.980.358,72)	(15.436,86)
Other	(1.063.367,52)	(495.105,83)
Other	41.884.436,86	4.740,34
Tax at effective tax rate amounting to 20,4% [2011: 8,2%]	201.528.036,71	406.142.745,51
Income tax (expense) as presented in statement of comprehensive income	201.528.036,71	406.142.745,51

The effective tax rate of 8,2% in 2011 results mainly from non-taxable dividend income received.

14. Discontinued operations

During the year ended 31 December 2012 the Company did not discontinue any significant operations.

15. Property, plant and equipment

Period ended 31 December 2012	Land	Buildings and construction	Machinery and equipment	Vehicles	Other property, plant and equipment	Construction in progress	Total
Gross book value							
Opening balance	-	242.700.035,46	65.709.255,46	2.753.946,21	4.907.609,16	3.325.683,81	319.396.530,10
Direct purchase	-	-	-	-	-	4.081.222,88	4.081.222,88
Transfer from construction in progress	-	991.372,21	917.431,66	-	1.056.699,84	(2.965.503,71)	-
Sales/ disposals	-	(764.700,00)	(10.251.160,13)	(242.667,00)	(130.652,76)	-	(11.389.179,89)
Scrapping	-	-	(1.025.148,62)	-	(86.219,29)	-	(1.111.367,91)
Closing balance	-	242.926.707,67	55.350.378,37	2.511.279,21	5.747.436,95	4.441.402,98	310.977.205,18
Depreciation and impairment allowance							
Opening balance	-	46.463.699,91	51.430.207,27	2.011.375,13	3.219.561,93	-	103.124.844,24
Depreciation for the period	-	7.891.641,01	6.673.310,22	672.980,44	563.846,98	-	15.801.778,65
Sales/ disposals	-	(386.612,06)	(9.895.029,65)	(195.314,32)	(48.870,84)	-	(10.525.826,87)
Scrapping	-	-	(1.023.811,98)	-	(72.933,19)	-	(1.096.745,17)
Closing balance	-	53.968.728,86	47.184.675,86	2.489.041,25	3.661.604,88	-	107.304.050,85
Opening balance net book value	-	196.236.335,55	14.279.048,19	742.571,08	1.688.047,23	3.325.683,81	216.271.685,86
Closing balance net book value	-	188.957.978,81	8.165.702,51	22.237,96	2.085.832,07	4.441.402,98	203.673.154,33



PGE Polska Grupa Energetyczna S.A.
*Separate financial statements for the year ended 31 December 2012 prepared in accordance
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Period ended 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	-	243.325.414,94	69.876.273,25	2.331.219,56	4.557.307,70	5.248.680,10	325.338.895,55
Direct purchase	-	-	-	-	92.000,00	5.347.391,54	5.439.391,54
Transfer from construction in progress	-	3.699.453,38	2.017.501,33	1.074.021,51	479.411,61	(7.270.387,83)	-
Sales/ disposals	-	(3.713.600,00)	(77.076,81)	(651.294,86)	(4.200,00)	-	(4.446.171,67)
Donations and transfers free of charge	-	-	-	-	(80.179,00)	-	(80.179,00)
Scrapping	-	(611.232,86)	(6.107.442,31)	-	(136.731,15)	-	(6.855.406,32)
Closing balance	-	242.700.035,46	65.709.255,46	2.753.946,21	4.907.609,16	3.325.683,81	319.396.530,10
Depreciation and impairment allowance							
Opening balance	-	39.730.050,04	48.597.553,70	1.731.308,73	2.970.042,18	-	93.028.954,65
Depreciation for the period	-	7.911.130,70	8.658.453,01	884.015,60	455.957,70	-	17.909.557,01
Sales/ disposals	-	(676.117,38)	(48.114,86)	(603.949,20)	(4.200,00)	-	(1.332.381,44)
Transfers between groups	-	-	-	-	-	-	-
Donations and transfers free of charge	-	-	-	-	(72.742,55)	-	(72.742,55)
Scrapping	-	(501.363,45)	(5.777.684,58)	-	(129.495,40)	-	(6.408.543,43)
Closing balance	-	46.463.699,91	51.430.207,27	2.011.375,13	3.219.561,93	-	103.124.844,24
Opening balance net book value	-	203.595.364,90	21.278.719,55	599.910,83	1.587.265,52	5.248.680,10	232.309.940,90
Closing balance net book value	-	196.236.335,55	14.279.048,19	742.571,08	1.688.047,23	3.325.683,81	216.271.685,86

During the period ended 31 December 2012 Company did not include expenses related to external financing in the value of property, plant and equipment and construction in progress.

16. Investment property

As at 31 December 2012 Company did not recognize any investment property.

17. Intangible assets

Period ended 31 December 2012	Development costs	Licenses and patents		Other intangible assets	Non-commissioned intangible assets	Total
		Total	Including computer software			
<u>Gross book value</u>						
Opening balance	786.194,46	53.604.258,74	53.604.258,74	194.961,64	4.715.585,37	59.301.000,21
Direct purchase	-	-	-	-	607.087,55	607.087,55
Transfer of non-commissioned intangible assets	-	1.614.576,64	1.614.576,64	26.920,00	(1.641.496,64)	-
Sales/ disposals	-	(24.386.989,39)	(24.386.989,39)	-	-	(24.386.989,39)
Closing balance	786.194,46	30.831.845,99	30.831.845,99	221.881,64	3.681.176,28	35.521.098,37
<u>Amortization and impairment allowance</u>						
Opening balance	786.194,46	40.808.324,25	40.808.324,25	168.801,62	-	41.763.320,33
Amortization for the period	-	3.450.765,05	3.450.765,05	19.196,70	-	3.469.961,75
Sales/ disposals	-	(16.399.765,43)	(16.399.765,43)	-	-	(16.399.765,43)
Scrapping	-	-	-	-	-	-
Other changes of values	-	-	-	-	591,37	591,37
Closing balance	786.194,46	27.859.323,87	27.859.323,87	187.998,32	591,37	28.834.108,02
<u>Net book value</u>						
Opening balance	-	12.795.934,49	12.795.934,49	26.160,02	4.715.585,37	17.537.679,88
Closing balance	-	2.972.522,12	2.972.522,12	33.883,32	3.680.584,91	6.686.990,35

Period ended 31 December 2011	Development costs	Licenses and patents		Other intangible assets	Non- commissioned intangible assets	Total
		Total	Including computer software			
<u>Gross book value</u>						
Opening balance	786.194,46	47.535.766,16	47.535.766,16	181.961,64	6.325.148,81	54.829.071,07
Direct purchase	-	-	-	-	4.597.884,14	4.597.884,14
Transfer of non-commissioned intangible assets	-	6.194.447,58	6.194.447,58	13.000,00	(6.207.447,58)	-
Sales/ disposals	-	-	-	-	-	-
Scrapping	-	(125.955,00)	(125.955,00)	-	-	(125.955,00)
Other changes of values	-					
Closing balance	-	-	-	-	-	-
	786.194,46	53.604.258,74	53.604.258,74	194.961,64	4.715.585,37	59.301.000,21
<u>Amortization and impairment allowance</u>						
Opening balance						
Amortization for the period	707.575,01	35.511.471,79	35.511.471,79	160.761,62	-	36.379.808,42
	78.619,45	5.422.807,46	5.422.807,46	8.040,00	-	5.509.466,91
Sales/ disposals	-	-	-	-	-	-
Scrapping	-	(125.955,00)	(125.955,00)	-	-	(125.955,00)
Other changes of values	-	-	-	-	-	-
Closing balance	786.194,46	40.808.324,25	40.808.324,25	168.801,62	-	41.763.320,33
<u>Net book value</u>						
Opening balance	78.619,45	12.024.294,37	12.024.294,37	21.200,02	6.325.148,81	18.449.262,65
Closing balance	-	12.795.934,49	12.795.934,49	26.160,02	4.715.585,37	17.537.679,88

18. Shares in subsidiaries owned directly and indirectly

As at 31 December 2012	Seat	% of share capital	Long-term	Short-term
Shares in subsidiaries				
PGE Górnictwo i Energetyka Konwencjonalna S.A.	Bełchatów	91,2	14.482.982.343,18	-
PGE Obrót S.A.	Rzeszów	99,55	6.653.224.478,70	-
PGE Dystrybucja S.A.	Lublin	10,075	949.757.237,40	-
PGE Energia Odnawialna S.A.	Warszawa	100,00	323.615.881,38	-
PGE Energia Jądrowa S.A.	Warszawa	100,00	113.500.000,00	-
PGE EJ 1 Sp. z o.o.	Warszawa	49,00	54.390.000,00	-
PGE Gubin Sp. z o.o.	Sękowice	100,00	-	25.452.000,00
PGE Dom Maklerski S.A.	Warszawa	100,00	16.501.170,00	-
PGE Trading GmbH	Niemcy	100,00	13.989.818,59	-
PGE Systemy S.A.	Warszawa	100,00	125.002.317,50	-
Electra Bohemia s.r.o in liquidation	Czechy	100,00	1.597.734,75	-
PGE Inwest Sp. z o.o.	Warszawa	100,00	1.050.000,00	-
Exatel S.A.	Warszawa	99,94	427.535.111,98	-
PGE Inwest Sp. z o.o. II S.K.A. in liquidation	Warszawa	100,00	-	25.082,88
Fundacja PGE Energia z serca	Warszawa	100,00	10.000,00	-
Total			23.163.156.093,48	25.477.082,88

The following significant changes occurred in the structure of stock and shares in subsidiaries during the year ended 31 December 2012:

- On 12 March 2012, the District Court for Łódź-Śródmieście in Łódź, XX Commercial Department of the National Court Register, issued a decision to register the merger of PGE Górnictwo i Energetyka Konwencjonalna S.A. with PGE Elektrownia Opole S.A.
- On 1 February 2012, a new company - PGE Dom Maklerski S.A. was established. The sole shareholder of that company is PGE Polska Grupa Energetyczna S.A. On 19 April 2012, the company was registered in the National Court Register
- On 6 July 2012, liquidation process of Bohemia s.r.o. with its registered seat in the Czech Republic was initiated.
- The liquidation process of PGE Serwis Sp. z o.o. ended in 2012. The company was removed from the companies register.

Short-term shares in subsidiaries represent shares, which disposal or redemption is planned until the end 2013.

PGE Inwest Sp. z o.o. II S.K.A., which was put in liquidation in 2011, has not been liquidated until the date of these financial statements.

PGE Gubin Sp. z o.o., presented in the short-term assets, is scheduled for disposal in 2013. At the moment, works are pending on the transaction of sale of shares to PGE Górnictwo i Energetyka Konwencjonalna S.A.

