



## **PGE Polska Grupa Energetyczna S.A. Capital Group**

**Consolidated financial statements prepared in accordance with International Financial Reporting Standards for the year ended 31 December 2009.**

## **TABLE OF CONTENTS**

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME .....	3
CONSOLIDATED STATEMENT OF FINANCIAL POSITION .....	4
STATEMENT OF CHANGES IN CONSOLIDATED EQUITY .....	6
CONSOLIDATED STATEMENT OF CASH FLOWS .....	8
1. General information .....	10
2. Entities included in the Group .....	11
3. The composition of the Management Board of the Parent Company .....	20
4. Approval of the consolidated financial statements .....	21
5. Going concern .....	21
6. Presentation currency .....	21
7. Statement of compliance with International Financial Reporting Standards .....	21
8. The basis for the preparation of the consolidated financial statements .....	21
9. Significant values based on estimates and professional judgment .....	22
10. Change of estimates .....	24
11. New standards and interpretations published, not yet effective .....	25
12. Accounting principles applied .....	27
13. Operating segments .....	49
14. Revenues and expenses .....	53
15. Depreciation costs and impairment losses in the profit and loss account .....	56
16. Employee benefits expenses .....	56
17. Income tax .....	57
18. Discontinued operations .....	61
19. Assets and liabilities of the Social Fund .....	61
20. Earnings per share .....	62
21. Dividends paid and dividends declared .....	63
22. Property, plant and equipment .....	64
23. Non-current assets classified as held for sale .....	68
24. Leasing .....	68
25. Investment property .....	70
26. Intangible assets .....	71
27. Investment in associates accounted for using the equity method .....	73
28. Business combinations .....	74
29. Investments in jointly controlled entities .....	75
30. Carbon dioxide emission rights .....	76
31. Employment benefits .....	77
32. Inventories .....	79
33. Other short-term and long-term assets .....	80
34. Cash and cash equivalents .....	81
35. Share capital and other capitals .....	82
36. Provisions .....	87
37. Other non-financial liabilities .....	92
38. Deferred income and government grants .....	92
39. Legal claims and contingent liabilities and receivables .....	93
40. Investment liabilities .....	96
41. Tax settlements .....	97
42. Information on related entities .....	99
43. Financial instruments .....	101
44. Objectives and principles of financial risk management .....	114
45. Employment structure .....	131
46. Significant events during the reporting period and subsequent events .....	131

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Note	Period ended 31 December 2009	Period ended 31 December 2008 <i>data transformed</i>
<b>CONSOLIDATED COMPREHENSIVE INCOME</b>			
<b>Continuing operations</b>			
<b>Total sales revenues</b>	<b>14.1</b>	<b>21.623.350</b>	<b>19.408.706</b>
Costs of goods sold	14.6	(13.727.469)	(14.191.982)
<b>Gross profit on sales</b>		<b>7.895.881</b>	<b>5.216.724</b>
Other operating revenues	14.2	422.568	752.568
Distribution and selling expenses	14.6	(1.368.079)	(1.139.621)
General and administrative expenses	14.6	(914.109)	(935.750)
Other operating expenses	14.3	(691.532)	(631.626)
Financial revenues	14.4	372.265	505.120
Financial expenses	14.5	(580.617)	(836.441)
Share of profit of associate	27	242.157	238.561
<b>Profit before tax</b>		<b>5.378.534</b>	<b>3.169.535</b>
Corporate income tax expense	17	(1.041.311)	(499.288)
<b>Net profit from continuing operations</b>		<b>4.337.223</b>	<b>2.670.247</b>
<b>Discontinued operations</b>		-	-
Profit for the period on discontinued operations	18	-	-
<b>Net profit for the operating period</b>		<b>4.337.223</b>	<b>2.670.247</b>
<b>OTHER COMPREHENSIVE INCOME:</b>			
Valuation of available-for-sale financial assets		(41.287)	30.138
Revaluation of assets of associates		41	-
Foreign exchange differences from translation of foreign entities		531	49
<b>Other comprehensive income for the period, net</b>		<b>(40.715)</b>	<b>30.187</b>
<b>TOTAL COMPREHENSIVE INCOME</b>		<b>4.296.508</b>	<b>2.700.434</b>
<b>Net profit attributable to:</b>			
- equity holders of the parent company		3.370.712	1.920.171
- minority interest		966.511	750.076
<b>Total comprehensive income attributable to:</b>			
- equity holders of the parent company		3.340.169	1.937.740
- minority interest		956.339	762.694
<b>Profit per share (in PLN)</b>			
- basic earnings for the operating period	20	2,23	1,31
- basic earnings from the continuing operations	20	2,23	1,31

For details on 2008 data transformation please refer to Note 12.38 of explanatory notes to the foregoing consolidated financial statements.

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Note	As at 31 December 2009	As at 31 December 2008
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment	22	38.945.664	37.811.569
Investment property	25	25.431	26.612
Intangible assets	26	153.335	142.025
Loans and receivables	43.1	389.566	370.630
Available-for-sale financial assets	43.1	198.211	206.979
Shares in associates accounted for under the equity method	27	1.354.799	1.479.066
Other long-term assets	33	485.087	216.683
Deferred tax assets	17	412.353	447.647
<b>Total non-current assets</b>		<b>41.964.446</b>	<b>40.701.211</b>
<b>Current assets</b>			
Inventories	32	1.271.165	1.127.965
Income tax receivables		49.827	95.855
Held-to-maturity short-term investments	43.1	-	134.180
Trade receivables	43.1	2.059.119	1.792.607
Other loans and financial assets	43.1	987.575	785.334
Available-for-sale short-term financial assets	43.1	5.984	97.770
Other current assets	33	391.147	313.044
Cash and cash equivalents	34, 43.1	7.712.823	2.140.837
<b>Total current assets</b>		<b>12.477.640</b>	<b>6.487.592</b>
Non-current assets classified as held for sale	23	5.712	3.458
<b>TOTAL ASSETS</b>		<b>54.447.798</b>	<b>47.192.261</b>

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		As at 31 December 2009	As at 31 December 2008
<b>LIABILITIES AND EQUITY</b>	<b>Note</b>		
<b>Equity (attributable to equity holders of the parent)</b>			
Share capital	35.1	17.300.900	14.705.765
Revaluation reserve		(1.161)	30.154
Foreign exchange differences from translation of foreign entities		(812)	(1.343)
Reserve capital	35.4	5.449.549	2.100.156
Other capital reserves		-	414.017
Retained earnings	35.5	8.419.848	5.560.908
<b>Minority interest</b>	<b>35.6</b>	<b>7.681.428</b>	<b>7.365.921</b>
<b>Total equity</b>		<b>38.849.752</b>	<b>30.175.578</b>
<b>Long-term liabilities</b>			
Interest-bearing loans and borrowings	43.1	4.056.270	4.470.791
Other long-term liabilities	43.1	15.941	15.474
Provisions	36	3.238.759	2.924.503
Deferred tax liabilities	17	1.358.546	1.089.148
Deferred income and government grants	38	1.092.806	1.019.972
<b>Total long-term liabilities</b>		<b>9.762.332</b>	<b>9.519.888</b>
<b>Short-term liabilities</b>			
Trade liabilities	43.1	1.082.582	1.012.111
Financial liabilities at fair value through profit or loss	43.1	37.701	62.639
Interest-bearing loans and borrowings	43.1	969.929	3.038.077
Other short-term financial liabilities	43.1	555.758	628.452
Other short-term non-financial liabilities	37	1.167.079	1.026.261
Income tax liabilities		372.888	163.666
Deferred income	38	40.903	32.768
Accruals		627.558	624.892
Short-term provisions	36	981.326	907.929
<b>Total short-term liabilities</b>		<b>5.835.724</b>	<b>7.496.795</b>
<b>Total liabilities</b>		<b>15.598.046</b>	<b>17.016.683</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>54.447.798</b>	<b>47.192.261</b>

## STATEMENT OF CHANGES IN CONSOLIDATED EQUITY

**For the period ended 31 December 2009**

	Note	Share capital	Revaluation reserve	Foreign exchange differences from translation	Reserve capital	Other capital reserves	Retained earnings	Total	Minority interest	Total equity
<b>As at 1 January 2009</b>		<b>14.705.765</b>	<b>30.154</b>	<b>(1.343)</b>	<b>2.100.156</b>	<b>414.017</b>	<b>5.560.908</b>	<b>22.809.657</b>	<b>7.365.921</b>	<b>30.175.578</b>
Revaluation of financial assets		-	(31.115)	-	-	-	-	(31.115)	(10.172)	(41.287)
Share in assets revaluation		-	-	-	-	-	41	41	-	41
Foreign exchange differences from translation of foreign entities		-	-	531	-	-	-	531	-	531
<i>Total revenues and expenses for the period reflected in equity</i>		-	(31.115)	531	-	-	41	(30.543)	(10.172)	(40.715)
Profit		-	-	-	-	-	3.370.712	3.370.712	966.511	4.337.223
<b>Total comprehensive income for the period</b>		-	<b>(31.115)</b>	<b>531</b>	-	-	<b>3.370.753</b>	<b>3.340.169</b>	<b>956.339</b>	<b>4.296.508</b>
Issue of shares		2.595.135	-	-	3.373.676	-	-	5.968.811	-	5.968.811
Issue of shares' expenses		-	-	-	(68.560)	-	-	(68.560)	-	(68.560)
Retained earnings distribution		-	-	-	44.277	-	(44.277)	-	-	-
Purchase of minority shares	28	-	-	-	-	-	521.473	521.473	(521.473)	-
Settlement of purchased stocks and shares in subsidiaries	28	-	-	-	-	-	(264.838)	(264.838)	-	(264.838)
Dividend (including distribution from profit for the State Treasury)	21	-	-	-	-	(414.017)	(725.971)	(1.139.988)	(119.359)	(1.259.347)
Other		-	(200)	-	-	-	1.800	1.600	-	1.600
<b>As at 31 December 2009</b>		<b>17.300.900</b>	<b>(1.161)</b>	<b>(812)</b>	<b>5.449.549</b>	-	<b>8.419.848</b>	<b>31.168.324</b>	<b>7.681.428</b>	<b>38.849.752</b>

## STATEMENT OF CHANGES IN CONSOLIDATED EQUITY

**For the period ended 31 December 2008**

	Note	Share capital	Revaluation reserve	Foreign exchange differences from translation	Reserve capital	Other capital reserves	Retained earnings	Total	Minority interest	Total equity
<b>As at 1 January 2008</b>		<b>14.705.765</b>	<b>6.214</b>	<b>(1.392)</b>	<b>1.945.841</b>	<b>202.311</b>	<b>4.393.675</b>	<b>21.252.414</b>	<b>8.168.035</b>	<b>29.420.449</b>
Revaluation of financial assets		-	17.520	-	-	-	-	<b>17.520</b>	12.618	<b>30.138</b>
Foreign exchange differences from translation of foreign entities		-	-	49	-	-	-	<b>49</b>	-	<b>49</b>
<i>Total revenues and expenses for the period reflected in equity</i>		-	17.520	49	-	-	-	<b>17.569</b>	12.618	<b>30.187</b>
Profit		-	-	-	-	-	1.920.171	<b>1.920.171</b>	750.076	<b>2.670.247</b>
<b>Total comprehensive income for the period</b>		-	17.520	49	-	-	1.920.171	<b>1.937.740</b>	762.694	<b>2.700.434</b>
Retained earnings distribution		-	-	-	154.315	460.006	(614.321)	-	-	-
Purchase of minority shares	<b>28</b>	-	6.420	-	-	-	1.515.474	<b>1.521.894</b>	(1.521.894)	-
Settlement of purchased stocks and shares in subsidiaries	<b>28</b>	-	-	-	-	-	(1.254.521)	<b>(1.254.521)</b>	-	<b>(1.254.521)</b>
Dividend in kind	<b>21</b>	-	-	-	-	(248.300)	-	<b>(248.300)</b>	-	<b>(248.300)</b>
Dividend (including distribution from profit for the State Treasury)	<b>21</b>	-	-	-	-	-	(399.570)	<b>(399.570)</b>	(42.914)	<b>(442.484)</b>
<b>As at 31 December 2008</b>		<b>14.705.765</b>	<b>30.154</b>	<b>(1.343)</b>	<b>2.100.156</b>	<b>414.017</b>	<b>5.560.908</b>	<b>22.809.657</b>	<b>7.365.921</b>	<b>30.175.578</b>

## **CONSOLIDATED STATEMENT OF CASH FLOWS**

	<b>Period ended 31 December 2009</b>	<b>Period ended 31 December 2008</b>
<b>Cash flows – operating activities</b>		
Gross profit related to discontinued operations	-	-
Gross profit related to continuing operations	<b>5.378.534</b>	<b>3.169.535</b>
<b>Adjustments for:</b>		
Share of profit from associates accounted for under the equity method	(242.157)	(238.561)
Depreciation and amortization	2.638.676	2.584.613
Interest and dividend, net	248.924	221.457
Difference between fair value and carrying amount of dividends in kind paid	-	(13.969)
Profit / (loss) on investment activities	(71.623)	(30.258)
Change in receivables	(495.567)	(63.995)
Change in inventories	(141.809)	(328.934)
Change in liabilities (excluding loans and bank credits)	137.915	(511.651)
Change in prepayments and accruals	45.814	450.252
Change in provisions	337.507	651.872
Income tax paid	(491.352)	(573.669)
Other	(45.974)	69.888
<b>Net cash from operating activities</b>	<b>7.298.888</b>	<b>5.386.580</b>
<b>Cash flows – investment activities</b>		
Disposal of property, plant and equipment and intangible assets	32.114	82.137
Purchase of property, plant and equipment and intangible assets	(4.022.231)	(4.124.149)
Purchase/disposal of investment property	173	(144)
Disposal of financial assets	545.528	727.006
Purchase of financial assets	(295.399)	(1.135.209)
Purchase of stocks and shares in subsidiaries	(264.837)	(1.254.521)
Dividends	385.187	171.239
Interest received	12.964	44.882
Loans repaid	14.024	7.127
Loans granted	(61.176)	(1.000)
Other	25.063	38.147
<b>Net cash from investment activities</b>	<b>(3.628.590)</b>	<b>(5.444.485)</b>



	<b>Period ended 31 December 2009</b>	<b>Period ended 31 December 2008</b>
<b>Cash flows – financial activities</b>		
Proceeds from the issue of shares	5.917.532	-
Repayment of finance lease obligations	(5.427)	(21.264)
Proceeds resulting from bank credits and loans	8.907.041	8.255.709
Repayment of bank credits and loans	(11.356.317)	(7.967.513)
Dividends paid (including deductions from profit for the State Treasury)	(1.227.352)	(424.428)
Interest paid	(350.878)	(392.627)
Other	13.720	21.838
<b>Net cash from financial activities</b>	<b>1.898.319</b>	<b>(528.285)</b>
<b>Net change of cash and cash equivalents</b>	<b><u>5.568.617</u></b>	<b><u>(586.190)</u></b>
Effect of foreign exchange rate changes	-	7.438
<b>Cash and cash equivalents, beginning of the period</b>	<b>2.137.317</b>	<b>2.723.507</b>
<b>Cash and cash equivalents, end of the period, including</b>	<b>7.705.934</b>	<b>2.137.317</b>
including restricted cash and cash equivalents	115.435	69.683

## **APPLIED ACCOUNTING PRINCIPLES (POLICIES) AND EXPLANATORY NOTES**

### **1. General information**

PGE Polska Grupa Energetyczna S.A. Capital Group ("Group", "Capital Group", "PGE Group") comprises the parent company PGE Polska Grupa Energetyczna S.A. and subsidiaries (please refer to Note 2).

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

During the financial period until 30 July 2009 the Company was seated in Lublin, 21 A Garbarska Street. As of the date of preparation of the consolidated financial statements, the parent company is seated in Warsaw, 2 Mysia Street.