19. Inventories

	Historical cost	Impairment allowance	Net realizable value	Historical cost	Impairment allowance	Net realizable value
	31 December 2012			31 December 2011		
Materials	-	-	-	-	-	-
Semi-products and work in progress	-	-	-	-	-	-
Energy origin rights	76.365.871,12	-	76.365.871,12	29.343.600,16	-	29.343.600,16
CO ₂ emission rights	429.714.803,19	(555.486,90)	429.159.316,29	3.742.856,34	(620.080,11)	3.122.776,23
Total	506.080.674,31	(555.486,90)	505.525.187,41	33.086.456,50	(620.080,11)	32.466.376,39

Renewable energy origin rights and CO₂ emission rights are presented in inventories are held for merchandise purposes.

As at 31 December 2012 the Company held 352.848.442 certificates of origin registered by Towarowa Gielda Energii S.A., with book value at 31 December 2012 of PLN 76.366 thousand. As at the balance sheet date the Company also held 15.889.362 tones of CO₂ emission rights. As at 31 December 2012 their carrying value less impairment allowance amounted to PLN 429.159 thousand. These assets are mostly held to sale to subsidiaries.

Impairment allowance for inventories as at 1 January 2012	(620.080,11)
Impairment allowances raised	-
Impairment allowances reversed	64.593,21
Other	-
Impairment allowance for inventories as at 31 December 2012	(555.486,90)

The impairment allowance of PLN 555 thousand was raised to adjust the value of CO₂ emission rights to its market value for inventories for which no binding sales contracts were concluded as at the balance sheet date.

20. Other short-term and long-term asset

Other long-term assets

As at following balance sheet dates: 31 December 2012, 31 December 2011 the Company did not recognize any other long-term assets.

Other short-term assets

	As at 31 December 2012	As at 31 December 2011
Deferred expenses		
Tax on civil law transactions	-	75.299.138,00
Property and tort insurance	823.217,88	1.087.324,76
IT services	102.264,03	885.059,77
Other costs deferred	5.393.939,58	11.778.827,17
Other short-term assets		
Advances for deliveries	3.303.340,89	654.647,92
Dividends receivable	-	4.967.218,23
Other short-term assets	24.727.896,00	-
Total other short-term assets	34.350.658,38	94.672.215,85

The item of "other short-term assets" mainly includes corporate income tax receivables from subsidiary from PGK PGE tax group.

On 7 November 2011, the Head of the First Tax Office of Mazowieckie Voivodship in Warsaw, acting upon request of PGE Polska Grupa Energetyczna S.A., issued a decision to register an agreement to form the PGK PGE tax group of 26 September 2011 between PGE Polska Grupa Energetyczna S.A. with its registered seat in Warsaw (a company representing the PGK PGE tax group), PGE Obrót S.A. with its registered seat in Rzeszów, PGE Energia Jądrowa S.A. with its registered seat in Warsaw, and PGE Systemy S.A. with its registered seat in Warsaw. The agreement was concluded for a term of three years, i.e. 2012, 2013 and 2014.

Tax on civil law transactions presented in the above table as at 31 December 2011 related to the acquisition processes in PGE S.A. (described in 41.2 of these financial statements).

21. 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, mostly from one day up to one month, depending on the Company's needs for cash, and are deposited at individually agreed interest rates. Fair value of cash and cash equivalents as at 31 December 2012 amounted to PLN 953.281.711,18 (as at 31 December 2011, amounted to PLN 1.020.822.894,68 PLN).

The balance of cash and cash equivalents comprise following positions:

	As at 31 December 2012	As at 31 December 2011
Cash on hand and cash at bank	312.362.155,70	200.508.638,80
Overnight deposits	340.807.363,70	17.702.708,33
Short-term deposits	300.112.191,78	802.611.547,55
Total	953.281.711,18	1.020.822.894,68
Cash and cash equivalents presented in the statement of cash flows	952.994.507,12	1.018.203.537,85
Credit limits at disposal	657.215.112,69	800.000.000,00

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

Furthermore, the above cash and cash equivalents include cash deposit securing the settlements with Warsaw Commodity Clearing House (for details please refer to Note 38.6. of these financial statements).

22. Assets classified as held for sale

As at 31 December 2012 Company did not report any assets held-for-sale.

23. Share capital and other equity

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

**PGE Polska Grupa Energetyczna S.A.**

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

("Translation of the document originally issued in Polish")

23.1 Share capital

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

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

All shares of the Company are paid up.

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

	State Treasury	Other Shareholders	Total
As at 1 January 2012	69,29%	30,71%	100,00%
As at 31 December 2012	61,89%	38,11%	100,00%

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

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

23.2 Rights of the shareholders**Rights of the State Treasury**

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

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

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

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

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

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

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

Right regarding the Company's operations

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

- liquidation of the Company,
- changes of the use or discontinuance of exploitation of the company's asset, which is a component of critical infrastructure,
- change in the scope of activities of the Company,
- sale or lease of the enterprise or its organized part or establishment of legal restrictions,
- approval of operational and financial plan, investment plan, or long-term strategic plan,
- movement of the Company's seat abroad,

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

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

23.3 Redemption of treasury shares

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

23.4 Other capital reserves

The other capital reserves were created from distribution of the profit of PGE Electra S.A. for 2009 as a result of the merger of PGE S.A. with PGE Electra S.A.

Other capital reserves are to be distributed in full amount as at 31 December 2012.

23.5 Reserve capital

Reserve Capital results from statutory allocation of profits generated in previous reporting periods, as well as from surplus of profit distribution in excess of the value of statutory allocations

Reserve capital subject to distribution amounted to 3.455.059.663,06 PLN as at 31 December 2012.

23.6 Retained earnings and limitations of payment of dividend

Retained earnings include amounts that are subject to distribution restrictions i.e. that cannot be paid as a dividend.

	31 December 2012	31 December 2011
Amounts included in retained earnings that cannot be distributed:		
Retained earnings due to change in accounting policies (including adoption of IFRS)	77.552.830,60	79.275.630,91
Profit / (loss) recognized as retained earnings in positions of other comprehensive income	79.465.913,71	79.275.630,91
Other retained earnings not subject to distribution	(1.913.083,11)	2.560.003,38
Retained earnings subject to distribution	-	(2.560.003,38)
Total retained earnings presented in the financial statements	783.997.742,44	4.556.115.489,08
	861.550.573,04	4.635.391.119,99

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

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

24. Earnings per share

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

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

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

	Period ended 31 December 2012	Period ended 31 December 2011
Net profit on continuing operations	783.997.742,44	4.553.555.485,70
Net profit	783.997.742,44	4.553.555.485,70
Net profit attributable to ordinary equity holders of the Company used to calculate earnings per share	783.997.742,44	4.553.555.485,70
Number of ordinary shares at the beginning of the reporting period	1.869.760.829	1.869.760.829
Number of ordinary shares at the end of the reporting period	1.869.760.829	1.869.760.829
Average weighted number of ordinary shares issued used to calculate basic earnings per share	1.869.760.829	1.869.760.829

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

25. Dividends paid and dividends declared

	Dividend paid or declared from the profit for the year ended		
	31 December 2012	31 December 2011	31 December 2010
<i>Cash dividends from ordinary Shares</i>			
Dividend paid from retained earnings	-	3.421.662.317,07	1.215.344.538,85
Dividend paid from other reserve capital	-	-	-
Total cash dividends from ordinary shares	-	3.421.662.317,07	1.215.344.538,85
Cash dividends per share (in PLN)	-	1,83	0,65

Dividend from the profit for 2011

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

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

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

Dividend from the profit for period ended 31 December 2012

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

The Management Board of the Company recommends a dividend payment, representing 50% of the net profit attributable to shareholders of parent company, reported in the consolidated financial statements for the year ended 31 December 2012, amounted to PLN 1.670.994 thousand (PLN 0,86 per share). Dividend payment will consist of net profit recognized in separate financial statements and corresponding part of reserve capital.

26. Lease

26.1 Operating lease receivables and liabilities

As at 31 December 2012 and 31 December 2011 Company did not report any receivables and liabilities due to operating lease.

Company incurs annual fees related to a perpetual usufruct of land. These costs amounted to 1.042 thousand PLN for the year ended 31 December 2012.

26.2 Receivables and liabilities from finance lease and lease agreement with purchase option

As at 31 December 2012 and 31 December 2011 the Company did not report any receivables and liabilities due to finance lease and lease agreement with purchase option.

27. Deferred tax asset and liability

Components of deferred tax asset	As at 31 December 2012	As at 31 December 2011 (restated)
Difference between tax value and carrying amount of property, plant and equipment	-	-
Current period costs not realized for tax purpose	179.667,78	183.906,18
Provisions for employee benefits	4.585.353,41	4.003.176,69
Accruals for employee bonuses	2.968.309,58	2.502.879,88
Difference between tax value and carrying amount of financial assets	-	43.001.605,55
Difference between tax value and carrying amount of financial liabilities	28.193,26	-
Difference between tax value and carrying amount of inventories	105.542,51	117.815,22
Payroll and other employee benefits	-	-
Other provisions	616.570,42	2.595.669,23
Other	237.767,37	732.542,05
Net deferred tax asset	8.721.404,33	53.137.594,80

During the reporting period the Company changed its plans regarding the sale of Exatel S.A. As at 31 December 2012 shares in Exatel are presented as long term assets. With regards to above mentioned, the Company reversed deferred tax asset in amount of 40.798 thousand PLN representing difference between tax and carrying amount of the shares.

Components of deferred tax liability	As at 31 December 2012	As at 31 December 2011
Difference between tax value and carrying amount of property, plant and equipment	26.306.918,78	28.218.066,35
Accrued interest on deposits, loans granted, bonds and receivables	47.606.237,38	55.684.389,51
Difference between tax value and carrying amount of financial assets	-	611.166,46
Difference between tax value and carrying amount of financial liabilities	1.049.895,35	-
Current period revenues unrealized for tax purposes	-	-
Other	-	78.659,99
Deferred tax liability	74.963.051,51	84.592.282,31
After off-set of balances the Company's deferred tax is presented as a deferred tax liability	66.241.647,18	31.454.687,51

28. Employment benefits

Retirement and pension allowances

The Company pays retirement or pension awards in the amount specified in the Corporate Collective Labor Agreement when an employee retires or becomes a pensioner. The Company raised a provision for these awards based on a valuation made by an actuary.

Energy tariff

Based on the Inter-Corporate Collective Labor Agreement, amended in 2005, an obligation to pay benefits, the so called "energy tariff", to former employees of the electric power industry and other entitled persons is imposed on entities in which the entitled persons were employed. As a result, from 2006 the Company raises a provision. The amount of the provision is measured by an independent actuary. The provision is raised as an operating expense.

Social Fund and medical benefits

The Company allocates funds to the Social Fund for retirees and pensioners. The Company also provides medical benefits for retirees and pensioners. Provisions are raised to cover such costs and these are measured using actuarial methods.

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

Period ended 31 December 2012

	Retirement, pension and other benefits provisions	Energy tariff	Social Fund	Medical benefits	Total
As at 1 January 2012	1.382.524,00	9.759.077,00	3.775.730,00	2.740.759,00	17.658.090,00
Current service costs	86.585,00	115.434,00	97.939,00	64.964,00	364.922,00
Actuarial gains and losses excluding discount rate adjustment	(174.279,00)	(359.329,00)	(182.619,00)	(35.223,00)	(751.450,00)
Benefits paid	(201.992,00)	(645.456,00)	(205.642,00)	(206.635,00)	(1.259.725,00)
Discount rate adjustments	117.668,00	1.791.373,00	725.205,00	479.035,00	3.113.281,00
Interest costs	76.177,00	559.149,00	214.008,00	146.846,00	996.180,00
Other changes	-	230.271,00	-	-	230.271,00
As at 31 December 2012	1.286.683,00	11.450.519,00	4.424.621,00	3.189.746,00	20.351.569,00
Short-term	152.862,00	669.607,00	248.044,00	213.736,00	1.284.249,00
Long-term	1.133.821,00	10.780.912,00	4.176.577,00	2.976.010,00	19.067.320,00

Period ended 31 December 2011

	Retirement, pension and other benefits provisions	Energy tariff	Social Fund	Medical benefits	Total
As at 1 January 2011	1.407.035,62	10.163.503,91	5.897.673,41	2.834.803,08	20.303.016,02
Current service costs	88.005,38	127.017,74	310.137,82	732.255,92	1.257.416,86
Actuarial gains and losses excluding discount rate adjustment	(131.582,00)	39.833,99	(2.259.822,00)	(60.518,00)	(2.412.088,01)
Benefits paid	(43.000,00)	(980.209,64)	(402.661,23)	(858.616,00)	(2.284.486,87)
Discount rate adjustments	(16.560,00)	(229.127,00)	(91.426,00)	(59.605,00)	(396.718,00)
Interest costs	78.625,00	562.047,00	321.828,00	152.439,00	1.114.939,00
Other changes	-	76.011,00	-	-	76.011,00
As at 31 December 2011	1.382.524,00	9.759.077,00	3.775.730,00	2.740.759,00	17.658.090,00
Short-term	341.974,00	651.825,00	262.090,00	224.223,00	1.480.112,00
Long-term	1.040.550,00	9.107.252,00	3.513.640,00	2.516.536,00	16.177.978,00

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

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

Based on information obtained from an actuary, the Company assesses that the influence of changes in assumptions on the value of provisions for retirement and pension benefits, social fund, medical benefits and jubilee awards (note 28) would be as follows:

- should the discount rate be higher by 1 percentage point (p.p.), the respective provisions would decrease by ca 8,8% and should the discount rate be lower by 1 p.p. the respective provisions would increase by ca 10,6%,
- should the grow rates be higher by 1 p.p., the respective provisions would increase by ca. 11,4% and should the rates be lower by 1 p.p., relevant provisions would decrease by ca. 9,6%.



PGE Polska Grupa Energetyczna S.A.

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

("Translation of the document originally issued in Polish")

29. Provisions

Period ended 31 December 2012

	Post-employment benefits	Provisions for jubilee awards	Provisions for third-party claims	Provisions for employee claims, including provisions for bonuses	Provisions for certificates of origin held for redemption	Other	Total
As at 1 January 2012	17.658.090,00	3.411.261,00	410.799.321,16	10.519.510,55	224.502,23	15.814.679,19	458.427.364,13
Current service costs	364.922,00	266.658,00	-	-	-	-	631.580,00
Actuarial gains and losses excluding discount rate adjustment	(751.450,00)	572.797,00	-	-	-	-	(178.653,00)
Benefits paid	(1.259.725,00)	(1.005.390,00)	-	-	-	-	(2.265.115,00)
Revaluation of provision/ discount rate adjustments	3.113.281,00	361.635,00	-	-	-	-	3.474.916,00
Interest costs	996.180,00	174.909,00	-	-	-	-	1.171.089,00
Raised during the year	-	-	-	21.449.354,00	206.409,74	2.248.552,92	23.904.316,66
Reversed	-	-	(204.641.630,23)	-	(224.502,23)	(13.161.137,72)	(218.027.270,18)
Used	-	-	-	(16.346.182,57)	-	(1.656.986,92)	(18.003.169,49)
Other changes	230.271,00	-	-	-	-	-	230.271,00
As at 31 December 2012	20.351.569,00	3.781.870,00	206.157.690,93	15.622.681,98	206.409,74	3.245.107,47	249.365.329,12
Short-term	1.284.249,00	647.646,00	206.157.690,93	15.622.681,98	206.409,74	3.245.107,47	227.163.785,12
Long-term	19.067.320,00	3.134.224,00	-	-	-	-	22.201.544,00

Applied accounting principles (policies) and explanatory notes are an integral part of the financial statements



PGE Polska Grupa Energetyczna S.A.

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

("Translation of the document originally issued in Polish")

Period ended 31 December 2011

	Post- employment benefits	Provisions for jubilee awards	Provisions for third-party claims	Provisions for employee claims, including provisions for bonuses	Provisions for certificates of origin held for redemption	Other	Total
As at 1 January 2011	20.303.016,02	3.458.301,97	350.054.049,26	8.066.450,41	-	14.158.110,62	396.039.928,28
Current service costs	1.257.416,86	927.412,03	-	-	-	-	2.184.828,89
Actuarial gains and losses excluding discount rate adjustment	(2.412.088,01)	(473.079,00)	-	-	-	-	(2.885.167,01)
Benefits paid	(2.284.486,87)	(655.551,00)	-	-	-	-	(2.940.037,87)
Revaluation of provision/ discount rate adjustments	(396.718,00)	(43.506,00)	-	-	-	-	(440.224,00)
Interest costs	1.114.939,00	197.683,00	17.361.216,07	-	-	-	18.673.838,07
Raised during the year	-	-	43.384.055,83	19.273.217,66	224.502,23	3.357.290,45	66.239.066,17
Reversed	-	-	-	(1.579.513,90)	-	(1.269.441,10)	(2.848.955,00)
Used	-	-	-	(15.240.643,62)	-	(431.280,78)	(15.671.924,40)
Other changes	76.011,00	-	-	-	-	-	76.011,00
As at 31 December 2011	17.658.090,00	3.411.261,00	410.799.321,16	10.519.510,55	224.502,23	15.814.679,19	458.427.364,13
Short-term	1.480.112,00	805.219,00	410.799.321,16	10.519.510,55	224.502,23	15.814.679,19	439.643.344,13
Long-term	16.177.978,00	2.606.042,00	-	-	-	-	18.784.020,00

Applied accounting principles (policies) and explanatory notes are an integral part of the financial statements

Description of significant provisions

29.1 Provisions for post employment and jubilee awards

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

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

29.2 Provisions for third-party claim

Provision for dispute related to the contract with ATEL (presently Alpiq Holding AG)

The Company revised the provision for the contractual claim from ATEL (presently Alpiq Holding AG). As at 31 December 2012 the provision amounted to EUR 48,3 million including interest due. The provision including interest calculated using the average rates of exchange of the National Bank of Poland amounted to PLN 197.550 thousand. The dispute is described in note 30 of these financial statements.

Provision for claims relating to damage resulted from the failure of the CSTE system

The Company raised a provision for claims from contractors relating to damage resulted from the failure of the CSTE (Central System of Trading Electricity), which is provided to PGE Group companies. As at 31 December 2012 the provision amounted to PLN 2.467 thousand.

29.3 Provisions for employee claims

The Company raised provisions for remuneration including annual and quarterly bonuses for employees and others employed under civil law contracts for management, to which rights were obtained before the end of 2012. Bonus entitlements result from remuneration regulations and contracts of employment.

29.4 Provision for energy origin units held for redemption

The Company creates provision for the amount of certificates of energy origin related to sales in the current or previous periods, in amount of certificates not redeemed till the balance sheet date. In accordance with applicable regulations it is necessary to create a provision, which results from the obligation to redeem the certificates of energy origin and specific replacement fee for them. In accordance with the decisions of ERO (Energy Regulatory Office) dated 30 March 2012, the certificates of energy origin for 2011 in the amount of PLN 218 thousand were redeemed, thus the provision created in 2011 was reversed. In 2012, the company created a provision relating to redemption of the certificates of energy origin in the amount of PLN 163 thousand.

29.5 Other provisions

Provisions for unused annual holiday leave

The provision for unused holiday is raised in the amount of the future remuneration associated with unused annual holiday leave, to which employees has acquired the right in the past year and in previous years.

30. Contingent liabilities and receivables. Legal claims.

30.1 Contingent liabilities

	As at 31 December 2012	As at 31 December 2011
Contingent liabilities		
Collaterals for repayment of bank guarantees granted	22.469.260,00	16.616.680,00
Other contingent liabilities	869.484,54	-
Total contingent liabilities	23.338.744,54	16.616.680,00

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

Surety for the obligations of PGE Trading Deutschland

PGE Polska Grupa Energetyczna S.A. provided a surety for repayment of bank guarantees for the obligations of PGE Trading GmbH to foreign third parties. The liability of the Company is limited to a total amount of PLN 22,469 thousand. The guarantees expire in 2013 – 2015.

30.2 Other issues related to contingent liabilities

Promise referring to ensure financing of new investments in Group companies

Due to planned strategic investments in PGE Group, the Company committed in the form of promise to group companies, to ensure financing of planned investments. The promises relate to specific investments and may be used only for such purposes. As at 31 December 2012 the estimated value of the promise amounts to PLN 15 billion.

Employee claims

There are claims against the Company filed by former employees, who demand re-employment or compensation. In principle, the compensation amounts up to the value of a year remuneration. Taking into consideration the nature of disputes, it is considered that the amount of claims is immaterial for the Company.

30.3 Contingent receivables and other contingent assets

Except for the issue described below regarding excise tax, the Company has no material contingent receivables as at 31 December 2012.

Excise tax reimbursement

During 2009, the Company filed a motion related to an excess payment of excise tax on imports and Intra-Community purchase of electric energy during the period from January 2006 to February 2009. The Company argues that the excess payment results from discrepancies between the Polish and Community law. The excise tax matter is discussed in detail in note 40.1 of these financial statements. The total claim amounts to PLN 54 million plus interest.

30.4 Legal claims

PGE – ATEL (presently Alpiq Holding AG) dispute

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

On 12 September 2012 the Tribunal issued a decision on the matter, by which PGE is obliged to pay the Alpiq the amount of EUR 43.204 thousand, plus accrued interest.

In previous periods, based on available information, to the best of its knowledge, PGE S.A. made a reasonable estimation of claims which could be probably considered justified by the Arbitration Tribunal. As at 31 August 2012, the Company had a provision for the claim thus estimated, in the amount exceeding EUR 94 million (including the principal amount of EUR 79 million). After the date of issue and delivery of the decision of the Arbitration Tribunal, the Company reversed the surplus of previously created provision. At the balance sheet date, the Company recognized under the caption of provisions the above mentioned amount determined by the Arbitration Tribunal, including remuneration of legal advisors.

Currently, the Parties deliberate how to fulfill the decision of the Court.

Claim against other party to a contract

In 2012, Unizeto Technologies S.A. brought a lawsuit against the Company for a claim in the amount of PLN 869 thousand concerning execution of a contract for development and implementation of an access control and entry/exit registration system at the Company's head office. The Company believes that the contract has not been performed and the works were not accepted.