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

Core operations of the Group companies are as follows:

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

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

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

The consolidated financial statements of the Group comprise financial data for the period from 1 January 2009 to 31 December 2009.

## 2. Entities included in the Group

In 2009 Polska Grupa Energetyczna S.A. Capital Group consisted of the enumerated below companies, consolidated directly and indirectly:

	<b>Entity</b>	<b>Head office</b>	<b>Scope of activity</b>	<b>Share of Capital Group entities as at 31.12.2009</b>	<b>Parent company as at 31 December 2009</b>	<b>Share of Capital Group entities as at 31.12.2008</b>	<b>Parent company as at 31 December 2008</b>
1.	PGE Energia S.A.	Lublin	holding activities – management over Capital Group	85,00%	PGE Polska Grupa Energetyczna S.A.	85,00%	PGE Polska Grupa Energetyczna S.A.
2.	PGE Zespół Elektrowni Dolna Odra S.A.	Nowe Czarnowo	production of electric energy and heat	85,00%	PGE Energia S.A.	85,00%	PGE Energia S.A.
3.	PGE Zamojska Korporacja Energetyczna S.A.	Zamość	sale of electric energy	85,00%	PGE Energia S.A.	85,00%	PGE Energia S.A.
4.	PGE Dystrybucja Zamość Sp. z o.o.	Zamość	distribution of electric energy	100,00%	PGE Zamojska Korporacja Energetyczna S.A.	100,00%	Zamojska Korporacja Energetyczna S.A.
5.	PGE Obrót S.A. (previously under business name PGE Rzeszowski Zakład Energetyczny S.A.)	Rzeszów	sale of electric energy	85,00%	PGE Energia S.A.	85,00%	PGE Energia S.A.
6.	PGE Dystrybucja Rzeszów Sp. z o.o.	Rzeszów	distribution of electric energy	100,00%	PGE Obrót S.A.	100,00%	Rzeszowski Zakład Energetyczny S.A.
7.	PGE Elektrociepłownia Rzeszów S.A.	Rzeszów	Production of electric energy and heat	100,00%	PGE Obrót S.A.	100,00%	Rzeszowski Zakład Energetyczny S.A.
8.	PGE Lubelskie Zakłady Energetyczne S.A.	Lublin	sale of electric energy	85,00%	PGE Energia S.A.	85,00%	PGE Energia S.A.
9.	PGE Dystrybucja LUBZEL Sp. z o.o.	Lublin	distribution of electric energy	100,00%	PGE Lubelskie Zakłady Energetyczne S.A.	100,00%	Lubelskie Zakłady Energetyczne S.A.
10.	PGE Elektrociepłownia Lublin - Wrotków Sp. z o.o.	Lublin	production of electric energy and heat	100,00%	PGE Lubelskie Zakłady Energetyczne S.A.	100,00%	Lubelskie Zakłady Energetyczne S.A.
11.	PGE Zakłady Energetyczne Okręgu Radomsko-Kieleckiego S.A.	Skarżysko-Kamienna	sale of electric energy	85,00%	PGE Energia S.A.	85,00%	PGE Energia S.A.
12.	PGE ZEORK Dystrybucja Sp. z o.o.	Skarżysko-Kamienna	distribution of electric energy	100,00%	PGE Zakłady Energetyczne Okręgu Radomsko-Kieleckiego S.A.	100,00%	Zakłady Energetyczne Okręgu Radomsko-Kieleckiego S.A.

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



Consolidated financial statements for the year ended 31 December 2009 prepared in accordance with IFRS (all amounts in PLN thousand)

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

	<b>Entity</b>	<b>Head office</b>	<b>Scope of activity</b>	<b>Share of Capital Group entities as at 31.12.2009</b>	<b>Parent company as at 31 December 2009</b>	<b>Share of Capital Group entities as at 31.12.2008</b>	<b>Parent company as at 31 December 2008</b>
13.	PGE Elektrociepłownia Kielce S.A.	Kielce	production of heat	100,00%	PGE Zakłady Energetyczne Okręgu Radomsko-Kieleckiego S.A.	100,00%	Zakłady Energetyczne Okręgu Radomsko-Kieleckiego S.A.
14.	PGE Łódzki Zakład Energetyczny S.A.	Łódź	sale of electric energy	85,00%	PGE Energia S.A.	85,00%	PGE Energia S.A.
15.	PGE Dystrybucja Łódź Sp. z o.o.	Łódź	distribution of electric energy	100,00%	PGE Łódzki Zakład Energetyczny S.A.	100,00%	Łódzki Zakład Energetyczny S.A.
16.	PGE Zakład Energetyczny Białystok S.A.	Białystok	sale of electric energy	85,00%	PGE Energia S.A.	85,00%	PGE Energia S.A.
17.	PGE Dystrybucja Białystok Sp. z o.o.	Białystok	distribution of electric energy	100,00%	PGE Zakład Energetyczny Białystok S.A.	100,00%	Zakład Energetyczny Białystok S.A.
18.	PGE Dystrybucja Łódź-Teren S.A.	Łódź	distribution of electric energy	85,00%	PGE Energia S.A.	85,00%	PGE Energia S.A.
19.	PGE ZEŁT Obrót Sp. z o.o.	Warszawa	production and sale of electric energy	100,00%	PGE Polska Grupa Energetyczna S.A.	100,00%	Zakład Energetyczny Łódź Teren S.A.
20.	PGE Zakład Energetyczny Warszawa-Teren S.A.	Warszawa	production and sale of electric energy	85,00%	PGE Energia S.A.	85,00%	PGE Energia S.A.
21.	PGE Dystrybucja Warszawa-Teren Sp. z o.o.	Warszawa	distribution of electric energy	100,00%	PGE Zakład Energetyczny Warszawa - Teren S.A.	100,00%	Zakład Energetyczny Warszawa Teren S.A.
22.	PGE Górnictwo i Energetyka S.A.	Łódź	holding activities – management over Capital Group	85,00%	PGE Polska Grupa Energetyczna S.A.	85,00%	PGE Polska Grupa Energetyczna S.A.
23.	PGE KWB Bełchatów S.A.	Rogowiec	lignite mining	69,00%	PGE Górnictwo i Energetyka S.A.	69,00%	PGE Górnictwo i Energetyka S.A.
				16,00%	PGE Polska Grupa Energetyczna S.A.	16,00%	PGE Polska Grupa Energetyczna S.A.
24.	PGE Elektrownia Bełchatów S.A.	Rogowiec	production of electric energy and heat	69,00%	PGE Górnictwo i Energetyka S.A.	69,00%	PGE Górnictwo i Energetyka S.A.
				19,10%	PGE Polska Grupa Energetyczna S.A.	19,10%	PGE Polska Grupa Energetyczna S.A.
25.	PGE Elektrownia Opole S.A.	Brzeziny	production of electric energy and heat	69,00%	PGE Górnictwo i Energetyka S.A.	69,00%	PGE Górnictwo i Energetyka S.A.
				16,00%	PGE Polska Grupa Energetyczna S.A.		
26.	PGE Elektrownia Turów S.A.	Bogatynia	production of electric energy and heat	69,00%	PGE Górnictwo i Energetyka S.A.	69,00%	PGE Górnictwo i Energetyka S.A.
				16,00%	PGE Polska Grupa Energetyczna S.A.	16,00%	PGE Polska Grupa Energetyczna S.A.

	<b>Entity</b>	<b>Head office</b>	<b>Scope of activity</b>	<b>Share of Capital Group entities as at 31.12.2009</b>	<b>Parent company as at 31 December 2009</b>	<b>Share of Capital Group entities as at 31.12.2008</b>	<b>Parent company as at 31 December 2008</b>
27.	PGE KWB Turów S.A.	Bogatynia	lignite mining	69,00%	PGE Górnictwo i Energetyka S.A.	69,00%	PGE Górnictwo i Energetyka S.A.
				16,00%	PGE Polska Grupa Energetyczna S.A.		
28.	PGE Energia Odnawialna S.A.	Warszawa	holding activities – management over Capital Group, production of electric energy	100,00%	PGE Polska Grupa Energetyczna S.A.	100,00%	PGE Polska Grupa Energetyczna S.A.
29.	PGE ZEW Dychów S.A.	Dychów	production and distribution of electric energy	100,00%	PGE Energia Odnawialna S.A.	100,00%	PGE Energia Odnawialna S.A.
30.	PGE ZEC Bydgoszcz S.A.	Bydgoszcz	distribution of heat energy, production of electric energy	98,50%	PGE Polska Grupa Energetyczna S.A.	85,00%	PGE Energia Odnawialna S.A.
				0,53%	PGE Energia Odnawialna S.A.		
31.	PGE Electra S.A.	Warszawa	wholesale and retail sale of electric energy, advisory and financial agency services	100,00%	PGE Polska Grupa Energetyczna S.A.	100,00%	PGE Polska Grupa Energetyczna S.A.
32.	PGE Elektrociepłownia Gorzów S.A.	Gorzów	production and distribution of electric energy and heat	90,09%	PGE Polska Grupa Energetyczna S.A.	89,58%	PGE Polska Grupa Energetyczna S.A.
33.	EXATEL S.A.	Warszawa	telecommunication services, construction, modernization and utilization of telecommunication subsystems	94,94%	PGE Polska Grupa Energetyczna S.A.	94,94%	PGE Polska Grupa Energetyczna S.A.
34.	ELBIS Sp. z o.o.	Rogowiec	sale of electric energy	100,00%	PGE Elektrownia Bełchatów S.A.	100,00%	PGE Elektrownia Bełchatów S.A.
35.	ELBEST Sp. z o.o.	Rogowiec	hotel and gastronomical services, cleaning services	100,00%	PGE Elektrownia Bełchatów S.A.	100,00%	PGE Elektrownia Bełchatów S.A.
36.	Energoserwis - Kleszczów Sp z o.o.	Kleszczów	distribution of electric energy, construction works, wholesale of construction materials	51,00%	ELBIS Sp. z o.o	51,00%	ELBIS Sp. z o. o
37.	Niepubliczny Zakład Opieki Zdrowotnej MegaMed Sp. z o.o.	Bełchatów	medical services	100,00%	PGE Elektrownia Bełchatów S.A.	100,00%	PGE Elektrownia Bełchatów S.A.
38.	ELMEN Sp. z o.o.	Rogowiec	construction and renovation services	100,00%	ELBIS Sp. z o. o	100,00%	ELBIS Sp. z o. o

	<b>Entity</b>	<b>Head office</b>	<b>Scope of activity</b>	<b>Share of Capital Group entities as at 31.12.2009</b>	<b>Parent company as at 31 December 2009</b>	<b>Share of Capital Group entities as at 31.12.2008</b>	<b>Parent company as at 31 December 2008</b>
39.	Energetyka Boruta Sp. z o.o.	Zgierz	production of electric energy and heat	96,91%	ELBIS Sp. z o.o.	96,91%	ELBIS Sp. z o.o.
40.	Elektrownia Wodna Żarnowiec S.A.	Czymanowo	production of electric energy	100,00 %	PGE Energia Odnawialna S.A.	99,86%	PGE Energia Odnawialna S.A.
41.	Elektrownia Wiatrowa Kamieński Sp. z o.o.	Kamieński	production of electric energy	50,00%	PGE Energia Odnawialna S.A.	50,00%	PGE Energia Odnawialna S.A.
				50,00%	ELBIS Sp. z o.o.	50,00%	ELBIS Sp. z o.o.
42.	EnBud Sp. z o.o.	Czymanowo	construction and renovation services for power industry	100,00%	Elektrownia Wodna Żarnowiec S.A.	100,00%	Elektrownia Wodna Żarnowiec S.A.
43.	Zespół Elektrowni Wodnych Porąbka-Żar S.A.	Międzybrodzie Bialskie	production of electric energy	100,00 %	PGE Energia Odnawialna S.A.	97,09%	PGE Energia Odnawialna S.A.
44.	EGO-Odra S.A.	Warszawa	construction of hydroelectric power stations, hydroelectric power stations management services	50,14%	PGE Energia Odnawialna S.A.	50,14%	PGE Energia Odnawialna S.A.
				49,96%	ZEW Porąbka-Żar S.A.	49,96%	ZEW Porąbka-Żar S.A.
45.	Bio-Energia ESP Sp. z o.o.	Gdynia	management over exploitation of energy system projects	65,72%	PGE Energia Odnawialna S.A.	65,72%	PGE Energia Odnawialna S.A.
				12,16%	ZEW Porąbka-Żar S.A.	12,16%	ZEW Porąbka Żar S.A.
				21,77%	EW Żarnowiec S.A.	21,77%	EW Żarnowiec S.A.
46.	Zespół Elektrowni Wodnych Solina-Myczkowce S.A.	Solina	exploitation services	100,00%	PGE Energia Odnawialna S.A.	100,00%	PGE Energia Odnawialna S.A..
47.	Dychowskie Przedsiębiorstwo Eksploatacji Elektrowni ELDEKS Sp. z o.o.	Dychów	exploitation services of hydroelectric power stations, maintenance of devices' operations and overhauls, current and post-damage repairs	100,00%	PGE Zespół Elektrowni Wodnych Dychów S.A.	100,00%	PGE Zespół Elektrowni Wodnych Dychów S.A.
48.	ESP Usługi Sp. z o.o.	Warszawa	property management	100,00%	PGE Energia Odnawialna S.A.	100,00%	PGE Energia Odnawialna S.A.
49.	Budownictwo Hydroenergetyka - Dychów Sp. z o. o	Dychów	manufacture of steel constructions excluding rendering of services	100,00%	PGE Zespół Elektrowni Wodnych Dychów S.A.	100,00%	PGE Zespół Elektrowni Wodnych Dychów S.A.

	<b>Entity</b>	<b>Head office</b>	<b>Scope of activity</b>	<b>Share of Capital Group entities as at 31.12.2009</b>	<b>Parent company as at 31 December 2009</b>	<b>Share of Capital Group entities as at 31.12.2008</b>	<b>Parent company as at 31 December 2008</b>
50.	Przedsiębiorstwo Usługowo-Produkcyjne ELTUR-SERWIS Sp. z o.o.	Bogatynia	repair of boilers equipment and auxiliaries	100,00%	PGE Elektrownia Turów S.A.	100,00%	PGE Elektrownia Turów S.A.
51.	Przedsiębiorstwo Produkcji Sorbentów i Rekultywacji ELTUR-WAPORE Sp. z o.o.	Bogatynia	manufacture of lime sorbents needed for desulfurization of fumes and fluidal process of lignite combustion in Elektrownia Turów; economic usage of combustion products; manufacture of buildings components	100,00%	PGE Elektrownia Turów S.A.	100,00%	PGE Elektrownia Turów S.A.
52.	Przedsiębiorstwo Transportowe ELTUR-TRANS Sp. z o.o.	Bogatynia	transportation services	100,00%	PGE Elektrownia Turów S.A.	100,00%	PGE Elektrownia Turów S.A.
53.	Przedsiębiorstwo Handlowo-Usługowe GLOBAL - TUR Sp. z o.o.	Bogatynia	hotel management	84,46%	PGE Elektrownia Turów S.A.	84,46%	PGE Elektrownia Turów S.A.
				15,54%	PGE KWB Turów S.A.	15,54%	PGE KWB Turów S.A.
54.	Centrum Medyczne Turów Sp. z o.o.	Bogatynia	medical services	36,06%	PGE Elektrownia Turów S.A.	36,06%	PGE Elektrownia Turów S.A.
				63,94%	PGE KWB Turów S.A.	63,94%	PGE KWB Turów S.A.
55.	Energo Invest Broker S.A.	Toruń	insurance brokerage	30,62%	PGE Elektrownia Bełchatów S.A.	30,62%	PGE Elektrownia Bełchatów S.A.
				25,00%	PGE Elektrownia Turów S.A.	25,00%	PGE Elektrownia Turów S.A.
56.	Przedsiębiorstwo Usługowo-Produkcyjne TOP SERWIS Sp. z o.o.	Bogatynia	manufacture of equipment used for production of mechanical energy	89,00%	Przedsiębiorstwo Usługowo-Produkcyjne ELTUR-SERWIS Sp. z o.o.	89,00%	Przedsiębiorstwo Usługowo-Produkcyjne ELTUR-SERWIS Sp. z o.o.
57.	ENESTA Sp. z o.o.	Stalowa Wola	production and distribution of electric energy, production of gas, distribution of fuel gas	84,85%	PGE Dystrybucja Rzeszów Sp. z o.o.	84,85%	PGE Dystrybucja Rzeszów Sp. z o.o.
				2,48%	PGE Elektrociepłownia Rzeszów S.A.	2,48	PGE Elektrociepłownia Rzeszów S.A.
58.	NOM Sp. z o.o	Warszawa	telecommunication services	100,00%	EXATEL S.A.	100,00%	EXATEL S.A.
59.	Energo-Tel S.A.	Warszawa	design and construction of technical infrastructure of buildings and communication centres	51,10%	EXATEL S.A.	51,10%	EXATEL S.A.

	<b>Entity</b>	<b>Head office</b>	<b>Scope of activity</b>	<b>Share of Capital Group entities as at 31.12.2009</b>	<b>Parent company as at 31 December 2009</b>	<b>Share of Capital Group entities as at 31.12.2008</b>	<b>Parent company as at 31 December 2008</b>
60.	E-Telbank S.A.	Warszawa	data transmission and data communications	100,00%	EXATEL S.A.	100,00%	EXATEL S.A.
61.	PEC Gorzów Sp. z o.o.	Gorzów Wielkopolski	sale, transmission, distribution and production of heat	100,00%	PGE Elektrociepłownia Gorzów S.A.	100,00%	PGE Elektrociepłownia Gorzów S.A.
62.	Towarzystwo Gospodarcze BEWA Sp. z o.o.	Kleszczów	manufacture and sale of mineral water and carbonated soft drinks	100,00%	PGE KWB Bełchatów S.A.	100,00%	PGE KWB Bełchatów S.A.
63.	RAMB Sp. z o.o.	Bełchatów	technical construction works not classified elsewhere	100,00%	PGE KWB Bełchatów S.A.	100,00%	PGE KWB Bełchatów S.A.
64.	BESTUR Sp. z o.o.	Bełchatów	hotels, camping sites and restaurants' management	100,00%	PGE KWB Bełchatów S.A.	100,00%	PGE KWB Bełchatów S.A.
65.	Przedsiębiorstwo Transportowo Sprzętowe BETRANS Sp. z o.o.	Rogowiec	road transport, forwarding trade	100,00%	PGE KWB Bełchatów S.A.	100,00%	PGE KWB Bełchatów S.A.
66.	Górnicy Klub Sportowy Bełchatów .S.A.	Bełchatów	operating of stadiums and other sport facilities, management of a football sports club of 1st league	100,00%	PGE KWB Bełchatów S.A.	100,00%	PGE KWB Bełchatów S.A.
67.	ELECTRA Deutschland GmbH	Niemcy	sale of electric energy	100,00%	PGE Electra S.A.	100,00%	PGE Electra S.A.
68.	ELECTRA Bohemia s.r.o.	Czechy	sale of electric energy	100,00%	PGE Electra S.A.	100,00%	PGE Electra S.A.
69.	MEGAZEC Sp. z o.o.	Bydgoszcz	renovation, installation, engine, boiler and turbine repair services, transportation services	100,00%	PGE ZEC Bydgoszcz S.A.	100,00%	PGE ZEC Bydgoszcz S.A.
70.	Zakład Energetyczny Białystok Przedsiębiorstwo Transportowo-Usługowe ETRA Sp. z o.o.	Białystok	transportation services	100,00%	PGE Dystrybucja Białystok Sp. z o.o.	100,00%	PGE Dystrybucja Białystok Sp. z o.o.



	<b>Entity</b>	<b>Head office</b>	<b>Scope of activity</b>	<b>Share of Capital Group entities as at 31.12.2009</b>	<b>Parent company as at 31 December 2009</b>	<b>Share of Capital Group entities as at 31.12.2008</b>	<b>Parent company as at 31 December 2008</b>
71.	Zakład Energetyczny Białystok Przedsiębiorstwo Produkcyjno-Handlowe EKTO Sp. z o.o.	Białystok	manufacture of machines and electric equipment	100,00%	PGE Dystrybucja Białystok Sp. z o.o.	100,00%	PGE Dystrybucja Białystok Sp. z o.o.
72.	Energetyczne Systemy Pomiarowe Sp. z o.o.	Białystok	services connected with measurement devices for electric dimensions (including repair, design, legalization, verifying, rating, production, distribution and technical advisory services)	100,00%	PGE Dystrybucja Białystok Sp. z o.o.	100,00%	PGE Dystrybucja Białystok Sp. z o.o.
73.	Zakład Energetyczny Białystok Pracownia Projektowa ENSPRO Sp. z o.o.	Białystok	preparing of technical documentation of network installation and energy equipment	100,00%	PGE Dystrybucja Białystok Sp. z o.o.	100,00%	PGE Dystrybucja Białystok Sp. z o.o.
74.	Przedsiębiorstwo Energetyki Ciepłej Sp. z o.o.	Gryfino	distribution and transmission of heat	80,00%	PGE Zespół Elektrowni Dolna Odra S.A.	80,00%	PGE Zespół Elektrowni Dolna Odra S.A.
75.	Zakład Usług Medycznych Dolna Odra Sp. z o.o.	Nowe Czarnowo	medical services	100,00%	PGE Zespół Elektrowni Dolna Odra S.A.	100,00%	PGE Zespół Elektrowni Dolna Odra S.A.
76.	EPO Sp. z o.o.	Opole	wholesale of waste and metal scrap	50,00%	PGE Elektrownia Opole S.A.	50,00%	PGE Elektrownia Opole S.A.
77.	Przedsiębiorstwo Wielobranżowe Agtel Sp. z o.o.	Zamość	services and manufacture of equipment for power industry	70,62%	PGE Zamojska Korporacja Energetyczna S.A.	70,62%	PGE Zamojska Korporacja Energetyczna S.A.
78.	Centrum Szkolenia i Rekreacji „Energetyk” Sp. z o.o.	Krasnobród	organization of conferences, trainings and recreation	99,50%	PGE Zamojska Korporacja Energetyczna S.A.	99,50%	PGE Zamojska Korporacja Energetyczna S.A.
79.	Zakład Obsługi Energetyki Sp. z o.o.	Zgierz	exploitation and repair services on security and automation, data transmission	100,00%	PGE Dystrybucja Łódź-Teren S.A.	100,00%	PGE Dystrybucja Łódź-Teren S.A.

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



Consolidated financial statements for the year ended 31 December 2009 prepared in accordance with IFRS (all amounts in PLN thousand)

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

	<b>Entity</b>	<b>Head office</b>	<b>Scope of activity</b>	<b>Share of Capital Group entities as at 31.12.2009</b>	<b>Parent company as at 31 December 2009</b>	<b>Share of Capital Group entities as at 31.12.2008</b>	<b>Parent company as at 31 December 2008</b>
80.	PGE Serwis Sp. z o.o.	Warszawa	management and sale of properties on own account, construction services	100,00%	PGE Polska Grupa Energetyczna S.A.	100,00%	PGE Polska Grupa Energetyczna S.A.
81.	PGE Systemy S.A.	Warszawa	IT services	100,00%	PGE Polska Grupa Energetyczna S.A.	100,00%	PGE Polska Grupa Energetyczna S.A.
82.	PGE Inwest S.A.	Warszawa	financial holding activities	100,00%	PGE Polska Grupa Energetyczna S.A.	-	-
83.	BESTGUM POLSKA Sp. z o.o.	Warszawa	tapes services, manufacture of rubber mixtures and processing of lining	100,00%	PGE KWB Bełchatów S.A.	-	-
84.	PGE Dystrybucja S.A.	Warszawa	distribution of electric energy	100,00%	PGE Polska Grupa Energetyczna S.A.	-	-
85.	PGE Energia Jądrowa S.A.	Warszawa	production of electric energy	100,00%	PGE Polska Grupa Energetyczna S.A.	-	-

During the period ended on 31 December 2009 there were significant changes in the Structure of the Capital Group under full consolidation

- On 22 May 2009, the company PGE Inwest was established, in which PGE S.A. acquired 1,000 shares of a nominal value of PLN 50.00 each.
- Until 30 June 2009, PGE Energia Odnawialna S.A. purchased Shares of Zespół Elektrowni Wodnych Porąbka-Żar S.A. from its employees and as a result the share in the equity of this company increased up to 100%.
- On 1 August 2009, PGE Kopalnia Węgla Brunatnego Bełchatów S.A. established BESTGUM POLSKA Sp. z o. o. The share capital of the company amounts to PLN 16,784 thousand.
- During the reporting period, PGE Energia Odnawialna S.A. was acquiring employee shares of PGE ZEC Bydgoszcz S.A. On 30 September 2009, 98,33% shares of PGE ZEC Bydgoszcz S.A. were transferred to the parent company as a result of an agreement "datio in solutum". The value of acquired shares of ZEC Bydgoszcz S.A. was estimated at PLN 284,549 thousand. Until 31 December 2009, the Company acquired additional 155 employee shares in total, which accounts for 0,17% of the share capital. As at the balance sheet date PGE Energia Odnawialna S.A. still held 0,53% of shares PGE ZEC Bydgoszcz S.A.
- As a result of the agreement signed on 18 December 2008, the Management Board of PGE S.A. decided on 10 November 2009 to buy from the State Treasury 160,000 shares of PGE Elektrownia Opole S.A. for a total value of PLN 197 790 thousand and 5 280 000 shares of PGE Kopalnia Węgla Brunatnego Turów S.A. for a total value of PLN 38 491 thousand. Shares purchased account for 16% of the share capital of those companies. The payment was made on 12 November 2009.
- On 23 November 2009, PGE Dystrybucja S.A. was established, in which PGE S.A. acquired all shares, i.e. 500 000 shares of a nominal value of PLN 10,00 each. PGE Dystrybucja was registered in the National Court Register on 27 November 2009. PGE Dystrybucja S.A. was established as a result of "The Consolidation Programme of PGE S.A." described in details in the Note 46 of the explanatory notes to the foregoing consolidated financial statements.
- On 24 November 2009, the Company established PGE Inwest Sp. z o.o. II S.K.A., acquiring 100% shares in the share capital, i.e. 100 000 registered A series shares of a nominal value of PLN 1 each. PGE Inwest Sp. z o.o. is a general partner in the entity. PGE Inwest Sp. z o.o. brought into the reserve capital the amount of PLN 10,000.00. As at the balance sheet day the company was not registered in the National Court Register, as a result the payment for shares was presented in the balance sheet as "Other long-term financial assets in related parties" of financial non-current assets. The Company was registered in the National Court Register on 28 January 2010.
- On 7 December 2009, the company PGE Energia Jądrowa S.A. was established, in which PGE S.A. acquired all shares, i.e. 2 500 000 shares of a nominal value of PLN 10.00 each. PGE Energia Jądrowa S.A. was registered in the National Court Register on 28 December 2009. The company's purpose is to hold managerial and coordinating functions in PGE Capital Group in the area relating to realization of tasks concerning nuclear power engineering.

Additionally on 29 December 2009, a new company EJ1 Sp. z o.o. was established. The share capital of the Company accounts for PLN 38 million. PGE S.A. acquired 49% shares of this entity and 51% of shares was acquired by PGE Energia Jądrowa S.A. On 11 January 2010, PGE S.A. paid the amount of PLN 18,620 thousand to cover the purchase of shares. The company was registered in the National Court Register on 27 January 2010. The entity's purpose is to build and possibly exploit the first nuclear power station. Shares acquired by PGE S.A. will be offered to a company, which will be chosen as a partner to build and exploit the first nuclear power station.

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

As at 1 January 2009, the composition of the Management Board was as follows:

- Mr. Tomasz Zadroga – the President of the Management Board,
- Mr. Adam Cichocki – the Vice-President of the Management Board,
- Mr. Henryk Majchrzak – the Vice-President of the Management Board,
- Mr. Piotr Szymanek – the Vice-President of the Management Board,
- Mr. Wojciech Topolnicki – the Vice-President of the Management Board,
- Mr. Marek Trawiński – the Vice-President of the Management Board.

From 1 January 2009 to 31 December 2009 the following changes in the Management Board took place:

- On 27 February 2009, Mr. Adam Cichocki was dismissed from the Management Board,
- On 27 February 2009, Mr. Henryk Majchrzak was dismissed from the Management Board.
- On 3 August 2009, Mr. Marek Szostek was appointed to the position of Vice-President of the Management Board.

As at 31 December 2009 and as at the day of preparation of the foregoing financial statements, the composition of the Management Board was as follows:

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

#### **4. Approval of the consolidated financial statements**

The foregoing consolidated financial statements were prepared and signed by the Management Board of the parent company on 15 March 2010.

#### **5. Going concern**

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

Please refer to the Note 46 of the explanatory notes to the consolidated financial statements for details on legal conversions within the PGE Group under the „Consolidation Programme”.

#### **6. Presentation currency**

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

#### **7. Statement of compliance with International Financial Reporting Standards**

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

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

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

The bookkeeping in the PGE Capital Group entities is maintained in accordance with the accounting policies (rules) specified in the Accounting Act dated 29 September 1994 (“the Accounting Act”) and related bylaws, and other applicable regulations (“Polish Accounting Standards”), except from subsidiaries of PGE Electra S.A. seated in Germany and Czech Republic which run their books in compliance with German and Czech reporting regulations. The consolidated financial statements comprise adjustments which were not included in the books of Group entities. The purpose of these adjustments was to make the financial statements of these entities compliant with IFRS approved by the EU.

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

## **9. Significant values based on estimates and professional judgment**

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

### **Depreciation period of non-current assets**

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

### **Recoverable amount of property, plant and equipment**

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

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

### **Valuation of provisions for social benefits**

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

### **Post-mining land recultivation provisions**

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

### **Provision for a shortage of carbon dioxide emission rights**

Provisions related to liabilities resulting from shortage of CO<sub>2</sub> emission rights is created in the period in which the Group entities notice, that emission rights granted within the National Plan of Emission Rights are not sufficient to cover statutory obligations related to their redemption. The entities settle emission rights throughout the whole settlement period and create the provision at the end of the given reporting period.

### **Other provisions and contingent liabilities**

Regarding regulations of IAS 37 on recognition and measurement of provisions and contingent liabilities, the Group estimates the probability of occurrence of potential liabilities. If the occurrence of unfavorable future event is probable, the Group recognizes a provision in the appropriate amount. If

the occurrence of unfavorable future event is estimated by the Group as not probable but possible, the contingent liability is recognized.

#### **Deferred tax assets**

The deferred tax assets are valued on the basis of 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. Deterioration of taxable results in the future would make the above assumption unjustified.

#### **Recognition of financial instruments**

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

#### **Revenues from sale of electric energy estimates**

Reading numbers from meters regarding the volume of electric energy sold in retail as well as its invoicing is performed mainly in periods different than reporting periods. Taking into account the above, regional energy companies within the Group perform certain revenues estimates at each balance sheet date for the period not covered with a reading.

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

Producers of electric energy, who joined the program of early termination of long-term agreements for the sales of electric power and energy, are entitled to receive compensations to cover stranded costs. The compensations are paid in the form of annual advances as four quarterly installments which are adjusted on yearly basis. At the end of the adjustment period, the final amount of stranded costs will be determined. Due to the above, the producers of electric energy of PGE Group estimate and recognize the revenue from LTC compensations in the amount in which it will be finally approved for the given period, i.e. after final and annual adjustments expected as at the date of the preparation of the consolidated financial statements. For more details on estimation of the above mentioned revenues please refer to note 46.1 of the foregoing consolidated financial statements.