31. Other non-financial liabilities

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

	As at 31 December 2012	As at 31 December 2011
Liabilities for dividends	215.066,02	215.066,02
Excise tax	7.262,00	-
VAT tax	41.140.367,36	42.727.984,17
Liabilities for social insurances	882.603,56	808.448,45
Personal income tax	1.197.205,40	1.083.284,40
Payroll	7.939,16	2.769,46
Other	3.206.431,21	179.248,83
Total	46.656.874,71	45.016.801,33

The "other" item comprise mostly of the liability resulting from the settlement within the tax group and liability due to the Social Fund and to the State Fund for Rehabilitation of Persons with Disabilities.

32. Deferred income and government grants

Government grants	As at 31 December 2012	As at 31 December 2011
Redemption of loans from environmental funds	-	-
Other government grants	775.303,48	286.614,01
Total deferred income, including:	775.303,48	286.614,01
Long-term	-	-
Short-term	775.303,48	286.614,01

Other deferred income	As at 31 December 2012	As at 31 December 2011
Lease income	-	-
Other deferred income	35.396.605,15	-
Total deferred income, including:	35.396.605,15	-
Long-term	-	-
Short-term	35.396.605,15	-

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

The government grants presented in these financial statements refer to the value of grants not settled as at 31 December 2012, co-financed with the European Social Fund (ESF). The grant relates to training and consultancy project for PGE Group employees. The primary goal of the project is to support PGE Group consolidation processes through development of key personnel competencies in the area of finance, management, negotiation and customer service. Topics of project training courses are divided into three topical groups in the field of management, finance, negotiations and customer service. The scope of the project covers PGE Group employees.

33. Investment commitments

As at reporting date, the Company did not commit to incur significant capital expenditures on property, plant and equipment and intangible assets. The Company is the Parent Company of PGE Capital Group and is involved in investment projects mainly through the organization of financing for subsidiaries.

34. Information on related parties

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

The State Treasury is the dominant shareholder of the PGE Group and as a result in accordance with IAS 24 *Related Party Disclosures*, State Treasury companies are recognized as related entities. Company identifies in detail transactions with the most important State Treasury related companies. The total value of transactions with such entities is presented in the table below in the item "other related parties".

34.1 Transactions with related parties

Period ended 31 December 2012	Subsidiaries	Other related parties within PGE Group	Other related parties	Third parties	Total
STATEMENT OF COMPREHENSIVE INCOME					
Revenues from sales	9.460.471.462,41	40.775,79	457.847.331,36	685.901.543,15	10.604.261.112,71
Other operating revenues	439.962,29	-	-	184.362.135,07	184.802.097,36
Financial revenues	278.631.771,41	437.356,00	43.250,45	256.057.937,08	535.170.314,94
Operating expenses	1.341.923.558,59	-	1.842.917.812,11	7.046.641.619,39	10.231.482.990,09
Other operating expenses	16.961,78	1.000.000,00	110.043,87	1.515.057,62	2.642.033,27
Financial expenses	(311.914,14)	-	389.458,54	104.505.178,10	104.582.722,50

Period ended 31 December 2011	Subsidiaries	Other related parties within PGE Group	Other related parties	Third parties	Total
STATEMENT OF COMPREHENSIVE INCOME					
Revenues from sales	9.502.193.685,37	103.972,26	136.771.951,25	498.823.605,61	10.137.893.214,49
Other operating revenues	1,02	-	3.813.607,00	1.823.718,53	5.637.326,55
Financial revenues	2.912.694.061,99	224.070.824,60	212.200,69	1.752.002.208,47	4.888.979.295,75
Operating expenses	1.287.688.122,11	389.680,22	239.178.237,39	8.399.344.944,74	9.926.600.984,46
Other operating expenses	2.540.747,58	-	-	38.310.798,38	40.851.545,96
Financial expenses	48.722.449,63	-	1.228.891,63	55.407.733,90	105.359.075,16

34.2 Balances with related parties

Assets – as at 31 December 2012	Subsidiaries	Other related parties within PGE Group	Other related parties	Third parties	Total
Loans and receivables, including:	5.025.908.561,43	1.302,94	32.228.317,78	394.891.050,27	5.453.029.232,42
Bonds purchased	4.338.265.234,46	-	-	321.341.190,43	4.659.606.424,89
Trade receivables	677.092.443,29	1.302,94	32.228.317,78	29.956.510,44	739.278.574,45
Other loans and financial receivables	10.550.883,68	-	-	43.593.349,40	54.144.233,08
Shares in subsidiaries	23.188.633.176,36	-	-	-	23.188.633.176,36
Available-for-sale financial assets	-	39.851.526,61	-	100,00	39.851.626,61
Shares in entities not quoted on active markets	-	39.851.526,61	-	100,00	39.851.626,61
Other financial assets	-	-	-	-	-
Financial assets at fair value	-	-	-	5.525.764,99	5.525.764,99

Assets – as at 31 December 2011	Subsidiaries	Other related parties within PGE Group	Other related parties	Third parties	Total
Loans and receivables, including:	6.085.631.152,22	3.905,96	5.556.075,76	2.640.770.405,00	8.731.961.538,94
Bonds purchased	5.487.994.019,50	-	-	313.738.966,73	5.801.732.986,23
Trade receivables	587.554.362,54	3.905,96	5.556.075,76	23.544.031,48	616.658.375,74
Other loans and financial receivables	10.082.770,18	-	-	2.303.487.406,79	2.313.570.176,97
Shares in subsidiaries	22.993.794.800,75	-	-	-	22.993.794.800,75
Available-for-sale financial assets	-	39.851.526,61	-	69.178.869,52	109.030.396,13
Shares in entities not quoted on active markets	-	39.851.526,61	-	66.850.100,00	106.701.626,61
Other financial assets	-	-	-	2.328.769,52	2.328.769,52
Lease receivables	-	-	-	-	-



PGE Polska Grupa Energetyczna S.A.

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

("Translation of the document originally issued in Polish")

Liabilities – as at 31 December 2012	Subsidiaries	Other related parties within PGE Group	Other related parties	Third parties	Total
Financial liabilities at fair value through profit and loss available-for-sale	-	-	-	148.385,56	148.385,56
Financial liabilities at amortized cost:	89.716.145,46	379.396,46	167.502.708,14	368.226.300,54	625.824.550,60
Bonds issued	-	-	-	-	-
Interest bearing credit and loans	-	-	-	142.784.887,31	142.784.887,31
Trade liabilities	89.354.628,96	4.296,77	167.502.708,14	222.130.402,65	478.992.036,52
Other financial liabilities at amortized cost	361.516,50	375.099,69	-	3.311.010,58	4.047.626,77

Liabilities – as at 31 December 2011	Subsidiaries	Other related parties within PGE Group	Other related parties	Third parties	Total
Financial liabilities at fair value through profit and loss available-for-sale	-	-	-	-	-
Financial liabilities at amortized cost:	79.603.556,65	-	171.726.796,59	176.723.214,92	428.053.568,16
Bonds issued	-	-	-	-	-
Interest bearing credit and loans	-	-	-	-	-
Trade liabilities	78.613.488,22	-	171.726.796,59	173.232.656,25	423.572.941,06
Other financial liabilities at amortized cost	990.068,43	-	-	3.490.558,67	4.480.627,10

34.3 Key management personnel remuneration

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

	Period ended 31 December 2012	Period ended 31 December 2011
Short-term employee benefits (salaries and salary related costs)	7.539.064,30	2.557.891,14
Jubilee and retirement benefits	-	-
Post-employment benefits	1.258.949,33	477.438,54
Termination benefits	-	-
Total remuneration paid to key management	8.798.013,63	3.035.329,68

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

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

35. Employment structure

There were 391,63 and 372,12 employees (full time equivalent) employed by the Company as at 31 December 2012 and 31 December 2011, respectively. The employment structure includes 7 and 27 posts on the basis of civil law contracts for management as at 31 December 2012 and 31 December 2011, respectively.

36. Social Fund and other employee funds

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

The Company off-set the Fund's assets and liabilities as the Fund's assets do not represent assets of the Company.

As at 31 December 2012 assets assigned to the Social Fund and other employee funds amounted to PLN 3.713 thousand and as at 31 December 2010, PLN 4.495 thousand.

37. Joint ventures

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

Issues of a letter of intent on exploration and extraction of shale gas is presented in Note 41.1 of the financial statements.

38. Financial instruments

38.1 Carrying amount and fair value of categories and classes of financial instruments

Categories and classes of financial assets:	31 December 2012			31 December 2011		
	Long-term	Short-term	Total	Long-term	Short-term	Total
1. Loans and receivables, including:						
(i) Trade receivables	-	739.278.574,45	739.278.574,45	-	616.658.375,74	616.658.375,74
(ii) Deposits and investments	-	-	-	-	2.101.026.575,34	2.101.026.575,34
(iii) Other financial loans and receivables	3.627.204.177,93	1.086.546.480,04	4.713.750.657,97	4.783.678.775,23	1.230.597.812,63	6.014.276.587,86
▪ Bonds, bill and notes receivables	3.627.204.177,93	1.032.402.246,96	4.659.606.424,89	4.778.714.024,29	1.023.018.961,94	5.801.732.986,23
▪ Originated loans	-	-	-	4.964.750,94	194.109.527,33	199.074.278,27
▪ Other financial receivables		54.144.233,08	54.144.233,08	-	13.469.323,36	13.469.323,36
Total loans and receivables:	3.627.204.177,93	1.825.825.054,49	5.453.029.232,42	4.783.678.775,23	3.948.282.763,71	8.731.961.538,94
2. Shares in subsidiaries	23.163.156.093,48	25.477.082,88	23.188.633.176,36	22.587.593.590,04	406.201.210,71	22.993.794.800,75
3. Available-for-sale financial assets, including:						
(i) Shares in entities not quoted on active markets	3.134.415,47	36.717.211,14	39.851.626,61	67.634.415,47	39.067.211,14	106.701.626,61
(ii) Shares quoted on active markets	-	-	-	2.328.769,52	-	2.328.769,52
Total available-for-sale financial assets:	3.134.415,47	36.717.211,14	39.851.626,61	69.963.184,99	39.067.211,14	109.030.396,13
4. Financial assets at fair value through profit or loss						
(i) Derivatives	-	5.525.764,99	5.525.764,99	-	-	-
Total financial assets at fair value through profit or loss	-	5.525.764,99	5.525.764,99	-	-	-
5. Cash and Cash equivalents	-	953.281.711,18	953.281.711,17	-	1.020.822.894,68	1.020.822.894,68

Excluding shares in related parties, the carrying amount of financial assets represents a reasonable estimate of their fair value. As described in note 38.3.3. due to the lack of comparable transactions the Company is not able to reliably determine fair value of shares in subsidiaries.