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

An unfavorable outcome for the PGE Capital Group of the dispute, described in the Note 46.1, with the President of the Energy Regulation Office with respect to the interpretation of the LTC Act and changes in assumptions used, including those resulting from planned legal mergers within the PGE Group, may impact the estimates and as a consequence may lead to significant changes to the financial position and results of the PGE Capital Group. The final outcome of the dispute with the President of the Energy Regulation Office cannot be determined as at the date of preparation of the foregoing financial statements.

#### **Revaluation write offs on receivables**

As at the balance sheet date the PGE Group entities 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 creates a write off to the amount of the present value of planned cash flows.



## **10. Change of estimates**

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

- Change of adopted actuarial assumptions. The influence of change in estimates on the value of provisions and statement of comprehensive income is presented in detail in Note 31 and Note 36 of the foregoing consolidated financial statements.
- During the reporting period, the Group changed the method of calculation of provisions to cover shortages of greenhouse gases' emission rights. The change related to taking into account in estimation of expenses essential to fulfill the obligation as at balance sheet date, the possibility to cover part of the shortage with CER (Certified Emission Reductions). The change of estimations did not have a significant influence on the amounts presented in the foregoing consolidated financial statements.
- Provisions are liabilities of uncertain timing or amount. During the reporting period, the Group changed estimations regarding the basis and amounts of some provisions. Changes of estimations are presented in Note 36 of the foregoing consolidated statements.
- During the reporting period the Group updated the estimates related to revenues of means to cover stranded costs. The update concerned mainly the recognition of actual performance for the period ended 31 December 2008. The information on compensations related to termination of long-term agreements on sale of electric power and energy is presented in detail in Note 46 of the foregoing consolidated financial statements.
- During the reporting period, the Group updated estimations on the recoverable amount of some items of property, plant and equipment. The influence of the change of estimations is presented in Note 22 of the foregoing consolidated financial statements.
- During the reporting period, the Company changed estimations relating to a buy-out period of Autostrada Wielkopolska S.A. bonds. According to the Company, in relation to the assumed bond's interests conditions after 30 November 2018, it should be rationally expected, that bonds will be bought out by the issuer in the earliest possible period. As a result, the Company changed the calculation of an effective interest rate, which was used in bonds' valuation. Adoption of a new (lower) effective interest rate resulted in a decrease of the carrying value of the securities held. If the Company had adopted current assumptions to measure bonds held in prior periods, the value of bonds as at 31 December 2008 would have been lower by ca. PLN 50 million.



## **11. New standards and interpretations published, not yet effective**

The following standards, changes in already effective standards and interpretations are approved by the European Union but are not effective as at 1 January 2009:

- IFRIC 12 Service Concession Arrangements – effective for the periods starting 1 April 2009;
- Changes to IFRS 5 Non-current Assets Held for Sale – effective for the periods starting 1 July 2009;
- Revised IFRS 3 Business combinations – effective for the periods starting 1 July 2009;
- Revised IAS 27 Consolidated and Separate Financial Statements – effective for the periods starting 1 July 2009;
- Changes to IAS 39 Financial instruments: Recognition and Measurement – effective for the periods starting 1 July 2009,
- IFRIC 16 Hedges on Net Investment in a Foreign Operation – effective for the periods starting 1 July 2009;
- IFRIC 17 Distribution of Non-cash Assets to Owners – effective for the periods starting 1 November 2009;
- IFRIC 18 Transfers of Assets from Customers – effective for the periods starting 1 November 2009;
- IFRIC 15 Agreements for the Construction of Real Estate – effective for the periods starting 1 January 2010;
- Changes to IFRS 1 First-time Adoption of International Financial Reporting Standards - effective for the periods starting after 1 January 2010;
- Changes to IAS 32 Financial Instruments: Presentation – effective for the periods starting 1 February 2010.

The following standards, changes in already effective standards and interpretations were not approved by the European Union and are not effective as at 1 January 2009:

- Changes to International Financial Reporting Standards 2009 (15 changes to 12 standards) - effective for the periods starting 1 July 2009 or 1 January 2010;
- Changes to IFRS 1 Additional Exemptions for First-Time Adopters - effective for the periods starting 1 January 2010;
- Changes to IFRS 2 Share-based payments – Group Cash-settled Share-based Payment Transactions – effective for the periods starting 1 January 2010;
- Changes to IFRS 1 Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters – effective for the periods starting 1 July 2010;
- IFRIC 19 Extinguishing Financial Liabilities with Equity – effective for the periods starting 1 July 2010;
- Revised IAS 24 Related Party Disclosures – effective for the periods starting 1 January 2011;
- Changes to IFRIC 14 The Limit on Defined Benefit Asset, Minimum Funding Requirements and their Interaction – effective for the periods starting 1 January 2011;
- IFRS 9 Financial instruments– effective for the periods starting 1 January 2013.

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

The purpose of the implementing IFRIC 18 *Transfers of Assets from Customers* was to unify the applied accounting practice in the situation of receiving from customers non-current assets or cash and cash equivalents for construction of non-current assets. The new interpretation would have a significant meaning for distribution companies of the PGE Group in relation to the recognition of so-called connection payments or network terminals. According to accounting principles (policies) applied by the Group, the above matter is recognized analogically to the recognition of government donations in compliance with IAS 20, i.e. the value of the assets received is reflected as deferred income and then recognized in profit and loss statement over time in line with the estimated economic useful life of an item of a property, plant and equipment. Based on current analysis performed, the Group assumes that as of and after 1 January 2010, the connection payments will be recognized directly in revenues. The Group estimates that if IFRIC 18 had been applied in 2009, the Group's 2009 revenues would have been higher by the amount of ca. PLN 90 million.

The parent company is a subsidiary of the State Treasury, and according to IAS 24 *Related Party Disclosures*, it present the value of transactions with other subsidiaries of the State Treasury in the consolidated financial statements. Revised IAS 24 allows in particular (under the conditions specified) a significant limitation of recognizing other subsidiaries of the State Treasury as related parties. If the Group fulfills the conditions specified in revised IAS 24, the information on disclosed related parties' transactions will be significantly reduced.

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

Revised IAS 17 *Leasing* (not yet approved by EU) changes, among others, provisions related to the lease of land. At the date of preparation of the foregoing consolidated financial statements, it is not possible to reliably determine the impact of the revised IAS 27 on the future consolidated financial statements of the PGE Group.

According to the assessment of the Management Board, the implementation of new standards and interpretations, except from matters mentioned above, would not have a significant influence on the accounting principles (policies) applied by the Group.

## **12. Accounting principles applied**

The most significant accounting principles applied are presented below.

### **12.1. Principles of consolidation**

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

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

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

All entities, which entered the PGE Capital Group as a result of reorganization in 2007, as described in detail in note 28, were under common control of the State Treasury both before and after the reorganization. IFRS 3 Business Combinations does not apply to entities or businesses under common control both before and after business combinations. A business combination involving entities or businesses under common control is a business combination in which all of the combining entities or businesses are ultimately controlled by the same party or parties both before and after the business combination, and that control is not transitory. In such cases, the Group should apply IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors, paragraph 10-12, and choose a relevant accounting policy. In making the above judgment, the management may also consider the most recent pronouncements of other standard-setting bodies that use a similar conceptual framework as IASB

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

## **12.2. Investments in associates**

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

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

## **12.3. Investment in jointly controlled entities**

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

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

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

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

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

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

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

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

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

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

	<b>31 December 2009</b>	<b>31 December 2008</b>
USD	2,8503	2,9618
EURO	4,1082	4,1724

## **12.5. Property, plant and equipment**

Property, plant and equipment are assets:

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

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

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

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

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

The depreciable amount is the cost of an asset less its residual value. Depreciation commences when the asset is capable of operating. Depreciation is performed on the basis of a depreciation plan reflecting the future useful life of the asset. The depreciation method used shall reflect the pattern in which the asset's future economic benefits are expected to be consumed by the entity.

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

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

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

Group	Average depreciation period in years	Applied depreciation periods in years
Buildings and construction	17	20 – 40
Machinery and equipment	11	5 – 15
Vehicles	6	5 – 7
Other	4	3 – 10

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

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

The carrying amount of an item of property, plant and equipment can be 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 revenues, if any, and the carrying amount of the item) shall be included in the profit or loss when the item is derecognized.

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

#### **The cost of making lignite layers available for exploitation**

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

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



## **12.6. Investment property**

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

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

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

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

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

An investment property shall be derecognized (eliminated 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 retirement or disposal of investment property shall be determined as the difference between the net disposal revenues and the carrying amount of the asset and shall be recognized in the profit or loss in the period of the retirement or disposal.

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

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

## **12.7. Intangible assets**

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

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

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

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

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

- 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 the profit or loss for the period when the related cost was incurred.

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

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

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

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

Intangible assets with a definite useful life shall be 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-end. If the expected useful life of the asset is different from previous estimates, the amortization period shall be 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 shall be 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:

<b>Group</b>	<b>Average depreciation period in years</b>	<b>Applied depreciation periods in years</b>
Acquired patents and licenses	3	3 -5
Costs of finished developed works	1	3 -5
Other	2	3 -5



## **12.8. Research and development costs**

All intangible assets internally generated by the Group are not recognized as assets, but rather as expenses, and 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, an entity 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.

## **12.9. Borrowings costs**

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

## **12.10. Financial assets**

Financial assets are classified in the following categories:

- Held-to-maturity investments (HTM),
- Financial assets at fair value through the 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 Group has the positive intention and ability to hold to maturity. Held-to-maturity investments shall be measured at amortized cost using the effective interest method. If the maturity exceeds 12 months, the financial assets held to maturity are classified as long-term assets.

### **Financial assets at fair value through profit or loss**

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

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

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

### **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 changes 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 assets account for 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 acquisition price, net of deferred tax, of financial assets available for sale are reflected in other comprehensive income, except for:

- impairment losses,
- foreign exchange differences gains and losses relevant to financial assets,
- interest calculated based on the effective interest rate method.

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

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

## **12.11. Impairment of non-financial non-current assets**

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

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

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

## **12.12. Embedded derivatives**

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

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

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

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

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

According to IAS 39, the rule 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 custom currency for the trading contracts of non-financial positions on this derivative market.

A "stand-alone" embedded derivative is reflected in the statement of financial position at fair value, and changes in fair value are recognized in profit or loss.

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

## **12.13. Derivatives and hedging instruments**

The Group uses derivatives in order to hedge against the risk relevant to changes in interest rates and foreign exchange differences. 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 can be recognized as a financial asset or financial liability respectively.

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

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

Hedge accounting recognizes three types of hedging relationships:

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

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

At the inception of the hedge the Group is formally designating and documenting the hedging relationship and the entity's risk management objective and strategy for undertaking the hedge. That documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the Group will assess the hedging instrument's effectiveness in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk. The hedge is expected to be highly effective in achieving offsetting changes in fair value

or cash flows attributable to the hedged risk, consistently with the originally documented risk management strategy for that particular hedging relationship. The hedge is assessed on an ongoing basis throughout the financial reporting periods for which the hedge was designated to determine if it is effective.

#### **12.14. Fair value hedges**

A fair value hedge is a hedge of the exposure to changes in fair value of a recognized asset, liability or an unrecognized firm commitment; or an identified portion of such an asset, liability or firm commitment, that is attributable to a particular risk and could affect profit or loss. The gain or loss on the hedged item attributable to the hedged risk shall adjust the carrying amount of the hedged item and be recognized in profit or loss, and the gain or loss from change of values of both the hedging instrument and the hedged item shall be recognized in profit or loss.

The adjustment of carrying value of fair value hedges measured at amortized cost is amortized in profit or loss through the remaining period before the maturity.

When an unrecognized firm commitment is designated as a hedged item, the subsequent cumulative change in the fair value of the firm commitment attributable to the hedged risk is recognized as an asset or liability with a corresponding gain or loss recognized in profit or loss. The changes in the fair value of hedging instruments are also recognized in profit or loss.

The Group shall discontinue prospectively the hedge accounting if the hedging instrument expires, is sold, terminated, exercised, the hedge no longer meets the criteria for hedge accounting or the Group revokes the designation. Any adjustment to the carrying amount of a hedged financial instrument for which the effective interest method is used shall be amortized to profit or loss. Amortization may begin as soon as an adjustment exists and shall begin no later than when the hedged item ceases to be adjusted for changes in its fair value attributable to the risk being hedged.

#### **12.15. Cash flow hedges**

Cash flow hedge is a hedge of the exposure to variability in cash flows that is attributable to a particular risk associated with a recognized asset or liability or a highly probable forecast transaction and could affect profit or loss. The portion of the gain or loss on the hedging instrument that is determined to be an effective hedge shall be recognized directly in equity through the statement of changes in equity and the ineffective portion of the gain or loss on the hedging instrument shall be recognized in profit or loss.

If a hedge of a forecast transaction subsequently results in the recognition of a financial asset or a financial liability, the associated gains or losses that were recognized directly in equity shall be reclassified into profit or loss in the same period or periods during which the asset acquired or liability assumed affects profit or loss.

If a hedge of a forecast transaction subsequently results in the recognition of a non-financial asset or a non-financial liability, or a forecast transaction for a non-financial asset or non-financial liability becomes a firm commitment for which fair value hedge accounting is applied, the associated gains and losses that were recognized directly in equity shall be reclassified into profit or loss in the same period or periods during which the asset acquired or liability assumed affects profit or loss.

For cash flow hedges no longer qualifying for hedge accounting, amounts that had been recognized directly in equity shall be recognized in profit or loss in the same period or periods during which the hedged forecast transaction affects profit or loss.

The Group shall discontinue hedge accounting if the hedging instrument expires, is sold, terminated, exercised or the hedge no longer meets the criteria for hedge accounting. In this case, the cumulative gain or loss on the hedging instrument that remains recognized directly in equity from the period when the hedge was effective shall remain separately recognized in equity until the forecast transaction occurs. If the transaction is no longer expected to occur, the cumulative gain or loss that had been recognized directly in equity shall be recognized in profit or loss.

## **12.16. Hedges of shares in net assets of foreign entities.**

Hedges of a net investment in a foreign operation, including a hedge of a monetary item that is accounted for as part of the net investment, are accounted for similarly to cash flow hedges. The portion of the gain or loss on the hedging instrument that is determined to be an effective hedge shall be recognized directly in equity through the statement of changes in equity and the ineffective portion shall be recognized in profit or loss. The gain or loss on the hedging instrument relating to the effective portion of the hedge that has been recognized directly in equity is recognized in profit or loss on disposal of the foreign operation.

## **12.17. 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 formula, however in case of representation and advertising materials and office supplies the expense can be recognized in profit or loss in the period when incurred.

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

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

## **12.18. Trade receivables**

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

The Group assesses at each balance sheet date whether there is any objective evidence that a receivable or a group of receivables is impaired. If a 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.

A write offs on a receivable is recognized in other operating expenses or financial expenses, depending on the relevant receivable.

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



## **12.19. Cash and cash equivalents**

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

## **12.20. Other assets and short-term prepayments**

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

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

Prepayments are recognized in reliably measured amounts, which refer to future periods and will generate future economic benefits for the Group.

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

The entities review at each reporting year-end whether it is probable enough that future economic benefits relevant to a prepayment will flow to the Group, so 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 usufruct of land is recognized as other assets and is amortized over the lease term.

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

Other assets also comprise receivables from the state.

## **12.21. Equity**

Equity is stated at nominal value, divided by kind, in accordance with law regulations and the Company's Articles of Association.

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

## **12.22. Provisions**

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

Provisions are reflected in profit or loss as operating expenses, other operating expenses or financial expenses, depending on relevant future obligations.

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

The discount rate (or rates) shall be 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) shall not reflect risks for which future cash flow estimates have been adjusted.

The following provisions are expected to be created in particular:

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

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

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

Based on the Inter-Corporate Collective Labor Agreement (Ponadzakładowy Układ Zbiorowy Pracy) changed in 2005, the Group entities are obliged to pay benefits, so called "energy tariff", to the former employees of the electric power engineering industry. Due to the above, since December 2005 the PGE Group entities create appropriate provisions

The cost of the provision for entitled retirees, as at the day when the additional protocol to Inter-corporate Collective Labor Agreement became effective, was fully recognized in the statement of comprehensive income for the year ended 31 December 2005. The cost of past employment, relating to present employees but future retirees, is recognized on a straight-line basis over the average period until the benefits become vested. The value of the provision is estimated by an actuary. The cost of creating the provision is recognized in operating expenses.

**Retirement and pension benefits and jubilee benefits**

According to the institutional defined remuneration plan the employees of Group entities 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 working and the average remuneration of the employee. The Group 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 ultimate cost of a defined benefit plan comprises discounted future payments, taking into account employee turnover, as at the balance sheet date. Demographic assumptions and employee turnover information are based on historical data. Actuarial gains and losses are recognized in profit or loss.

**Provision for reclamation of post-exploitation grounds, including reclamation and development of final excavations and reclamation of ash storages**

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

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



### **12.23. Share-based payments**

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

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

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

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

For cash-settled share-based payment transactions, the entity shall measure the goods or services acquired and the liability incurred at the fair value of the liability. Until the liability is settled, the entity shall remeasure the fair value of the liability at each balance sheet date and at the date of settlement, with any changes in fair value recognized in profit or loss for the period.

### **12.24. Profit-based payments for employees benefits and special funds**

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

## **12.25. Liabilities**

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

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

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

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

All other liabilities shall be classified as non-current.

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

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

## **12.26. The Social Fund**

The Group is compensating liabilities and assets of the Social Fund and the Efficiency Improvement Fund. Such an arrangement reflects the relationship between the entity and the Funds, in which the entity is a trustee. This means, that the entity is legitimately entitled to the Funds' assets, however the Fund and its members are the beneficiaries.

## **12.27. Accruals and deferred income**

Accruals are liabilities to pay for goods or services that have been received or supplied but have not been paid, invoiced or formally agreed with the supplier, including amounts due to employees. Although it is sometimes necessary to estimate the amount or timing of accruals, the uncertainty is generally much lower than it is for provisions. The Group recognizes accruals as costs:

- covering the value of energy origin units of ownership, related to sales executed in the reporting or previous periods in the portion that has not been redeemed,
- incurring of which is certain or highly probable,
- resulting from past events and causing the outflow of present or future assets of the entity,
- that can be reliably estimated.

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

- equivalents of economical benefits received or due from business partners to be realized in subsequent reporting periods;
- cash obtained to finance acquisition or production of fixed assets, fixed assets under construction and development works, settled through other operating revenue in the amount of depreciation charges of non-current assets financed from this source. This also applies to partially redeemed loans and credits and donations the purpose of which is to acquire an item of property, plant and equipment and to finance the development works;
- property, plant and equipment and intangible assets acquired free of charge. Deferred income allowances are recognized in other operating revenues settled in line with depreciation charges of these assets;
- income relevant to sale and leaseback of property, plant and equipment and intangible assets. Deferred income allowances are reflected in other operating revenues throughout the period of the lease. If there is a high probability of the buy-out of the leased asset after the lease period and the lease period is significantly different from the economic useful life of the asset, then allowances on deferred income are recognized simultaneously with depreciation of the asset.

## **12.28. Emission rights**

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

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

When created, the provision is recognized in operating expenses.

## **12.29. Leases**

A finance lease is a lease that transfers substantially all the risks and rewards incidental to ownership of an asset. Title may or may not eventually be transferred. At the commencement of the lease term, the lessees shall recognize finance leases as assets and liabilities in their 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 initial recognition, based on the economic contents of the lease agreement. Minimum lease payments shall be apportioned between the finance charge and reduction of the outstanding liability. The finance charge shall be 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 shall be recognized in financial expenses in profit or loss throughout the lease term in the periods in which they are incurred.

An operating lease is a lease under which the lessor holds significant part of risks and rewards incidental to ownership of the asset.

Lease payments under an operating lease shall be recognized as an expense on a straight-line basis over the lease term unless another systematic basis is more representative of the time pattern of the user's benefit.

## **12.30. Taxes**

Corporate income tax in the statement of comprehensive income comprises actual fiscal charges for the reporting period calculated by the Group entities in accordance with regulations of the Corporate Income Tax Act and a change in deferred tax assets and deferred tax liabilities not 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 possible for recovering in the future.

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

- the initial recognition of goodwill or the initial recognition of an asset or liability in a transaction which is not a business combination and at the time of the transaction, affects neither accounting profit nor taxable profit (tax loss)
- taxable temporary differences associated with investments in subsidiaries, branches and associates, and interests in joint ventures in case of which 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 shall be 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:

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

- 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 in case of which a deferred tax asset shall be 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 shall be reviewed at each balance sheet date. An entity shall reduce 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 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 expected for the related amount attributable to negative temporary differences to be used to reduce taxable profits in the future and tax losses to be settled, recognizing the prudence principle. Deferred tax assets are recognized if, and only if, their utilization is probable.

The Group entities shall record 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 increase of tax base in the future.

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

### **12.31. Revenues**

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

#### **Revenues from sale of goods and merchandise**

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

Revenues from sale of goods and merchandise include:

- amounts receivable from wholesale and retail sale of: electricity, heat energy, lignite, certificates of 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 on the net price, less applicable discounts, rebates and excise tax,
- amounts receivable from sales of materials and merchandise based on the net price, less 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 shall be recognized by reference to the stage of completion of the transaction at the balance sheet date less the revenues which influenced the previous reporting periods. Depending on the class of transaction, the stage of completion of the transaction can be 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 shall be recognized only to the extent of the expenses recognized that are recoverable.

### **Revenues from LTC compensations**

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

The Group entities as revenue of the period recognize, received as advances, cash, corrected by annual adjustment and adequately part of planned final adjustment. The allocation of final adjustment to the particular period is conducted in fixed prices, based on the planned revenues from sales of electric power and energy and sales of system services in the period of adjustment and taking into consideration the final adjustment. The discount is calculated on the basis of intermediate risk-free rate.

### **Revenues from sales of electricity on Electricity Trading Platform**

The Capital Group entity, Elbis Sp. z o.o., runs business activity related to electricity trading on Internet Electricity Trading Platform ("POEE"). The Platform is designed to conclude contracts for purchase or sale of electric energy, energy origin units of ownership and CO2 emission rights.

Due to the fact, that trading on POEE is made mostly automatically and the Group is exposed to a limited transactional and credit risk related to these business activities, revenues and expenses related to products purchased and sold on POEE are not reflected in the consolidated statement of comprehensive income. The consolidated revenues and expenses include only the fee related to concluding transactions on POEE.

## **12.32. Expenses**

### **Cost of goods sold**

Cost of goods sold includes:

- production costs incurred in the reporting period with adjustments related to changes in inventories (finished goods, semi-finished products and production in progress) and costs relevant to production of goods for the Group's own use,
- value of electricity sold and materials at purchase prices,
- impairment losses on property, plant and equipment, intangible assets and receivables,
- distribution and selling expenses as well as general and administrative expenses incurred in the reporting period (reflected separately in the statement of comprehensive income).

Production costs that can be directly assigned to revenues recognized by the entities influence the profit or loss for the reporting period in which they were incurred.

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

### **12.33. 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,
- reversal or creation of write offs, except from write offs related to financial operations or reflected in cost of goods sold,
- acquiring or disposal of assets and cash free of charge, including donations,
- due and obtained compensations, penalties and other expenses not relating to core operations.

### **12.34. Financial revenues and expenses**

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

- disposal of financial assets, investment property and investment in entities not consolidated,
- revaluation of financial instruments, except from financial assets available for sale, the result of which is reflected in revaluation reserve,
- share of profits of other entities,
- interest,
- changes in provisions related to the approaching incurrence of the expense (unwinding of the discount effect),
- foreign 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 foreign exchange differences recognized in the initial value of a non-current asset, to the extent they are recognized as an adjustment to interest costs and foreign exchange differences relevant to valuation of financial instruments classified to AFS portfolio,
- other operations relevant to financial operations.

Revenues and expenses from interest shall be recognized over the relevant period using the effective interest method relating to the carrying amount of a given financial instrument under the principle of materiality. Dividends are recognized when the shareholders' right to receive payments is established.

### **12.35. Earnings per share**

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

### **12.36. Cash flow statement**

Cash flows shall be prepared using the indirect method.

### **12.37. Adoption of updated IAS 1**

On 1 January 2009, the updated IAS 1 Presentation of Financial Statements became effective. Accordingly with the implemented regulations, the Group changed the nomenclature of main positions presented in the consolidated financial statements and presents the positions of revenues and expenses recognized in a given period in a single statement of comprehensive income.

### **12.38. Change of applied accounting principles and data presentation**

In the foregoing consolidated financial statements, as a result of changes in reporting principles, the Group restated appropriate items of the comparative consolidated financial statements for the year ended 31 December 2008.



## Presentation of revenues and expenses

In accordance with consolidation procedures, the Group did not eliminate transactions with some of the related parties, which have been recognized as not significant in relation to true and fair view of the consolidated financial statements treated as a whole. Due to the fact, that the turnover between these entities increased, the parent company updated the consolidation principles and made relevant eliminations when preparing the foregoing consolidated financial statements. Additionally during the reporting period, the Group changed the presentation of some captions of operating revenues and expenses. Due to the above, the Group transformed the data presented in a comparative consolidated income statement as presented below:

	Period ended 31 December 2008 (data approved)	Change of revenues and expenses presentation principles	Period ended 31 December 2008 (data transformed)
<b>Operating activity</b>			
Sales of finished goods and merchandise with excise tax	19.738.891	(1.463.436)	18.275.455
Excise tax	(1.093.457)	1.995	(1.091.462)
Revenues from sale of finished goods and merchandise	18.645.434	(1.461.441)	17.183.993
Revenues from sale of services	608.897	274.464	883.361
Revenues from lease	21.108	(2.074)	19.034
Revenues from LTC compensations	1.322.318	-	1.322.318
<b>Total sales revenues</b>	<b>20.597.757</b>	<b>(1.189.051)</b>	<b>19.408.706</b>
Cost of goods sold	(15.552.433)	1.360.451	(14.191.982)
<b>Gross profit on sales</b>	<b>5.045.324</b>	<b>171.400</b>	<b>5.216.724</b>
Other operating revenues	747.124	5.444	752.568
Distribution and selling expenses	(909.844)	(229.777)	(1.139.621)
General and administrative expenses	(987.537)	51.787	(935.750)
Other operating expenses	(632.772)	1.146	(631.626)
Financial revenues	505.120	-	505.120
Financial expenses	(836.441)	-	(836.441)
Share of profit of associate	238.561	-	238.561
<b>Profit before tax</b>	<b>3.169.535</b>	<b>-</b>	<b>3.169.535</b>

For the purpose of comparability, the Group has also restated data presented in Notes 13, 14 and 16 of the foregoing consolidated financial statements.



### **13. Operating segments**

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

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

Organization and management over the Group is based on the division into segments, taking into account the nature of the products and services. Each segment represents a strategic business unit, offering different products and serving different markets.

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

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

## Information on business segments

Period ended 31 December 2009	Continuing operations							Total
	Segment: Mining of fuels and production of energy from traditional sources	Segment: Production of energy from renewable sources	Segment: Distribution of electric energy and heat	Segment: Wholesale of energy and other products of energy market	Segment: Retail sale of energy and other products of energy market	Other activities	Inter-segment eliminations	
<b>Revenues</b>								
Revenues from sales to external customers	3 090 844	423 332	365 284	5 488 306	11 421 824	833 760		<b>21 623 350</b>
Revenues from sales between segments	10 298 008	123 824	4 303 441	7 234 681	920 885	1 005 775	(23 886 614)	
<b>Total revenues from segments</b>	<b>13 388 852</b>	<b>547 156</b>	<b>4 668 725</b>	<b>12 722 987</b>	<b>12 342 709</b>	<b>1 839 535</b>	<b>(23 886 614)</b>	<b>21 623 350</b>
<b>Financial result</b>								
Profit (loss) of a segment	4 026 302	77 603	263 244	439 397	397 681	135 478	5 024	5 344 729
Profit (loss) on continuing operations before tax and financial revenues (expenses)								<b>5 344 729</b>
Net financial revenues (expenses)								(208 352)
Share of profit of associates								242 157
<b>Profit (loss) before tax</b>								<b>5 378 534</b>
Income tax								(1 041 311)
<b>Net profit (loss) for the reporting year</b>								<b>4 337 223</b>
<b>Assets and liabilities</b>								
Assets of the segment	24 938 010	1 636 100	13 396 376	823 247	1 497 681	1 039 535		43 330 949
Shares in associates	9 564					1 345 235		1 354 799
Unallocated assets								9 762 050
<b>Total assets</b>								<b>54 447 798</b>
Liabilities of the segment	4 597 364	100 371	2 220 270	702 048	953 443	265 107		8 838 603
Unallocated liabilities								6 759 443
<b>Total liabilities</b>								<b>15 598 046</b>
<b>Other information on business segments</b>								
Capital expenditures	2 484 302	91 557	993 119	13 123	6 901	136 603		3 725 605
Amortization, depreciation and revaluation write-offs	1 510 696	125 807	831 943	22 749	28 651	123 175		2 643 021
Other non-monetary expenses	452 733	1 968	34 216	55 722	21 047	(24 521)		541 165

Consolidated financial statements for the year ended 31 December 2009 prepared in accordance with IFRS (all amounts in PLN thousand)

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

Period ended 31 December 2008 (data transformed)	Continuing operations							Total
	Segment: Mining of fuels and production of energy from traditional sources	Segment: Production of energy from renewable sources	Segment: Distribution of electric energy and heat	Segment: Wholesale of energy and other products of energy market	Segment: Retail sale of energy and other products of energy market	Other activities	Inter-segment eliminations	
<b>Revenues</b>								
Revenues from sales to external customers	2 363 228	447 092	310 057	5 492 746	9 851 115	944 468		<b>19 408 706</b>
Revenues from sales between segments	7 983 221	110 732	4 446 214	5 264 273	841 306	872 971	(19 518 718)	<b>0</b>
<b>Total revenues from segments</b>	<b>10 346 449</b>	<b>557 824</b>	<b>4 756 271</b>	<b>10 757 020</b>	<b>10 692 421</b>	<b>1 817 439</b>	<b>-19 518 718</b>	<b>19 408 706</b>
<b>Financial result</b>								
Profit (loss) of a segment	2 650 083	135 713	229 872	74 546	76 733	96 158	(810)	3 262 295
Profit (loss) on continuing operations before tax and financial revenues (expenses)								<b>3 262 295</b>
Net financial revenues (expenses)								(331 321)
Share of profit of associates								238 561
<b>Profit (loss) before tax</b>								<b>3 169 535</b>
Income tax								(499 288)
<b>Net profit (loss) for the reporting year</b>								<b>2 670 247</b>
<b>Assets and liabilities</b>								
Assets of the segment	23 440 036	1 743 627	13 266 051	804 141	1 188 456	988 195	-	41 430 505
Shares in associates	9 745					1 469 321	-	1 479 066
Unallocated assets								4 282 690
<b>Total assets</b>								<b>47 192 261</b>
Liabilities of the segment	4 484 129	120 779	2 116 635	448 902	839 520	245 036		8 255 001
Unallocated liabilities								8 761 682
<b>Total liabilities</b>								<b>17 016 683</b>
<b>Other information on business segments</b>								
Capital expenditures	3 114 131	138 697	970 327	12 338	5 896	151 293		4 392 682
Amortization, depreciation and revaluation write-offs	1 497 708	96 446	819 862	51 284	6 421	120 041		2 591 762
Other non-monetary expenses	217 686	2 970	225 422	294 634	251 390	(8 929)		983 173

## Information on geographical areas

Period ended 31 December 2009.