PGE Polska Grupa Energetyczna S.A.
*Separate financial statements for the year ended 31 December 2012 prepared in accordance
with IFRS (all amounts in PLN)*
("Translation of the document originally issued in Polish")

Categories and classes of financial liabilities:	31 December 2012			31 December 2011		
	Long-term	Short-term	Total	Long-term	Short-term	Total
1. Financial liabilities at fair value through profit and loss held for trading	-	-	-	-	-	-
(i) Derivatives	-	148.385,56	148.385,56	-	-	-
Financial liabilities at fair value through profit and loss held for trading	-	148.385,56	148.385,56	-	-	-
2. Financial liabilities at amortized cost:						
(i) Interest bearing loans and credits	-	142.784.887,31	142.784.887,31	-	-	-
(ii) Bonds issued	-	-	-	-	-	-
(iii) Trade liabilities	-	478.992.036,52	478.992.036,52	-	423.572.941,06	423.572.941,06
(v) Other financial liabilities at amortized cost	-	4.047.626,77	4.047.626,77	-	4.480.627,10	4.480.627,10
Total financial liabilities at amortized cost:	-	625.824.550,60	625.824.550,60	-	428.053.568,16	428.053.568,16

The carrying amount of financial liabilities represents a reasonable estimate of their fair value.



PGE Polska Grupa Energetyczna S.A.
*Separate financial statements for the year ended 31 December 2012 prepared in accordance
with IFRS (all amounts in PLN)*
("Translation of the document originally issued in Polish")

38.2 Statement of comprehensive income

	Assets and liabilities at fair value through profit and loss and cash	Shares in subsidiaries	Available-for- sale financial assets	Financial liabilities at fair value through profit and loss	Loans and receivables	Financial liabilities at amortized cost	Total financial instruments by class
Year ended 31 December 2012							
Dividends	-	-	437.356,00	-	-	-	437.356,00
Gains / (losses) from interest	124.057.869,45	-	-	-	343.429.638,68	(5.909.275,71)	461.578.232,42
Exchange Gains / (losses)	(11.296.042,12)	-	-	-	(22.141.987,56)	2.068.453,33	(31.369.576,35)
Reversal of impairment allowance / increase of value	5.525.764,99	-	-	-	942,61	-	5.526.707,60
Creation of impairment allowance / decrease of value	(148.385,56)	(47.314,62)	(64.879.835,44)	-	(233.583,09)	-	(65.309.118,71)
Gains / (losses) on investment disposal	-	514.079,59	22.897.610,18	-	-	-	23.411.689,77
Total profit / (loss)	118.139.206,76	466.764,97	(41.544.869,26)	-	321.055.010,64	(3.840.822,38)	394.275.290,73
Year ended 31 December 2011							
Dividends	-	2.621.546.750,63	225.607.824,60	-	-	-	2.847.154.575,23
Gains / (losses) from interest	40.214.734,36	-	-	-	321.427.557,00	(80.721.739,12)	280.920.552,24
Exchange Gains / (losses)	12.472.730,46	-	-	-	41.555.963,30	(5.106.595,58)	48.922.098,18
Reversal of impairment allowance / increase of value	-	-	-	-	12.783,54	-	12.783,54
Creation of impairment allowance / decrease of value	-	-	-	-	(942,61)	-	(942,61)
Gains / (losses) on investment disposal	-	-	1.630.269.385,12	-	-	-	1.630.269.385,12
Total profit / (loss)	52.687.464,82	2.621.546.750,63	1.855.877.209,72	-	362.995.361,23	(85.828.334,70)	4.807.278.451,70

During the period ended 31 December 2012, the amount of PLN 777 thousand related to revaluation of available-for-sale financial assets was recognized in other comprehensive income.

38.3 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.

38.3.1 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 price of these financial instruments, published on the Internet page of the Warsaw Stock Exchange S.A. as at the balance sheet date.

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

Fair value of instruments not quoted on active markets is measured by the Company 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 for measurement commonly used in the market, suitable for the particular nature and characteristics of a measured financial instrument and the situation of the issuer (drawer).

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

Fair value of derivative transactions of an IRS type is based on the yield curve of future interest rates. Interest rates 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 information service.

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

The primary 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 less impairment losses.

As at the balance sheet date the Company does not plan to dispose of any of the significant long-term assets. Due to the lack of comparable transactions the Company is not also in possession of any data that would enable a reliable assessment of the possible fair values of the above assets.

38.4 Description of significant items within particular classes of financial instruments

38.4.1 Held-to-maturity investments

As at 31 December 2012 the Company did not report held-to-maturity investments.

38.4.2 Loans and receivables

The most significant items of financial assets recognized as loans and receivables are bonds and trade receivables.

Bonds, notes receivable and bills acquired

Structure of the bonds purchased is presented in the table below:

Issuer	31 December 2012	31 December 2011
PGE Górnictwo i Energetyka Konwencjonalna S.A.	3.436.286.237,49	5.209.448.140,34
PGE Energia Odnawialna S.A.	901.978.996,97	278.545.879,16
Autostrada Wielkopolska S.A.	321.341.190,43	313.738.966,73
Total	4.659.606.424,89	5.801.732.986,23

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

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

Deposits

As at 31 December 2012 the Company has not recognized deposits of maturities over 3 months.

As at 31 December 2011 the Company recognized deposits of maturities over 3 months with a carrying value of PLN 2.101.027 thousand. The maturity date of the deposits was April 2012.

Trade receivables

Trade receivables by class	Receivables balance	% Share
Receivables from retail companies	355.556.675,66	48,10
Receivables from wholesale companies	64.778.171,42	8,75
Receivables from foreign counter parties	30.659.727,99	4,15
Receivables from other counter parties	288.283.999,38	39,00
Total	739.278.574,45	100%

Additionally the analysis of maturity and impairment allowance of selected loans and receivables is presented in note 39.5.7 of these financial statements.

Loans granted and other receivables

The following loans granted by the Company were repaid in the course of 2012:

- prepayment (loan) granted to Vattenfall AB,
- loans granted to Group companies: PGE Systemy S.A. and PGE Inwest Sp. z o.o.

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

Prepayments were settled in course of executing the above mentioned contract, which expired in August 2010. During the reporting period activities were undertaken by the Company with the objective of settling the matter of outstanding prepayments after expiry of the VAB contract.

In August 2012, interested parties signed contracts and agreements to the effect of restructuring SwePol Link AB and repayment of outstanding accounts. The amount of prepayments presented as a loan was repaid in its entirety in Q3 2012

The loans granted to PGE Systemy S.A. were originated in order to finance the ongoing IT projects of the PGE Group, and to PGE Inwest Sp. z o. o. – to finance the purchase of financial assets. Repayment of these loans was made in September and December 2012, respectively.

Other financial receivables mainly represent a deposit paid to the Guarantee Fund of the Warsaw Commodity Clearing House (WCCH) in the amount of PLN 43.429 thousand. In accordance with WCCH regulations the Company is obliged to maintain a deposit of a defined amount.

38.4.3 Available-for-sale financial assets

The most significant item of financial instruments recognized as available-for-sale financial assets are shares in entities quoted and not quoted on active markets. The Company is not able to reliably estimate the fair value of shares in entities that are not quoted on active markets, therefore these shares are carried at cost adjusted by applicable impairment allowances.

The name of the entity	Seat	Value	% Share in the share capital of the entity	Core operations
Associates		39.851.526,61		
Energopomiar Sp. z o. o.	Gliwice	3.134.315,47	22,73	services of research and measurement of power equipment
Swe-Pol Link AB	Sztokholm/Szwecja	36.717.211,14	49,00	transmission of electric energy
Other entities		100,00		
AWSA Holland II	Utrecht/Holandia	0,00	19,99	management of shares in AWSA I
Pracownicze Towarzystwo Emerytalne „Nowy Świat” S.A.	Warszawa	100,00	0,002	management of Employment Pension Programs
Total shares		39.851.626,61		

The following significant changes occurred in the structure of assets available for sale during the year ended 31 December 2012:

- In February 2012 the Company disposed shares of Towarowa Giełda Energii S.A. Gain realized on that transaction amounted to PLN 19.980 thousand. In April 2012 the Company disposed shares of Sygnity S.A.
- During April-May 2012, the Company disposed its shares in Sygnity S.A.
- Impairment was recognized on the shares held in AWSA Holland II in the amount of PLN 64,500k. After the adjustment, the carrying value of these assets is PLN 0.00.

In addition, PGE Polska Grupa Energetyczna S.A. as a 49% shareholder in SwePol Link AB signed contracts to the effect of further restructuring of the Poland-Sweden DC link. At the end of 2010, there were certain changes in EU legislation (implementation of Third Party Access principle), followed by signing of a multilateral agreement - so-called Market Coupling Agreement in December 2010 by PSE Operator S.A., Svenska Kraftnat, SwePol Link AB, SwePol Link Poland, Nordpool and TGE energy exchanges, formally releasing the transmission capacity of the link on the market. On 31 August 2012, link assets were sold and transferred to the Polish and Swedish transmission operators. Further consequence of assets sale will be the liquidation of SwePol Link Poland and SwePol Link AB. Therefore, on 26 October 2012, an Extraordinary General Meeting of Shareholders of SwePol Link AB took place, passing a resolution on liquidation of SwePol Link AB. The carrying value of shares in SwePol Link AB should be considered jointly with the amount of deferred income described in note 32 to these financial statements.

38.4.4 Financial assets and liabilities at fair value through profit and loss

During the reporting period, the Company entered into a number of forward contracts on the currency market. The purpose of these transactions was to secure the Company against exchange rate risk (EUR/PLN), related mainly to the market trade of CO₂ emission rights. As at 31 December, these forward transactions were valued at PLN 5.526 thousand (assets) and PLN 148 thousand (liabilities).

38.4.5 Financial liabilities measured at amortized cost

38.4.5.1 Interest bearing loans and credits

Loans and credits drawn by the Company as at 31 December 2012.

Currency	Reference rate	Carrying value of credit / loan as at reporting date			Contractual maturity:				
		In currency	In PLN	within 1 year	From 1 to 2 years	From 2 to 3 years	From 3 to 4 years	From 4 to 5 years	Above 5 years
PLN	Variable	-	142.784.887,31	142.784.887,31	-	-	-	-	-
	Fixed	-	-	-	-	-	-	-	-
Total loans and credits			142.784.887,31	142.784.887,31	-	-	-	-	-

As at 31 December 2012 the total amount of credits drawn by the Company comprised only of credits in current account.

As at 31 December 2011 the Company had no liabilities due to borrowings and loans.

As at 31 December 2012 the value of available overdraft facilities in current account amounted to PLN 657 million.

During the period covered by these financial statements, or after the reporting date there were no defaults on repayment of principal or interest on credits.

38.4.5.2 Liabilities from bonds issued

As at 31 December 2012 and as at 31 December 2011, the Company had no liabilities in relation to bonds issued, respectively.