Revenues	Domestic market	EU countries	Other countries	Total
Revenues from continued operations	21.444.170	159.890	19.290	21.623.350
Revenues from discontinued operations				
<b>Total revenues</b>	<b>21.444.170</b>	<b>159.890</b>	<b>19.290</b>	<b>21.623.350</b>
Sales between areas	23.886.614			23.886.614
<b>Revenue from the area</b>	<b>45.330.784</b>	<b>159.890</b>	<b>19.290</b>	<b>45.509.964</b>
<b>Other information on the area</b>	<b>Domestic market</b>	<b>EU countries</b>	<b>Other countries</b>	<b>Total</b>
Assets of the area	43.330.949	-	-	43.330.949
Unallocated assets	9.762.050	-	-	9.762.050
Investments in associates	1.354.799	-	-	1.354.799
<b>Total assets</b>	<b>54.447.798</b>	<b>-</b>	<b>-</b>	<b>54.447.798</b>

Period ended 31 December 2008.

Revenues	Domestic market	EU countries	Other countries	Total
Revenues from continued operations	19.157.272	188.973	62.461	19.408.706
Revenues from discontinued operations	-	-	-	-
<b>Total revenues</b>	<b>19.157.272</b>	<b>188.973</b>	<b>62.461</b>	<b>19.408.706</b>
Sales between areas	19.518.718	-	-	19.518.718
<b>Revenue from the area</b>	<b>38.675.990</b>	<b>188.973</b>	<b>62.461</b>	<b>38.927.424</b>
<b>Other information on the area</b>	<b>Domestic market</b>	<b>EU countries</b>	<b>Other countries</b>	<b>Total</b>
Assets of the area	41.430.505	-	-	41.430.505
Unallocated assets	4.282.690	-	-	4.282.690
Investments in associates	1.479.066	-	-	1.479.066
<b>Total assets</b>	<b>47.192.261</b>	<b>-</b>	<b>-</b>	<b>47.192.261</b>

## 14. Revenues and expenses

	Period ended 31 December 2009	Period ended 31 December 2008 (data transformed)
<b>14.1. Revenues from operating activities</b>		
Sales of finished goods and merchandise with excise tax	19.760.013	18.275.455
Excise tax	(568.496)	(1.091.462)
Revenues from sale of finished goods and merchandise	19.191.517	17.183.993
Revenues from sale of services	879.533	883.361
Revenues from lease	19.953	19.034
Revenues from LTC compensations	1.532.347	1.322.318
<b>Total sales revenues</b>	<b>21.623.350</b>	<b>19.408.706</b>

A significant decrease of the excise tax is a result of the change of the excise tax act. Until March 2009 the excise tax was paid by the producers of electric energy and according to the changed Act the excise tax is to be paid by the entities delivering the electric energy to final customers.

	Period ended 31 December 2009	Period ended 31 December 2008 (data transformed)
<b>14.2. Other operating revenues</b>		
Profit on disposal of property, plant and equipment	20.140	13.112
Reversal of revaluation write offs on receivables	32.281	20.084
Reversal of revaluation write offs on other assets	52.364	4.507
Provisions reversed	71.311	24.847
Compensations, penalties and fines received	47.583	89.438
Donations received	9.506	6.588
Taxes refunded	5.700	3.758
Court fees refund	2.442	1.807
Redemption of liabilities	1.279	61
Assets acquired free of charge	2.122	1.562
Re-invoiced revenues	236	14
Change of valuation of recultivation provision	131.392	565.330
Other	46.212	21.460
<b>Total other operating revenues</b>	<b>422.568</b>	<b>752.568</b>

### 14.3. Other operating expenses

Creation of revaluation write offs on receivables	84.971	24.590
Creation of revaluation write offs on other assets	7.044	5.256
Loss on disposal of property, plant and equipment and intangible assets	9.415	33.726
Provisions created	438.872	365.421
Donations granted	5.272	7.795
Compensations	5.213	8.639
Court fees paid	6.531	4.145
Liquidation of damages/ removal of failures	33.098	63.152
Liquidation of non-current assets	53.330	31.212
Redemption of receivables	9.419	3.493
Costs of social activities	7.114	8.005
Fee related to an agreement on debt takeover	-	10.515
Difference between carrying value and fair value of a dividend in kind	-	21.861
Other	31.253	43.816
<b>Total other operating expenses</b>	<b>691.532</b>	<b>631.626</b>

	<b>Period ended 31 December 2009</b>	<b>Period ended 31 December 2008</b>
<b>14.4. Financial revenues</b>		
<b>Financial revenues from financial instruments</b>	<b>344.384</b>	<b>459.695</b>
Dividends	12.497	3.213
Interest revenue	163.046	216.563
Revaluation/ reversal of revaluation write offs	33.088	65.419
Profit on disposal of investments	65.299	23.157
Foreign exchange gains	70.454	151.343
<b>Other financial revenues</b>	<b>27.881</b>	<b>45.425</b>
Discount rate adjustment	4.742	-
Interest on state receivables	12.699	2.632
Provisions reversed	884	363
Difference between carrying amount and fair value of the dividend in kind	-	35.830
Other	9.556	6.600
<b>Total financial revenues</b>	<b>372.265</b>	<b>505.120</b>
<b>14.5. Financial expenses</b>		
<b>Financial expenses from financial instruments</b>	<b>391.749</b>	<b>638.371</b>
Interest expenses	285.136	318.871
Revaluation	32.090	50.530
Impairment losses	15.301	15.701
Loss on disposal of investments	350	462
Foreign exchange losses	58.872	252.807
<b>Other financial expenses</b>	<b>188.868</b>	<b>198.070</b>
Interest expenses (effect of discount curling)	155.106	155.681
Interest paid relating to state liabilities	5.759	2.686
Costs of SWAP transactions	-	5.887
Other	28.003	33.816
<b>Total financial expenses</b>	<b>580.617</b>	<b>836.441</b>

	Period ended 31 December 2009	Period ended 31 December 2008 (data converted)
<b>14.6. Costs by kind</b>		
Depreciation/ amortization	2.638.676	2.584.223
Materials and energy	3.689.128	3.157.849
External services	2.692.425	3.713.297
Taxes and charges	1.688.109	1.425.187
Personnel expenses	3.865.505	3.795.696
Other cost by kind	385.419	204.764
<b>Total costs by kind</b>	<b>14.959.262</b>	<b>14.881.016</b>
Change in inventories	(85.664)	908.033
Cost of products and services for the entity's own needs	(938.935)	(1.172.167)
<b>Cost of finished goods sold</b>	<b>13.934.663</b>	<b>14.616.882</b>
Distribution and selling expenses	(1.368.079)	(1.139.621)
General and administrative expenses	(914.109)	(935.750)
Cost of merchandise and materials sold	3.074.994	1.650.471
<b>Cost of goods sold</b>	<b>13.727.469</b>	<b>14.191.982</b>

## 15. Depreciation costs and impairment losses in the profit and loss account

	Period ended 31 December 2009	Period ended 31 December 2008
<b>Included in cost of goods sold:</b>	<b>2.554.949</b>	<b>2 507 609</b>
Property, plant and equipment depreciation	2.503.424	2 469 680
Revaluation write offs on property, plant and equipment	7.244	(2 883)
Intangible assets amortization	43.257	37 620
Other	1.024	3 192
<b>Included in distribution and selling expenses:</b>	<b>17.589</b>	<b>10 114</b>
Property, plant and equipment depreciation	14.631	8 678
Intangible assets amortization	2.958	1 436
<b>Included in general and administrative expenses:</b>	<b>60.163</b>	<b>62 148</b>
Property, plant and equipment depreciation	52.039	54 420
Intangible assets amortization	7.826	7 497
Revaluation write off on property, plant and equipment	32	231
Other	266	-
<b>Included in change in inventories, goods, prepayments and accruals</b>	<b>3.345</b>	<b>2 787</b>
<b>Included in costs of products and services for the entity's own use</b>	<b>2.630</b>	<b>1 565</b>

## 16. Employee benefits expenses

	Period ended 31 December 2009	Period ended 31 December 2008 (data transformed)
Payroll	2.848.806	2.702.581
Social security expenses	500.117	519.985
Retirement and pensions costs	14.634	46.164
Jubilee benefits and allowances	60.620	124.449
Other post-employment benefits	39.408	121.074
Other payroll-related expenses	401.920	281.443
<b>Total employee benefits expenses:</b>	<b>3.865.505</b>	<b>3.795.696</b>
Included in costs of goods sold	3.008.658	2.821.795
Included in distribution and selling expenses	236.158	370.865
Included in general and administrative expenses	567.505	569.957
Included in costs of products and services for the entity's own use	120.331	92.831
Change in inventories	(67.147)	(59.752)



## **17. Income tax**

Main elements of income tax expense for the period ended 31 December 2009 and for the period ended 31 December 2008 are as follows:

	<b>Period ended 31 December 2009</b>	<b>Period ended 31 December 2008</b>
<b>Consolidated statement of comprehensive income</b>		
<i>Current income tax</i>	726.934	523.214
Current income tax expense	716.916	537.612
Previous periods' current income tax adjustments	10.018	(14.398)
<i>Deferred income tax</i>	314.377	(23.926)
Related to temporary differences created and reversed	314.377	(23.926)
<i>Income tax expense as in the consolidated statement of comprehensive income</i>	<b>1.041.311</b>	<b>499.288</b>
<b>Total other comprehensive income</b>		
<i>Deferred income tax</i>	(9.685)	7.106
Tax on unrealized profit / (loss) from financial assets available for sale	(9.685)	7.106
<i>Tax income/(expense) recognized in other comprehensive income (in equity)</i>	<b>(9.685)</b>	<b>7.106</b>

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 Capital Group for the years ended 31 December 2009 and 31 December 2008 is as follows:

	<b>Period ended 31 December 2009</b>	<b>Period ended 31 December 2008</b>
<b>Gross profit/(loss) before tax</b>	<b>5.378.534</b>	<b>3.169.535</b>
Income tax according to Polish statutory tax rate of 19%	1.021.921	602.212
Previous periods current income tax adjustments	10.018	(14.398)
Costs not classified as tax-deductible costs	94.526	147.463
Non-taxable revenues	(87.788)	(223.954)
Other	2.634	(12.035)
 Tax at effective tax rate amounting to 19,4% [2008: 15,8%]	 <b>1.041.311</b>	 <b>499.288</b>
 Income tax (expense) as presented in consolidated statement of comprehensive income	 1.041.311	 499.288
Income tax related to discontinued operations	-	-

A significantly lower effective tax rate in the comparative period results mainly from a reversal in 2008 of a higher value of provisions and revaluation write offs which were non tax-deductible costs, a change of the recultivation reserve in particular (presented in note 14.2 to the foregoing consolidated financial statements).

<b>Components of deferred tax liability</b>	<b>Consolidated statement</b>	
	<b>As at 31 December 2009</b>	<b>As at 31 December 2008</b>
1996-2000 investment relief	922	923
Difference between tax value and carrying amount of property, plant and equipment	1.556.111	1.345.075
Accrued interest on deposits, loans granted, bonds and receivables	27.371	31.646
Difference between tax value and carrying amount of other financial assets	9.334	16.534
Difference between tax value and carrying amount of financial liabilities	36.055	35.896
Current period revenues unrealized for tax purposes	46.762	41.716
Difference between tax value and carrying amount of energy origin units of ownership	21.660	23.475
Revenues from accrued LTC compensations	351.219	212.465
Other	62.884	68.289
<b>Gross deferred tax liability</b>	<b>2.112.318</b>	<b>1.776.019</b>

Components of deferred tax asset	Consolidated statement	
	As at 31 December 2009	As at 31 December 2008
Difference between tax value and carrying amount of property, plant and equipment	117.928	104.189
Current period costs not realized for tax purposes	15.347	11.073
Provisions for employee benefits	370.903	350.037
Provisions for reclamation of final excavations and reclamation of ash storages	159.966	177.017
Accruals for employee bonuses	19.369	23.893
Difference between tax value and carrying amount of financial assets	40.728	36.238
Difference between tax value and carrying amount of financial liabilities	14.630	23.091
Difference between tax value and carrying amount of inventories	23.261	19.036
Payroll and other employee benefits	29.861	74.344
Tax losses	15.349	34.851
Energy infrastructure acquired free of charge and connection payments received	180.099	173.934
Provision for purchase of CO <sub>2</sub> emission rights	82.835	74.345
Other provisions	96.728	55.365
Other	129.769	118.818
<b>Gross deferred tax asset</b>	<b>1.296.773</b>	<b>1.276.231</b>
Revaluation write off on tax asset	130.648	141.713
<b>Net deferred tax asset</b>	<b>1.166.125</b>	<b>1.134.518</b>
After compensation of balances at the Group level, the deferred tax of the Group is presented as:		
<b>Deferred tax asset</b>	<b>412.353</b>	<b>447.647</b>
<b>Deferred tax liability</b>	<b>(1.358.546)</b>	<b>(1.089.148)</b>

The above presented revaluation write offs on deferred tax asset mainly relate to provisions for reclamation in lignite mines.

## **18. Discontinued operations**

During the year ended 31 December 2009, the parent company and the subsidiaries did not discontinue any significant business activities.

For details on the "Non-core" Programme and related disposal of same of non-energy related assets please refer to Note 46 of the foregoing consolidated financial statements.

## **19. Assets and liabilities of the Social Fund**

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

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

Assets assigned to the social fund in the Capital Group amounted to PLN 191,105 thousand at 31 December 2009 and 185,590 thousand as at 31 December 2008.

## 20. Earnings per share

Basic earnings per share shall be calculated by dividing profit or loss attributable to ordinary equity holders of the parent entity 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 parent entity (after deduction of interest on redeemable convertible preference shares) by the weighed average number of shares outstanding during the period (adjusted with the number of dilutive options or dilutive redeemable convertible preference shares).

Presented below are data on profit and shares used to calculate basic earnings per share.

	Period ended 31 December 2009	Period ended 31 December 2008
Net profit on continuing operations	4.337.223	2 670 247
Net profit on discontinued operations	-	-
<b>Net profit, attributed to</b>	<b>4.337.223</b>	<b>2 670 247</b>
- shareholders of the parent company	3.370.712	1 920 171
- minority interest	966.511	750 076
<b>Net profit attributable to ordinary equity holders of the Company used to calculate diluted earnings per share</b>	<b>3.370.712</b>	<b>1 920 171</b>
Number of ordinary shares at the beginning of reporting period	1.470.576.500	14.705.765
Number of ordinary shares at the end of reporting period	1.730.090.000	1.470.576.500
<b>Average weighted number of ordinary shares issued used to calculate basic earnings per share</b>	<b>1.513.947.249</b>	<b>1.470.576.500</b>

On 12 September 2008, the Extraordinary Meeting of Shareholders changed the hitherto existing number of shares by dividing their nominal value in the proportion of 1:100, i.e. the nominal value of shares which amounted to PLN 1,000 per share was decreased and settled at the level of PLN 10 per share. The change of the nominal value of shares did not constitute for a change in the value or structure of the share capital but only resulted in the change of number of shares. The Company presented the earnings per share ratio for the period ended 31 December 2008 using the number of shares after division of their nominal value.

As described in Note 35.1, on 3 September 2009, the Extraordinary Meeting of Shareholders adopted a resolution regarding the increase of the share capital of the Company in the manner of an issue of new shares excluding the subscription right of the hitherto existing shareholder. According to IAS 33.21, the ordinary shares issued in exchange for cash should be included into calculation of earnings per share ratio since the moment in which cash is due. Due to the above, when calculating the weighed average number of shares issued, the new shares were taken into account by the Company since November 2009.