During 2012 PGE S.A. was party to 3 bond issue programmes: programme addressed to external investors for the maximum amount of PLN 10 billion, programme addressed to Polish capital markets investors for the maximum amount of PLN 5 billion and a programme addressed to PGE Group companies for the 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 partial underwriting i.e. the underwriters of the Programme have an obligation to purchase bonds issued by the Company under the Programme, as stated in the Commitment Agreement. The primary aggregate obligation of banks amounted to PLN 7,3 billion and as at 4 August 2011 this was decreased to PLN 5,8 billion. As at 31 December 2011 bonds were subject to underwriting amounting to PLN 1,5 billion by following underwriters: Banca Infrastrutture Innovazione e Sviluppo S.p.A., Bank Polska Kasa Opieki S.A., Nordea Bank Polska S.A., Nordea Bank AB, ING Bank N.V., ING Bank Śląski S.A. and Powszechna Kasa Oszczędności Bank Polski S.A. Underwriters of the Programme are obliged to purchase bonds during the period from 15 November 2010 till 31 October 2013.

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

Bonds under the Programme will be denominated in Polish zloty (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 yield of the last bond issue and bonds issued for the purpose of, so called, rollovers of the previous bond issues).

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

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

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

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

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

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

Bonds under the Programme will be denominated in Polish zloty (PLN). The nominal value of one bond will amount to PLN 10,000 or multiples of this amount. Bonds issued may be coupon or zero-coupon bonds based on market interest rates in accordance with *best-effort* rule.

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

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

Bond Issue Programme of PLN 5 billion addressed to PGE Group companies

In May 2009 the Company signed an agency agreement with ING Bank Śląski S.A., for a Bond issuance programme addressed to PGE Group companies. The maximum amount of that programme is PLN 5 billion. Under that programme, PGE S.A. may issue coupon or zero-coupon bonds. In accordance with the Amending Agreement No.1 to the Agency Agreement signed on 24 February 2012, the maturity date of the Programme was changed into an indefinite period of time with the option of contract termination as agreed in the contract.

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

38.4.5.3 Trade liabilities

Trade liabilities	Liabilities balance	% Share
Liabilities for the purchase of coal	134.806.263,74	28,14
Liabilities for the purchase of electric energy	159.997.919,68	33,41
Liabilities for the purchase of certificates of origin of energy	117.551.714,29	24,54
Liabilities for the purchase of CO ₂ emission rights	14.276.470,27	2,98
Liabilities for the purchase of other services	52.359.668,54	10,93
Total	478.992.036,52	100%

38.4.5.4 Other financial liabilities measured at amortized cost

Other financial liabilities measured at amortized cost comprise mainly liabilities due to: purchase of property, plant and equipment, intangible assets and deposits received.

38.5 Compliance with covenants of credit agreements

The Company complies with covenants of credit agreements.

38.6 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 execution statements, bills and agreements of cessions. Additionally, the Group uses power of attorney to bank accounts and cessions of receivables.

As at 31 December 2012 Company's assets are not encumbered as collateral for the repayment of the Company's liabilities and contingent liabilities.

According to the Rules of Izba Rozliczeniowa Giełd Towarowych S.A. (Warsaw Commodity Clearing House (WCCH)) PGE S.A. is obliged to maintain a specified cash balance on its account held with Bank Ochrony Środowiska S.A. and to be a member of the guarantee fund. The cash balance maintained as a security deposit on the above mentioned account as at 31 December 2012 was PLN 96.549 thousand.

In addition, the Company maintains a cash balance at Nordea S.A. bank as a deposit securing payments of liabilities due to purchases of electric energy on poee Rynek Energii Giełdy Papierów Wartościowych w Warszawie (Warsaw Stock Exchange Energy Market (poee WSE Energy Market)) and the Company's open position on the market. As at 31 December 2012 the above mentioned cash balance amounted to PLN 59.644 thousand.

39. Objectives and principles of financial risk management

The Company, due to its business activities, is exposed to the following types of financial risks:

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

The main objective of financial risk management in the Company is to reduce fluctuations of cash flows and financial result related to Company's exposure to market risk.

The objectives are achieved with the use of the mechanism of natural hedging and hedging derivative transactions in the range compliant with the Company's internal regulations.

The Company does not conclude derivative transactions for purposes other than to secure an identified exposure to market risk. Therefore the Company does not conclude speculative transactions, i.e. such transactions that increase the exposure to interest rate risk, currency risk, in comparison to the risk level resulting from identified sources of entities' exposure to the mentioned types of market risk, the purpose of which is to obtain additional gains on changes of risk level.

39.1 Liquidity risk

The Company runs an active policy on investment of cash surpluses. It means that the Company is monitoring the state of monetary surplus and is 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, the Company uses available financing sources in the order presented below:

- Bank credit granted in current account,
- Bonds issued by PGE S.A.

As at 31 December 2012 the liabilities due to bank credits amounted to PLN 142.785 thousand and the value of available overdraft facilities in current account amounted to PLN 657 million. As at 31 December 2011 the Company did not report liabilities due to bank credits and the value of available overdraft facilities in current account amounted to PLN 800 million.

39.2 Interest rate risk

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

			Nominal value as at 31 December 2012	Nominal value as at 31 December 2011
		Type of interest rate		
Financial assets exposed to interest rate risk	PLN	Fixed	-	2.111.109.345,52
		Variable	5.240.451.990,13	6.492.646.604,58
	Other currencies	Fixed	5.525.764,99	188.991.508,09
		Variable	372.436.145,94	329.908.276,33
Financial liabilities exposed to interest rate risk	PLN	Fixed	(142.784.887,31)	-
		Variable	-	-
	Other currencies	Fixed	(148.385,56)	-
		Variable	-	-
Net exposure	PLN	Fixed	(142.784.887,37)	2.111.109.345,52
		Variable	5.240.451.990,13	6.492.646.604,58
	Other currencies	Fixed	5.377.379,43	188.991.508,09
		Variable	372.436.145,94	329.908.276,33

Interest on financial instruments of variable interest rate is actualized at intervals of less than one year. Interest on financial instruments of a fixed interest rate is flat throughout the whole period until maturity of these instruments.

Cash is presented under the caption 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 under the caption of assets exposed to higher risk.

39.3 Currency risk

In the Company 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 the Company entities 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 CO₂ emission rights denominated in or indexed to foreign currencies,
- Purchase of CO₂ emission rights denominated in or indexed to foreign currencies,
- Expenses related to current exploitation of production goods denominated in or indexed to foreign currencies,
- Financial assets with deposit characteristics denominated in foreign currencies.



PGE Polska Grupa Energetyczna S.A.
*Separate financial statements for the year ended 31 December 2012 prepared in accordance
with IFRS (all amounts in PLN)*
("Translation of the document originally issued in Polish")

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

	Currency position as at 31 December 2012								
	Total carrying amount in PLN	EUR		USD		CHF		SEK	
		in currency	in PLN	in currency	in PLN	in currency	in PLN	in currency	in PLN
Financial assets									
Deposits	-	-	-	-	-	-	-	-	-
Bonds, bills and notes receivable acquired	4.659.606.424,89	78.602.120,85	321.341.190,43	-	-	-	-	-	-
Trade receivables	739.278.574,45	2.654.347,42	10.851.503,13	-	-	-	-	-	-
Cash and cash equivalents	953.281.711,18	12.443.094,67	50.869.859,64	21.728,60	67.349,97	45.317,48	153.481,24	8.965,01	4.264,66
Originated loans	-	-	-	-	-	-	-	-	-
Other financial receivables	54.144.233,08	-	-	-	-	-	-	-	-
Shares in related entities	23.188.633.176,36	-	-	-	-	-	-	-	-
Shares in entities not quoted on active markets	39.851.626,61	-	-	-	-	-	-	-	-
Derivatives	5.525.764,99	59.774.329,60	265.350.802,26	-	-	-	-	-	-
Financial liabilities									
Derivatives	(148.385,56)	(3.175.519,60)	(13.491.808,96)	-	-	-	-	-	-
Interest bearing loans and credits	142.784.887,31	-	-	-	-	-	-	-	-
Trade and other financial liabilities at amortized cost	(483.039.663,29)	(3.506.127,20)	(14.333.749,22)	(170.511,82)	(528.518,44)	-	-	-	-
Net currency position		146.792.245,74	620.587.797,28	(148.783,22)	(461.168,47)	45.317,48	153.481,24	8.965,01	4.264,66

The value of derivatives' exposure to currency risk consist of their nominal value calculated using polish zloty at forward rate applicable to each transaction without including discount rate. The carrying amount of these derivatives is settled as fair value measurement.

PGE Polska Grupa Energetyczna S.A.
*Separate financial statements for the year ended 31 December 2012 prepared in accordance
with IFRS (all amounts in PLN)*
("Translation of the document originally issued in Polish")

Currency position as at 31 December 2011									
	Total carrying amount in PLN	EUR		USD		CHF		SEK	
		in currency	in PLN	in currency	in PLN	in currency	in PLN	in currency	in PLN
Financial assets									
Deposits	2.101.026.575,34	-	-	-	-	-	-	-	-
Bonds, bills and notes receivable acquired	5.801.732.986,23	71.033.093,36	313.738.966,73	-	-	-	-	-	-
Trade receivables	616.658.375,74	1.045.732,79	4.618.792,59	-	-	-	-	-	-
Cash and cash equivalents	1.020.822.894,68	3.598.036,19	15.891.803,81	36.383,51	124.337,01	32.069,94	116.519,71	74.038,51	36.649,07
Originated loans	199.074.278,27	-	-	-	-	-	-	381.801.027,39	188.991.508,09
Other financial receivables	13.469.323,36	-	-	-	-	-	-	-	-
Shares in related entities	22.993.794.800,75	-	-	-	-	-	-	-	-
Shares in entities not quoted on active markets	106.701.626,61	-	-	-	-	-	-	-	-
Shares in entities quoted on active markets	2.328.769,52	-	-	-	-	-	-	-	-
Financial liabilities									
Interest bearing loans and credits	-	-	-	-	-	-	-	-	-
Trade and other financial liabilities at amortized cost	(428.053.568,16)	(868.110,01)	(3.834.268,29)	(170.853,62)	(583.875,16)	-	-	(36.685.525,25)	(18.159.335,00)
Net currency position		74.808.752,33	330.415.294,84	(134.470,11)	(459.538,15)	32.069,94	116.519,71	345.189.540,65	170.868.822,16

39.4 Price risk

Due to the type of Company's business activities, the Company is susceptible to change of cash flows and financial results in domestic currency due to price changes of electric energy.

The management of goods' price risk on the Polish market is impeded by the lack of long-term price indexes and the lack of markets in financial instruments, that are essential in hedging transactions; which is particularly significant in a long-term perspective.

39.5 Credit risk

The Company is highly exposed to credit risk relating to trade receivables.

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 Company is exposed to credit risk arising in the following areas:

- Basic activities of the Company – the credit risk results from, among others, purchases and sales of electricity and heat energy, purchases and sales of fossil fuels, etc.;
- Investment activities of the Company – 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 – 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 Company, if fair value of the derivative transaction is positive from the point of view of the Company;
- Allocation of free cash of the Company – the credit risk results from investing free cash of the Company in securities bearing credit risk i.e. financial instruments other than those issued by State Treasury.

The classes of financial instruments exposed to credit risk but having different characteristics of credit risk (Company chooses positions relating to its core operations):

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

There are significant concentrations of credit risk in the Company related to:

- trade receivables from key customers, as at 31 December 2012 the three most significant customers accounted for 89,37% of the trade receivables balance,
- bonds acquired.

Maximum credit risk exposure resulting from Company's financial assets is equal to the carrying value of these items. As at 31 December 2012 the total maximum credit risk exposure resulting from the Company's financial assets and guarantees and sureties granted amounted to PLN 6.357.692 thousand and PLN 22.469 thousand, respectively.

39.5.1 Bonds, bills and notes receivable acquired

As at 31 December 2012 bonds issued by PGE Group companies amounted to PLN 4.338 million and bonds issued by Autostrada Wielkopolska S.A. amounted to PLN 321,3 million.

39.5.2 Trade receivables

The terms of payments for trade receivables are usually 2-3 weeks. In year 2012 the Company received payments for receivables after 20 days on average. Trade receivables relate mainly to receivables for energy sold. 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 Company hold a Policy of Credit Risk Management, 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.

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

Geographical region/ country	31 December 2012		31 December 2011	
	Receivables balance	% Share	Receivables balance	% Share
Poland	708.593.050,90	95,85	602.019.046,70	97,63
Great Britain	2.759.535,00	0,37	5.195.250,79	0,84
Germany	20.329.291,24	2,75	8.986.483,74	1,46
Czech Republic	3.310.353,61	0,45	375.230,00	0,06
Other	4.286.343,70	0,58	82.364,51	0,01
Total	739.278.574,45	100,00	616.658.375,74	100,00

Receivables in foreign currencies amounted to PLN 10.852 thousand and PLN 4.619 thousand as at 31 December 2012 and 31 December 2011, respectively.

Impairment allowances on receivables are mainly presented in other operating and financial activities.

39.5.3 Loans granted, other receivables

Loans granted and other receivables are presented in note 38.4.2. of these financial statements.

39.5.4 Deposits, cash and Cash equivalents

The Company manages credit risk related to cash by diversification of banks in which surpluses of cash are allocated. All entities, that the Company 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.

39.5.5 Derivatives

Derivatives transactions are presented in note 38.4.4. of these financial statements.

39.5.6 Guarantees granted

Guarantees granted by the Company are presented in note 30 of these financial statements.

39.5.7 Ageing of receivables and impairment allowance for receivables

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

	Trade receivables	Loans granted	Bonds	Deposits	Other financial receivables	Shared in entities not quoted on active markets	Shares in related parties
Year 2012							
Impairment allowance as at 1 January	(3.955.863,17)	-	(29.089.719,94)	-	(100.298.503,45)	(77.164.553,39)	(27.602,50)
Impairment allowance used	12.300,00	-	-	-	67.799.168,71	259.990,00	-
Impairment allowance reversed	22.158,22	-	-	-	5.388.000,00	226.768,25	-
Impairment allowance raised	(1.740.953,31)	-	-	-	(24.600,00)	(64.500.000,00)	(47.314,62)
Impairment allowance as at 31 December	(5.662.358,26)	-	(29.089.719,94)	-	(27.135.934,74)	(141.177.795,14)	(74.917,12)
Value before the impairment allowance	744.940.932,71	-	4.688.696.144,83	-	81.280.167,82	181.029.421,75	23.188.708.093,48
Net value (carrying amount)	739.278.574,45	-	4.659.606.424,89	-	54.144.233,08	39.851.626,61	23.188.633.176,36
Year 2011							
Impairment allowance as at 1 January	(3.396.042,95)	-	(29.089.719,94)	-	(100.967.705,85)	(77.164.553,39)	(27.602,50)
Impairment allowance used	-	-	-	-	669.202,40	-	-
Impairment allowance reversed	63.593,08	-	-	-	-	-	-
Impairment allowance raised	(623.413,30)	-	-	-	-	-	-
Impairment allowance as at 31 December	(3.955.863,17)	-	(29.089.719,94)	-	(100.298.503,45)	(77.164.553,39)	(27.602,50)
Value before the impairment allowance	620.614.238,91	199.074.278,27	5.830.822.706,17	2.101.026.575,34	113.767.826,81	183.866.180,00	22.993.822.403,25
Net value (carrying amount)	616.658.375,74	199.074.278,27	5.801.732.986,23	2.101.026.575,34	13.469.323,36	106.701.626,61	22.804.968.520,01

Impairment allowance of financial receivables used in 2012 relates mainly to receivables arisen before 2002, which collection was unsuccessful. Creation of impairment allowances of shares relates to Autostrada Wielkopolska S.A.



PGE Polska Grupa Energetyczna S.A.
*Separate financial statements for the year ended 31 December 2012 prepared in accordance
with IFRS (all amounts in PLN)*
("Translation of the document originally issued in Polish")

The ageing structure of trade receivables and other loans and receivables taking into account impairment allowances, are presented below:

Trade receivables	Past due					
	Before due date	< 30 days	30 – 90 days	90 – 180 days	180 – 360 days	>360 days
31 December 2012						
Before the impairment allowance	741.895.966,36	177.645,45	28.802,41	254.288,54	1.444.304,96	1.139.924,99
Impairment allowance	(2.918.078,25)	-	-	(205.688,89)	(1.401.500,34)	(1.137.090,78)
After impairment allowance	738.977.888,11	177.645,45	28.802,41	48.599,65	42.804,62	2.834,21

Trade receivables	Past due					
	Before due date	< 30 days	30 – 90 days	90 – 180 days	180 – 360 days	>360 days
31 December 2011						
Before the impairment allowance	597.681.421,59	20.708.774,66	959.516,14	766.798,21	48.244,89	449.483,42
Impairment allowance	(2.892.450,22)	-	-	(584.854,00)	(32.502,46)	(446.056,49)
After impairment allowance	594.788.971,37	20.708.774,66	959.516,14	181.944,21	15.742,43	3.426,93

**PGE Polska Grupa Energetyczna S.A.**

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

("Translation of the document originally issued in Polish")

Other loans and financial receivables	Past due					
	Before due date	< 30 days	30 – 90 days	90 – 180 days	180 – 360 days	>360 days
31 December 2012						
Before the impairment allowance	4.713.682.425,30	3.921,51	3.584,30	3.675,62	-	56.282.705,92
Impairment allowance	-	-	-	-	-	(56.225.654,68)
After impairment allowance	4.713.682.425,30	3.921,51	3.584,30	3.675,62	-	57.051,24

Other loans and financial receivables	Past due					
	Before due date	< 30 days	30 – 90 days	90 – 180 days	180 – 360 days	>360 days
31 December 2011						
Before the impairment allowance	8.085.551.248,20	1.291.778,58	2.583.557,16	3.875.335,74	7.775.271,48	143.614.195,43
Impairment allowance	-	-	-	-	-	(129.388.223,39)
After impairment allowance	8.085.551.248,20	1.291.778,58	2.583.557,16	3.875.335,74	7.775.271,48	14.225.972,04

39.6 Liquidity risk

The Company 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.

Company is exposed to liquidity risk in the following areas:

- Core operations of the Company – liquidity risks results from maladjustment of structure of dates of operating activities cash flows and execution of assets and liabilities,
- Market risk management – liquidity risk results from possible necessity of settlement of hedging 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 over the duration of a collateral transaction,
- Allocation of free cash of the Company – the liquidity risk results from necessity of realization of financial assets owned, the market of which is characterized by low volume of turnover and/or relatively high spread between purchase price and sale price.

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

31 December 2012	Less than 3 months	Between 3 and 12 months	Between 1 and 5 years	More than 5 years	Total
Bonds issued	-	-	-	-	-
Interest bearing loans and credits	142.784.887,31	-	-	-	142.784.887,31
Trade and other financial liabilities at amortized cost	483.039.663,29	-	-	-	483.039.663,29
Liabilities from finance lease and lease agreements with an option of purchase	-	-	-	-	-
Derivatives	-	141.947,67	10.260,09	-	152.207,73
Total	625.824.550,60	141.947,67	10.260,09	-	625.976.758,36

31 December 2011	Less than 3 months	Between 3 and 12 months	Between 1 and 5 years	More than 5 years	Total
Bonds issued	-	-	-	-	-
Interest bearing loans and credits	-	-	-	-	-
Trade and other financial liabilities at amortized cost	428.053.568,16	-	-	-	428.053.568,16
Liabilities from finance lease and lease agreements with an option of purchase	-	-	-	-	-
Derivatives	-	-	-	-	-
Total	428.053.568,16	-	-	-	428.053.568,16

39.7 Market risk – sensitivity analysis

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

- Interest rate risk,
- Currency risk.

The PGE Group is exposed mainly to currency risk related to foreign exchange rates between EUR/PLN, USD/PLN, CHF/PLN and SEK/PLN. Furthermore, the Group is exposed to interest rate risk related to referential interest rates of PLN, EUR, USD, CHF and SEK. 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 Company. Only positions that can be defined as financial instruments are subject to the analysis of interest and currency risk.

Potential foreign exchange rates' changes were calculated on $\pm 8,65\%$ for EUR/PLN, $\pm 14,51\%$ for USD/PLN, $\pm 10,34\%$ for CHF/PLN i $\pm 11,15\%$ for SEK/PLN.

In sensitivity analysis related to interest rate risk, the Company 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 Company is exposed to as at the balance sheet date, potential interest rates' changes was estimated as ± 94 pb for WIBOR, ± 60 pb for EURIBOR, ± 34 pb for LIBOR USD, ± 34 pb for LIBOR CHF and ± 59 pb for LIBOR SEK.

In case of sensitivity analysis of interest rates' fluctuations, the effect of risk factors' changes could be recorded in the statement of comprehensive income under the caption of interest income or expenses related to financial instruments at amortized cost or to the position of revaluation of the value 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.

39.7.1 Sensitivity analysis for currency risk

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

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

Financial instruments by class	31 December 2012		Sensitivity analysis for currency risk as at 31 December 2012							
	Carrying amount	Amount exposed to risk	EUR/PLN		USD/PLN		CHF/PLN		SEK/PLN	
			gross financial result		gross financial result		gross financial result		gross financial result	
			Exchange rate EUR/PLN +8,65%	Exchange rate EUR/PLN -8,65%	Exchange rate USD/PLN +14,51%	Exchange rate USD/PLN -14,51%	Exchange rate CHF/PLN +10,34%	Exchange rate CHF/PLN -10,34%	Exchange rate SEK/PLN +11,15%	Exchange rate SEK/PLN -11,15%
	PLN	PLN								
Derivatives	5.525.764,99	265.350.802,26	(19.477.998,15)	19.477.998,15	-	-	-	-	-	-
Trade receivables	739.278.574,45	10.851.503,13	938.655,02	(938.655,02)	-	-	-	-	-	-
Loans granted	-	-	-	-	-	-	-	-	-	-
Bonds, bills, notes receivable acquired	4.659.606.424,89	321.341.190,43	27.796.012,97	(27.796.012,97)	-	-	-	-	-	-
Cash and cash equivalents	953.281.711,18	51.094.955,51	4.400.242,86	(4.400.242,86)	9.769,11	(9.769,11)	15.868,43	(15.868,43)	475,59	(475,59)
Deposits	-	-	-	-	-	-	-	-	-	-
Derivatives	(148.385,56)	(13.491.808,96)	621.109,58	(621.109,58)	-	-	-	-	-	-
Interest bearing loans and credits	(142.784.887,31)	-	-	-	-	-	-	-	-	-
Trade liabilities and other financial liabilities at amortized cost	(483.039.663,29)	(14.862.267,66)	(1.239.869,31)	1.239.869,31	(76.661,60)	76.761,60	-	-	-	-
Gross profit change			13.038.152,97	(13.038.152,97)	(66.892,49)	66.892,49	15.868,43	(15.868,43)	475,59	(475,59)

Presentation of derivatives' value at risk in Polish zloty was described in note 39.3 of the financial statement.