## 21. Dividends paid and dividends declared

	Period ended 31 December 2009	Period ended 31 December 2008
<i>Cash dividends from ordinary shares</i>		
Dividend paid from retained earnings	527.829	300.000
Dividend paid from other capital reserves	414.017	-
Obligatory distribution from profit paid to the State Treasury by the parent company	198.142	99.570
<b>Total cash dividends from ordinary shares</b>	<b>1.139.988</b>	<b>399.570</b>
<i>Dividends in kind</i>		
Dividend paid from retained earnings	-	248.300
<b>Total dividends in kind</b>	<b>-</b>	<b>248.300</b>
<b>Total dividends</b>	<b>1.139.988</b>	<b>647.870</b>
Cash dividends per share (in PLN)*	0,78*	0,27**

\* As described in Note 35.1, in September 2009, the Extraordinary Meeting of Shareholders of PGE Polska Grupa Energetyczna S.A. adopted a resolution on increasing the value of the share capital. The increase of the share capital was registered in the National Court Register on 30 November 2009. Due to the above, the cash dividend per share was calculated based on the number of shares in the period in which the resolution was adopted, i.e. before the increase of the share capital.

\*\* In September 2008, the Extraordinary Meeting of Shareholders of PGE Polska Grupa Energetyczna S.A. adopted a resolution on dividing the hitherto existing nominal value of shares without changing the value of the share capital. Due to the above, the dividend per share ratio for the whole reporting period ended 31 December 2008 was calculated based on the number of shares after division of their nominal value.

Until the debut on Warsaw Stock Exchange, PGE Polska Grupa Energetyczna S.A. was subject to provisions related to an obligatory distribution of profit paid by sole-shareholders companies of the State Treasury, which amounts to 15% of the Company's gross financial result reflected in the statutory financial statements less current corporate income tax. According to IFRS, such payments are recognized as payments of a dividend to a shareholder and reflected as a change in equity. Since December 2009, the Company is no longer obliged to pay distribution from profit.

### Dividend in 2008

On 21 May 2008, the Extraordinary Meeting of Shareholders adopted a resolution based on which PLN 100,900 thousand of reserve capital was to pay the dividend. Simultaneously, a resolution was adopted to pay the dividend as the dividend in kind in the form of transferring shares of exploitation entities to the State Treasury, i.e. PSE-Centrum S.A., PSE-Wschód S.A., PSE-Zachód S.A., PSE-Północ S.A. and PSE-Południe S.A. The difference between the carrying amount and fair value of the net assets transferred is recognized in financial revenues.

On 30 October 2008, the Extraordinary Meeting of Shareholders adopted a resolution based on which PLN 147,400 thousand of reserve capital was allocated to pay the dividend. The dividend was paid as dividend in kind in the form of transferring ownership rights related to power lines, the carrying amount of which amounted to PLN 169,261 thousand.

### Dividend in 2009

On 30 June 2009, the Ordinary Meeting of Shareholders decided to allocate PLN 509,185 thousand of 2008 profit to pay the dividend. Furthermore, the retained earnings in the amount of PLN 18,644 thousand and reserve capital in the amount of PLN 414,017 thousand were also allocated to pay the dividend. The dividend defined by the Ordinary Meeting of Shareholders resolutions of 30 June 2009 was paid on 31 August 2009.

The restrictions related to payment of dividend were described in detail in Note 35.5 of explanatory notes to the foregoing consolidated financial statements.

## 22. Property, plant and equipment

31 December 2009	Land	Buildings and construction	Machinery and equipment	Means of transport	Other property, plant and equipment	Construction in progress	Total
<b>Gross book value</b>							
Opening balance	180.927	20.391.399	22.654.337	292.774	429.653	4.030.688	47.979.778
Direct purchase	194	22.301	33.673	499	51.178	3.553.821	3.661.666
Transfer from construction in progress	11.743	894.942	1.472.250	37.211	26.491	(2.442.637)	-
Sales/ disposals	(1.119)	(11.473)	(30.658)	(5.110)	(35.252)	(261)	(83.873)
Transfers between groups	(3.583)	909	1.443	4	1.227	-	-
Donations and transfers free of charge	(113)	12.010	394	-	(11)	-	12.280
Liquidations	(146)	(73.794)	(149.409)	(886)	(3.510)	(3.733)	(231.478)
Other	4.016	(3.661)	15.834	(383)	25.843	62.527	104.176
Closing balance	191.919	21.232.633	23.997.864	324.109	495.619	5.200.405	51.442.549
<b>Depreciation and revaluation write-offs</b>							
Opening balance	10.768	3.592.017	6.190.632	109.217	247.154	18.421	10.168.209
Depreciation for the period	3.214	960.951	1.535.242	31.233	45.466	-	2.576.106
Increase of impairment losses	-	1.762	6.209	32	-	3.094	11.097
Decrease of impairment losses	-	(32.997)	(18.003)	-	-	(940)	(51.940)
Sales/ disposals	(122)	(7.099)	(20.323)	(3.155)	(7.127)	-	(37.826)
Transfers between groups	(879)	233	193	294	159	-	-
Donations and transfers free of charge	(3)	-	(102)	-	(9)	-	(114)
Liquidation	-	(44.884)	(123.750)	(687)	(2.591)	-	(171.912)
Other	3.020	4.678	(23.107)	(357)	25.261	(6.230)	3.265
Accumulated depreciation	15.998	4.474.661	7.546.991	136.577	308.313	14.345	12.496.885
Opening balance net book value	170.159	16.799.382	16.463.705	183.557	182.499	4.012.267	37.811.569
Closing balance net book value	175.921	16.757.972	16.450.873	187.532	187.306	5.186.060	38.945.664



Consolidated financial statements for the year ended 31 December 2009 prepared in accordance with IFRS (all amounts in PLN thousand)

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

31 December 2008	Land	Buildings and construction	Machinery and equipment	Means of transport	Other property, plant and equipment	Construction in progress	Total
<b>Gross book value</b>							
Opening balance	175.605	19.683.349	21.082.555	258.380	436.041	2.725.414	44.361.344
Direct purchase	26	36.491	58.027	2.416	71.336	4.161.334	4.329.630
Transfer from construction in progress	14.689	1.027.363	1.854.283	38.653	21.181	(2.956.169)	-
Sales/ disposals	(1.163)	(304.052)	(38.076)	(5.157)	(79.604)	(154)	(428.206)
Transfers between groups	-	34.606	(34.878)	(68)	340	-	-
Donations and transfers free of charge	(812)	10.504	179	(75)	(4)	-	9.792
Liquidations	(5)	(64.878)	(269.279)	(1.517)	(4.204)	(2.546)	(342.429)
Other	(7.413)	(31.984)	1.526	142	(15.433)	102.809	49.647
Closing balance	180.927	20.391.399	22.654.337	292.774	429.653	4.030.688	47.979.778
<b>Depreciation and revaluation write offs</b>							
Opening balance	11.590	2.673.911	5.072.952	80.892	233.041	6.352	8.078.738
Depreciation for the period	2.937	1.013.307	1.446.107	32.049	43.261	-	2.537.661
Increase of impairment losses	-	420	156	-	(77)	1.822	2.321
Decrease of impairment losses	(226)	(2.361)	(1.950)	-	(102)	(2.490)	(7.129)
Sales/ disposals	(269)	(103.865)	(28.022)	(2.491)	(16.334)	-	(150.981)
Transfers between groups	-	34.746	(34.852)	(63)	169	-	-
Donations and transfers free of charge	(220)	(8)	(46)	(24)	(3)	-	(301)
Liquidation	-	(27.750)	(240.014)	(1.134)	(3.103)	-	(272.001)
Other	(3.044)	3.617	(23.699)	(12)	(9.698)	12.737	(20.099)
Accumulated depreciation	10.768	3.592.017	6.190.632	109.217	247.154	18.421	10.168.209
Opening balance net book value	164.015	17.009.438	16.009.603	177.488	203.000	2.719.062	36.282.606
Closing balance net book value	170.159	16.799.382	16.463.705	183.557	182.499	4.012.267	37.811.569

During the period ended 31 December 2009, the Capital Group entities included expenses related to external financing in the amount of PLN 72,401 thousand in the value of property, plant and equipment and construction in progress (PLN 105,049 thousand during the year ended 31 December 2008).

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

As at 31 December 2009, the carrying value of property, plant and equipment owned by production entities amounted to PLN 23 billion and accounted for ca. 42% of consolidated assets of PGE Capital Group.

During the period ended 31 December 2009, significant changes took place in the economical environment of production companies operating in Poland. Due to the above, taking into consideration regulations of IAS 36 *Impairment of Assets*, the PGE Capital Group performed impairment tests related to cash generating units (CGU), including production property, plant and equipment the purpose of which was to determine their recoverable value as at 31 December 2009. Due to the fact, that there were no similar transactions on the Polish market, the recoverable value was determined with the use of the discounted cash flow method on the basis of financial projections for the years 2010 - 2020.

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

- PGE Kopalnia Węgla Brunatnego Bełchatów with PGE Elektrownia Bełchatów S.A. (i) and PGE Kopalnia Węgla Brunatnego Turów S.A. with PGE Elektrownia Turów S.A. (ii) respectively were treated as one CGU due to technological and economic connections between these entities;
- The adopted assumptions on fluctuations of electricity prices in the years 2010-2020 take into account the influence of settlements in the system of covering stranded costs, as specified in the Act on covering producer's costs related to earlier termination of long-term agreements for the sales of electric power and energy (see Note 46), as well as costs of carbon dioxide emission rights' purchase;
- Emission limits for the years 2008-2012 for particular CGUs in accordance with the National Allocation Plan II. For the years 2013-2020, the Group assumed gradual reduction of emission limits in relation to average annual allowance of 2012, from 70% in 2013 to 0% in 2020 and the following years;
- Maintenance of production capacities resulting from reconstruction investments;
- In the projection period, the after tax weighed average cost of capital amounts to 7,8% - 12,4%.
- Compensations received by entitled producers resulting from earlier termination of long-term contracts.

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

As a result of tests performed as at 31 December 2009 it occurred that the income-based value of property, plant and equipment tested is higher than the carrying value, therefore there is no need for impairment losses. As the result of tests performed, the Group made a reversal of an impairment loss in PGE Elektrociepłownia Kielce S.A. in amount of ca. PLN 48 million.

### **Measurement estimate of property, plant and equipment in distribution companies**

The carrying amount of property, plant and equipment of eight distribution companies within the Capital Group as at the balance sheet date amounts to ca. PLN 13 billion and accounts for ca. 24% of the value of consolidated assets. Their recoverable amount depends on the tariff granted by the Energy Regulation Office ("ERO"). The regulatory (tariff) revenue of the companies, calculated yearly in the financial plan, assures covering of justified costs: operating costs, depreciation charges, tax charges, purchase costs of electricity to cover balancing differences, costs transferred and return on capital invested in distribution activity on the justified level. Return on equity and depreciation charges are dependent on the so called Regulatory Value of Assets.

Currently the electrical energy market in Poland is facing structural changes. Distribution companies, including those within the PGE Group, lead thorough discussions with the Energy Regulatory Office over the question of accepting the revaluated assets as a basis to calculate the return on equity in tariff. In 2009, the works of the team formed by the Polish Society of Transmission and Distribution of Electricity ("PSTDE") with the participation of the President of ERO were finished. The purpose of the works was to elaborate a proposal of unified principles of measurement of assets related to transmission system on the basis of which transmission tariffs will be calculated as well as the so-called access path to a full return on the capital invested on the basis of elaborated assumptions.

As a result of works described above, the Regulatory Value of Assets for distribution entities of PGE Group was defined. In some cases this value is lower than the carrying amount of property, plant and equipment of appropriate companies. Nevertheless, the impairment tests performed indicated that as at the date of preparation of the foregoing consolidated financial statements, there is no need to revalue the carrying value of appropriate property, plant and equipment.

## 23. Non-current assets classified as held for sale

Non-current assets classified as held for sale include mainly the Holiday Resort in Niedzica (Ośrodek Wczasowo-Wypoczynkowy) classified as held for sale by a subsidiary - PGE Kopalnia Węgla Brunatnego Bełchatów S.A. and part of telecommunication infrastructure of a company Exatel S.A.

	As at 31 December 2009	As at 31 December 2008
<b>Assets</b>		
Intangible assets	-	-
Property, plant and equipment	5.712	3.458
<b>Non-current assets classified as held for sale</b>	<b>5.712</b>	<b>3.458</b>
<b>Liabilities directly associated with non-current assets classified as held for sale</b>	<b>-</b>	<b>-</b>
<b>Net assets/liabilities classified as held for sale</b>	<b>5.712</b>	<b>3.458</b>

For details on the "Non-core" Programme and related disposal of same of non-energy related assets please refer to Note 46 of the foregoing consolidated financial statements

## 24. Leasing

### 24.1. Operating lease liabilities- the Group as the lessee

As at 31 December 2009 and as at 31 December 2008 the future minimum lease payments related to irrevocable lease agreements are as follows:

	Future liabilities at	
	31 December 2009	31 December 2008
Less than 1 year	569	484
Between 1 and 5 years	225	673
More than 5 years	-	-
<b>Total lease payments</b>	<b>794</b>	<b>1.157</b>

Additionally the Capital Group entities incur costs related to a perpetual usufruct of land. The value of these costs for the year ended 31 December 2009 amounted to ca. PLN 11.5 million.

## 24.2. Operating lease receivables – the Group as a lessor

As at 31 December 2009 and as at 31 December 2008, the future minimum receivables from lease payments related to irrevocable operating lease agreements are as follows:

	Future receivables as at		Income recognized in	
	31 December 2009	31 December 2008	2009	2008
Less than 1 year	364	462	45	45
Between 1 and 5 years	1.544	1.378	195	195
More than 5 years	-	-	-	-
<b>Total lease payments</b>	<b>1.908</b>	<b>1.840</b>	<b>240</b>	<b>240</b>

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

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

As at 31 December 2009 and as at 31 December 2008, the future minimum lease payments related to these agreements and current value of minimum net lease payments are as follows:

	31 December 2009		31 December 2008	
	Minimal payments	Current value of payments	Minimal payments	Current value of payments
Less than 1 year	1.126	1.014	1.383	1.126
Between 1 and 5 years	740	656	1.789	1.600
More than 5 years	-	-	-	-
<b>Total minimum lease payments</b>	<b>1.866</b>	<b>1.670</b>	<b>3.172</b>	<b>2.726</b>
Less financial expenses	(196)	-	(446)	-
<b>Current value of minimum lease payments, including:</b>	<b>1.670</b>	<b>1.670</b>	<b>2.726</b>	<b>2.726</b>
Short-term	1.014	1.014	1.127	1.127
Long-term	656	656	1.599	1.599

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

	31 December 2009		31 December 2008	
	Minimal payments	Current value of payments	Minimal payments	Current value of payments
Less than 1 year	358	340	765	563
Between 1 and 5 years	699	602	944	767
More than 5 years	-	-	-	-
<b>Total minimum lease payments</b>	<b>1.057</b>	<b>942</b>	<b>1 709</b>	<b>1 330</b>
Less financial expenses	(115)	-	(379)	-
<b>Current value of minimum lease payments, including:</b>	<b>942</b>	<b>942</b>	<b>1 330</b>	<b>1 330</b>
Short-term	340	340	563	563
Long-term	602	602	767	767

## 25. Investment property

	31 December 2009	31 December 2008
<b>Opening balance as at 1 January</b>	<b>26.612</b>	<b>15.933</b>
Increase of value	152	11.560
Depreciation	(1.307)	(680)
Decrease of value	(26)	(201)
<b>Closing balance as at</b>	<b>25.431</b>	<b>26.612</b>

Investment property in the Capital Group companies covers mostly buildings located in an entity location, leased to third parties in part or in full.