PGE Polska Grupa Energetyczna S.A.
*Separate financial statements for the year ended 31 December 2012 prepared in accordance
with IFRS (all amounts in PLN)*
("Translation of the document originally issued in Polish")

Financial instruments by class	31 December 2011		Sensitivity analysis for currency risk as at 31 December 2011							
	Carrying amount	Amount exposed to risk	EUR/PLN		USD/PLN		CHF/PLN		SEK/PLN	
			gross financial result		gross financial result		gross financial result		gross financial result	
			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%
	PLN	PLN								
Trade receivables	616.658.375,74	4.618.792,59	628.155,79	(628.155,79)	-	-	-	-	-	-
Loans granted	199.074.278,27	188.991.508,09	-	-	-	-	-	-	24.946.879,07	(24.946.879,07)
Bonds, bills, notes receivable acquired	5.801.732.986,23	313.738.966,73	42.668.499,48	(42.668.499,48)	-	-	-	-	-	-
Cash and cash equivalents	1.020.822.894,68	16.169.309,60	2.161.285,32	(2.161.285,32)	29.032,69	(29.032,69)	21.556,15	(21.556,15)	4.837,68	(4.837,68)
Interest bearing loans, credits and bonds issued	2.101.026.575,34	-	-	-	-	-	-	-	-	-
Trade liabilities and other financial liabilities at amortized cost	(428.053.568,16)	(22.577.478,45)	(521.460,49)	521.460,49	(136.334,85)	136.334,85	-	-	(2.397.032,22)	2.397.032,22
Gross profit change			44.936.480,10	(44.936.480,10)	(107.302,16)	107.302,16	21.556,15	(21.556,15)	22.554.684,53	(22.554.684,53)

Applied accounting principles (policies) and explanatory notes are an integral part of the financial statements

39.7.2 Sensitivity analysis for interest rate risk

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

Financial assets and liabilities	31 December 2012		Sensitivity analysis for interest rate risk as at 31 December 2012									
	Carrying amount	Amount exposed to risk	WIBOR		EURIBOR		LIBOR USD		LIBOR CHF		LIBOR SEK	
			gross financial result		gross financial result		gross financial result		gross financial result		gross financial result	
			WIBOR +94 pb	WIBOR -94 pb	EURIBOR +60 pb	EURIBOR -60 pb	LIBOR USD +34 pb	LIBOR USD -34 pb	LIBOR CHF +34 pb	LIBOR CHF -34 pb	LIBOR SEK +59 pb	LIBOR SEK -59 pb
	PLN	PLN										
Bonds acquired	4.659.606.424,89	4.659.606.424,89	46.237.905,10	(46.237.905,10)	1.896.196,93	(1.896.196,93)	-	-	-	-	-	-
Cash and cash equivalents	953.281.711,18	953.281.711,18	8.972.723,03	(8.972.723,03)	199.334,30	(199.334,30)	325,27	(325,27)	456,26	(456,26)	120,47	(120,47)
Interest bearing loans and credits	(142.784.887,31)	(142.784.887,31)	(671.880,71)	671.880,71	-	-	-	-	-	-	-	-
Bonds issued	-	-	-	-	-	-	-	-	-	-	-	-
Gross profit change			54.538.747,42	(54.538.747,42)	2.095.531,23	(2.095.531,23)	325,27	(325,27)	456,26	(456,26)	120,47	(120,47)



PGE Polska Grupa Energetyczna S.A.
*Separate financial statements for the year ended 31 December 2012 prepared in accordance
with IFRS (all amounts in PLN)*
("Translation of the document originally issued in Polish")

Financial assets and liabilities	31 December 2011		Sensitivity analysis for interest rate risk as at 31 December 2011									
	Carrying amount	Amount exposed to risk	WIBOR		EURIBOR		LIBOR USD		LIBOR CHF		LIBOR SEK	
			gross financial result		gross financial result		gross financial result		gross financial result		gross financial result	
			WIBOR +113 pb	WIBOR -113 pb	EURIBOR +83 pb	EURIBOR -83 pb	LIBOR USD +63 pb	LIBOR USD - 63pb	LIBOR CHF +25 pb	LIBOR CHF -25 pb	LIBOR SEK +77 pb	LIBOR SEK -77 pb
	PLN	PLN										
Bonds acquired	5.801.732.986,23	5.801.732.986,23	58.643.670,15	(58.643.670,15)	2.355.131,98	(2.355.131,98)	-	-	-	-	-	-
Cash and cash equivalents	1.020.822.894,68	1.020.822.894,68	6.699.238,14	(6.699.238,14)	362.480,09	(362.480,09)	692,45	(692,45)	258,06	(258,06)	265,29	(265,29)
Interest bearing loans and credits	-	-	-	-	-	-	-	-	-	-	-	-
Bonds issued	-	-	-	-	-	-	-	-	-	-	-	-
Gross profit change			65.342.908,29	(65.342.908,29)	2.717.612,07	(2.717.612,07)	692,45	(692,45)	258,06	(258,06)	265,29	(265,29)

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

40. Tax settlements

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

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

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

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

40.1 Excise tax

In 2009, the Company filed a motion related to an excess payment of the excise tax on imports and Intra-Community purchase of electric energy in the period from January 2006 to February 2009. The Company states that the excess payment results from discrepancies between the Polish and Community law. In February 2010, the Company received decisions for the period from January – December 2006, denying the excess payment of excise tax paid in relation to imports of electric energy. In May 2010, the Company received a part of decisions refusing to grant a request to determine overpayment, and decisions determining the excise tax obligation for intra-Community purchases of electricity, against which the Company had lodged appeals. In December 2010, the Company received decisions from the Director of Customs Chamber, which fully supported the decisions of the first instance authority concerning excise tax on energy import in 2006. The Company filed complaints against these decisions to the Provincial Administrative Court in Warsaw. 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. Regarding interest, the Provincial Administrative Court is of the opinion that civil procedure would be appropriate instead of a tax procedure. The rulings are not yet binding, and the Company filed cassation appeals against them to the Supreme Administrative Court.

In December 2012, the Company received certain decisions of the Director of the Tax Chamber, repealing the decisions of the Head of the Tax Office and discontinuing the proceedings on determination of the tax obligation arising from intra-Community acquisition of electricity concerning 2007. The Director of the Tax Chamber stated that, as a result of inconsistency of the Polish legislation with Community laws, the Company was not a taxable person for excise tax for electricity purchases. At the same time, the Director of the Tax Chamber upheld the decisions of the first instance authority on refusal to determine excise tax overpayment due to intra-Community acquisitions of electricity in 2007. In this case, the Director stated that reimbursement of excise tax paid by the Company unreasonably would involve unjust enrichment of the Company, as the Company transferred the burden of that tax in the sales price to buyers of electricity. In January 2013, the Company lodged complaints to the Provincial Administrative Court against the decisions to the effect of refusing to determine the overpayment.

As at the preparation date of these financial statements this issue has not been finally resolved. The total claim amounts to PLN 54 million plus interest.

41. Significant events during the reporting period and subsequent events

41.1 Framework agreement on the exploration for and extraction of shale gas

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

The subject of the Agreement is the exploration, evaluation and extraction of shale gas in geological formations for which concessions have been granted for the exploration and evaluation of deposits of crude oil and natural gas in relation to the Wejherowo concession held by PGNiG (the "Wejherowo Concession"). With respect to the Wejherowo Concession, there is close cooperation involving an area of approximately 160 km² (the "Area of Cooperation"). The Agreement also provides for preferential treatment of the Parties with regard to the possibility of cooperation in relation to the remaining area of the Wejherowo Concession (with the exception of a situation where PGNiG on its own engages in exploration, evaluation or extraction of shale gas and excluding the area in the vicinity of Opalino and Lubocino where PGNiG is already conducting exploratory work).

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

41.2 Agreement to acquire shares of Energa S.A.

On 29 September 2010, the Management Board of PGE Polska Grupa Energetyczna S.A. concluded with the State Treasury, represented by the Minister of the State Treasury, agreement on sales of shares of Energa S.A., seated in Gdańsk ("Agreement"). The subject of the agreement was to acquire 4,183,285,468 shares of Energa S.A., representing 84,19% of its share capital. The purchase price of all shares representing 84,19% of share capital of this company was PLN 7.530 million.

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

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

On 14 May 2012, the Regional Court in Warsaw, Competition and Consumer Protection Court issued a Decision rejecting the appeal of PGE Polska Grupa Energetyczna S.A. against the Decision of the

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

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

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

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

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

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

41.4 Acquisition of wind farms

On 19 February 2013, PGE Polska Grupa Energetyczna S.A and Energa Hydro Sp. z o.o. (subsidiary of Energa S.A.) signed an agreement with DONG Energy Wind Power A/S, under which the Company will take over from Danish company portfolio of wind farms in Poland. The value of the transaction will approximately amount to PLN 1 billion and is expected to be completed in forthcoming months of 2013. The transaction requires the approval of Office of Competition and Consumer Protection.

In addition, on 26 February 2013, PGE Polska Grupa Energetyczna and Energa Hydro Sp. z o.o. signed an agreement with Renovables Energia, S.A.U., under which the Company will take over from the Spanish company, 75% of shares in Iberdrola Renewables Polska Sp. z o.o., which manages a portfolio of wind farms in Poland. PGE S.A. and Energa intend to acquire additional 25% of shares in Iberdrola Renewables Polska Sp. z o.o., owned by European Bank of Reconstruction and Development (EBRD). The value of the transaction involving acquisition of 75% of shares in Iberdrola Renewables Polska Sp. z o.o. will approximately amount to PLN 840 million, what translates into transaction value of PLN 1.1 billion for 100% of shares. It is expected, transaction will be finalized in forthcoming months of 2013. The transaction requires the approval of Office of Competition and Consumer Protection

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

Krzysztof Kilian
President of the
Management Board

Bogusława Matuszewska
Vice-President of the
Management Board

Wojciech Ostrowski
Vice-President of the
Management Board

Paweł Smoleń
Vice-President of the
Management Board

Piotr Szymanek
Vice-President of the
Management Board