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

## 26. Intangible assets

	Development costs	Licenses and patents		Other intangible assets	Non-commissioned intangible assets	Total
		Total	Including computer software			
31 December 2009						
<b>Gross book value</b>						
Opening balance	11.377	233.535	175.662	113.748	16.290	374.950
Direct purchase	1.267	6.716	4.312	3.410	52.530	63.923
Settlement of non-commissioned intangible assets	-	47.216	34.840	6.960	(54.176)	-
Sales/ disposals	(898)	(1.516)	(1.516)	(4.006)	-	(6.420)
Donations and transfers free of charge	-	-	-	98	-	98
Liquidation	-	(10.363)	(9.881)	(325)	-	(10.688)
Other changes of values	-	(976)	207	1.128	1.997	2.149
Closing balance	11.746	274.612	203.624	121.013	16.641	424.012
<b>Amortization and revaluation write offs</b>						
Opening balance	9.440	146.774	121.268	76.480	231	232.925
Amortization for the period	1.604	38.066	26.289	14.372	-	54.042
Sales/ disposals	(763)	(1.322)	(1.322)	(3.952)	-	(6.037)
Liquidation	-	(10.187)	(9.805)	(281)	-	(10.468)
Other changes of values	-	(488)	(977)	703	-	215
Closing balance	10.281	172.843	135.453	87.322	231	270.677
<b>Net book value</b>						
Opening balance	1.937	86.761	54.394	37.268	16.059	142.025
Closing balance	1.465	101.769	68.171	33.691	16.410	153.335



31 December 2008	Development costs	Licenses and patents		Other intangible assets	Non-commissioned intangible assets	Total
		Total	Including computer software			
<b>Gross book value</b>						
Opening balance	10.815	196.203	147.322	116.337	15.173	338.528
Direct purchase	562	2.825	2.717	1.737	46.369	51.493
Settlement of non-commissioned intangible assets	-	34.284	22.566	10.190	(44.474)	-
Sales/ disposals		(7.202)	(7.202)	(3.061)	(956)	(11.219)
Donations and transfers free of charge	-	-	-	136	-	136
Liquidation	-	(5.136)	(5.011)	(608)	-	(5.744)
Other changes of values	-	12.561	15.270	(10.983)	178	1.756
Closing balance	11.377	233.535	175.662	113.748	16.290	374.950
<b>Amortization and revaluation write offs</b>						
Opening balance	7.722	119.905	104.309	72.311	-	199.938
Amortization for the period	1.718	32.299	22.015	12.208	-	46.225
Increase of impairment losses	-	-	-	467	231	698
Sales/ disposals	-	(6.076)	(6.076)	(3.010)	-	(9.086)
Liquidation		(4.878)	(4.759)	(602)	-	(5.480)
Other changes of values	-	5.524	5.779	(4.894)	-	630
Closing balance	9.440	146.774	121.268	76.480	231	232.925
<b>Net book value</b>						
Opening balance	3.093	76.298	43.013	44.026	15.173	138.590
Closing balance	1.937	86.761	54.394	37.268	16.059	142.025

## 27. Investment in associates accounted for using the equity method

	Polkomtel*	PEC Bogatynia*	Atex*	Swe-Pol Link*	RAZEM
Share in voting rights	21,85%**	24,44%	43,83%	49,00%***	
	Telecommunication services	Transmission, distribution and turnover of heat	Control and monitoring systems	Transmission of electricity	
<b>As at 31 December 2009</b>					
Share of statement of financial position in associate:					
Current assets (short-term)	293.885	1.410	9.444	11.501	316.240
Non-current assets (long-term)	1.543.872	8.865	5.344	275.121	1.833.202
Short-term liabilities	(898.618)	(673)	(1.114)	(29.266)	(929.671)
Long-term liabilities	(211.915)	(38)	(270)	(239.796)	(452.019)
<b>Share of net assets</b>	<b>727.224</b>	<b>9.564</b>	<b>13.404</b>	<b>17.560</b>	<b>767.752</b>
Goodwill	529.803	-	-	57.244	587.047
<b>Shares in associate in the statement of financial position</b>	<b>1 257.027</b>	<b>9.564</b>	<b>13.404</b>	<b>74.804</b>	<b>1.354.799</b>
<b>Period ended 31 December 2009</b>					
Share of revenue of the associate	1.770.804	4.894	7.367	42.967	1.826.032
<b>Share of profit (loss) of the associate:</b>	<b>241.931</b>	<b>(181)</b>	<b>920</b>	<b>(513)</b>	<b>242.157</b>
<b>As at 31 December 2008</b>					
Share of statement of financial position in associate:					
Current assets (short-term)	342.079	1.290	7.856	5.441	356.666
Non-current assets (long-term)	1.605.604	9.180	5.467	193.508	1.813.759
Short-term liabilities	(805.127)	(681)	(388)	(17.190)	(823.386)
Long-term liabilities	(282.621)	(43)	(452)	(170.164)	(453.280)
<b>Share of net assets</b>	<b>859.935</b>	<b>9.746</b>	<b>12.483</b>	<b>11.595</b>	<b>893.759</b>
Goodwill	534.592	-	-	50.715	585.307
<b>Shares in associate in the statement of financial position</b>	<b>1.394.527</b>	<b>9.746</b>	<b>12.483</b>	<b>62.310</b>	<b>1.479.066</b>
<b>Period ended 31 December 2008</b>					
Share of revenue of the associate:	1.489.454	4.699	833	31.237	1.526.223
<b>Share of profit (loss) of the associate:</b>	<b>239.083</b>	<b>(252)</b>	<b>(222)</b>	<b>(48)</b>	<b>238.561</b>

\* preliminary non-audited data

\*\* until December 2008 the share in Polkomtel accounted for 17.56%

\*\*\* until February 2009, the share in Swe-Pol Link accounted for 33.00%

During the reporting period, the Company purchased from Vattenfall Aktiebolag 96 000 shares of SwePol Link AB. After this transaction, PGE Polska Grupa Energetyczna owns 294 000 shares of SwePol Link in total, which stands for 49% of votes in the equity and during Shareholder's Meeting.

The goodwill of SwePol Link AB specified in the above table was calculated as follows:

	<b>Year 2009</b>
<b>Goodwill of the entity as at 1 January</b>	<b>50.715</b>
Stock share in equity of SwePol Link AB	5.621
Purchase price	12.150
Difference: goodwill	<b>6.529</b>
<b>Goodwill of the entity as at 31 December</b>	<b>57.244</b>

Information about the investment in SwePol Link and prepayments to Vattenfall Aktiebolag is described in detail in Note 44.5.7 of explanatory notes to the foregoing consolidated financial statements.

Furthermore, the Management Board adopted a decision to commence arrangements for the sale of shares of Polkomtel S.A. As at the day of preparation of the consolidated financial statements the regulations of IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* were not fulfilled, therefore the shares in this entity are presented in accordance with IAS 28 *Investments in Associates*.

## **28. Business combinations**

### **Creation of PGE Group**

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

- Polskie Sieci Elektroenergetyczne S.A. (currently under the business name PGE Polska Grupa Energetyczna S.A.),
- BOT Capital Group (including: BOT Górnictwo i Energetyka S.A., BOT Elektrownia Bełchatów S.A., BOT Kopalnia Węgla Brunatnego Bełchatów S.A., BOT Elektrownia Opole S.A., BOT Elektrownia Turów S.A. and BOT Kopalnia Węgla Brunatnego Turów S.A.),
- Zespół Elektrowni Dolna Odra S.A. („ZEDO”)
- eight energy companies: Zamojska Korporacja Energetyczna S.A., Rzeszowski Zakład Energetyczny S.A., Lubelskie Zakłady Energetyczne S.A., Zakłady Energetyczne Okręgu Radomsko-Kieleckiego S.A., Łódzki Zakład Energetyczny S.A., Zakład Energetyczny Łódź-Teren S.A., Zakład Energetyczny Warszawa-Teren S.A. and Zakład Energetyczny Białystok S.A.

In accordance with the Programme for Electric Power Engineering, a consolidation model was elaborated under which shares of all of the above mentioned entities were contributed to PSE.

The consolidation took place in two stages. At first, in December 2006 the State Treasury contributed 85% of shares of ZEDO S.A. and eight distribution entities to share capital of PGE Energia S.A. In the second stage, on 9 May 2007, an increase of share capital of Parent Company was made as a result of a contribution of 85% of shares of PGE Energia S.A. and BOT GiE S.A. (currently under business name PGE GiE S.A.).

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

The absence of a Standard or an Interpretation that specifically applies to a transaction, other event or condition, is covered by IAS 8 point 10-12. Based on these provisions, the entity preparing its financial statement in accordance with IFRS is obliged to develop and apply an accounting policy that results in information that is relevant to the economic decision-making needs of users and is reliable, in that the financial statements represent truly and fairly the financial position, financial performance and cash flows of the entity; reflect the economic substance of transactions other events and conditions, and not merely the legal form; are neutral, prudent and complete in all material respects.

According to analysis made by the Company, the entities of complex financial information and under common control are preferred to be accounted for using the pooling of interest method.

The method is based on the assumption that entities were controlled by the same party or parties both before and after the business combination, that control is not transitory, and the consolidated financial statements reflect the continuity of common control and does not reflect a change in net assets to fair value (or recognition of new assets) or goodwill, as none of the entities under business combination is actually acquired. With regards to the above, the consolidated financial statements are prepared as if the entities have always been under business combination.

Financial statements of all PGE Group entities of the State Treasury under business combination were aggregated since transition to IFRS, and the whole business combination transaction was settled within equity with no influence on goodwill.

### **Further significant transformations of the PGE Capital Group**

As described in Note 2 of the foregoing consolidated financial statements, as a result of the agreement signed on 18 December 2008, the Management Board of PGE S.A. decided on 10 November 2009 to buy from the State Treasury 160,000 shares of PGE Elektrownia Opole S.A. for a total value of PLN 197 790 thousand and 5 280 000 shares of PGE Kopalnia Węgla Brunatnego Turów S.A. for a total value of PLN 38 491 thousand. Furthermore, during the financial statements period, the Group acquired 13,5% of employee shares of PGE Zespół Elektrociepłowni Bydgoszcz S.A.

Due to the fact, that business combination under common control within the PGE Group entities is accounted for using the pooling of interest method, the value of purchased minority interests in subsidiaries was presented as an increase of retained earnings of the Capital Group and the cost of acquisition of additional shares was presented as decrease of retained earnings of the Capital Group. As a result of the above transformations the retained earnings of the PGE Group increased by PLN 256,635 thousand.

The planned restructuring of the PGE Capital Group is described in Note 46 of the foregoing consolidated financial statements.

## **29. Investments in jointly controlled entities**

During financial periods ended 31 December 2009 and 31 December 2008, the Group did not participate in any jointly controlled entity.

**30. Carbon dioxide emission rights** On 14 November 2008, the Council of Ministers adopted a National Allocation Plan on carbon dioxide emission for the years 2008-2012 ("KPRU II") in the European Community emission rights trading system dividing the carbon dioxide (CO<sub>2</sub>) emission limits between the installations participating in the emission rights trading system. The accepted regulation is based on a draft of the regulation dated 12 February 2008, after the changes dated 16 May 2008. According to the decision of the European Commission, Polish companies will be able to emit ca. 1,043 million tons of CO<sub>2</sub> during the following five years. This gives a volume of 209 million tons per year.

The below table contains CO<sub>2</sub> emission limits granted to particular Group entities for the 5-year period, forecasts of CO<sub>2</sub> emission for the period and exposure of particular entities after having taken into consideration the actual emission in 2008 and 2009, based on the adopted method of allocating emission limits.

No.	Company	Emission limits for years 2008-2012 (5 years in total) in thousand tones CO <sub>2</sub>	Emission plan for years 2008-2012, regarding the actual usage of limits	Planned (shortage) / surplus in years 2008 – 2012	Shortage as at 31 December 2009 after redemption until the balance sheet date
1	PGE Elektrownia Bełchatów S.A.	134.686	147.782	(13.097)	(4.982)
2	PGE Elektrownia Opole S.A.	31.417*	35.844	(4.427)	(1.328)
3	PGE Elektrownia Turów S.A.	55.793	58.751	(2.958)	(119)
4	Zespół Elektrowni Dolna Odra S.A.	28.401	35.854	(7.453)	(1.488)
5	PGE Elektrociepłownia Gorzów S.A.	2.383	2.277	107	43
6	PGE Elektrociepłownia Lublin-Wrotków Sp. z o.o.	2.854	2.558	296	115
7	Zespół Elektrociepłowni Bydgoszcz S.A.	5.776	5.127	649	269
8	PGE Elektrociepłownia Rzeszów S.A.	1.516	1.474	42	16
9	PGE Elektrociepłownia Kielce S.A.	968**	901	67	26
<b>TOTAL</b>		<b>263.794</b>	<b>290.568</b>	<b>(26.774)</b>	<b>(7.448)</b>

\* Previously allocated limits were decreased by rights sold by the entity in 2009.

\*\* Previously allocated limits were increased by rights additionally granted for the years 2009-2012 due to commencement of production of electric energy.

The principles of allocation of emission limits for particular years of the settlement period are described in detail in Note 12.29 of the consolidated financial statements. The provision is calculated on the basis of shortage of CO<sub>2</sub> emission rights in the period based on actual and planned CO<sub>2</sub> emission in the reporting period. The value of the provision as at the balance sheet date is accrued, from the beginning of the reporting period to the balance sheet date, taking into consideration the actual CO<sub>2</sub> emission in the period.

The provision as at the balance sheet date is calculated based on prices included in contracts on covering the emission rights shortage and the remaining emission rights shortage is calculated on the basis of weighted average price of SPOT contracts as at the balance sheet date, binding on Powernext, EEX and Nord Pool stock exchanges.

The provision calculated as at 31 December 2009, after taking into consideration the redemption of emission which took place until 31 December 2009, for the PGE Capital Group amounts to PLN 383,025 thousand and is described in detail in Note no 36.1 of the consolidated financial statements.

## 31. Employment benefits

### Retirement and pension allowances

The Group entities pay retirement or pension allowances in the amount specified in the Corporate Collective Labor Agreement when an employee retires or becomes a pensioner. Due to the above, an entity creates a provision for retirement and pension allowance based on the valuation made by an actuary.

### Energy Tariff

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

### Social Fund and medical benefits

The Group entities create a write off for Social Fund for retirees and pensioners. The Group entities also provide medical care for retirees and pensioners. Provisions are created to cover such costs and these are measured using actuarial methods.

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

#### Year ended 31 December 2009

	Retirement, pension and other benefits provisions	Coal allowance	Energy tariff	Social Fund	Medical benefits	Other	Total
<b>As at 1 January 2009</b>	<b>341.216</b>	<b>123.220</b>	<b>412.648</b>	<b>170.949</b>	<b>37.220</b>	<b>325</b>	<b>1.085.578</b>
Present employment costs	12.986	1.139	6.238	2.702	649	-	23.714
Actuarial gains and losses excluding discount rate adjustment	5.618	(1.161)	39.188	32.544	(17)	-	76.172
Benefits paid	(17.844)	(6.813)	(14.717)	(6.059)	(1.244)	-	(46.677)
Past employment costs	-	-	9.867	-	-	-	9.867
Discount rate adjustments	(17.046)	(5.683)	(38.988)	(12.236)	(2.108)	-	(76.061)
Interest costs	18.080	6.621	27.929	9.057	1.957	-	63.644
Other changes	(4.308)	-	1.596	(167)	(1.331)	(325)	(4.535)
<b>As at 31 December 2009</b>	<b>338.702</b>	<b>117.323</b>	<b>443.761</b>	<b>196.790</b>	<b>35.126</b>	<b>-</b>	<b>1.131.702</b>
<b>Short-term</b>	<b>48.539</b>	<b>7.976</b>	<b>21.421</b>	<b>9.199</b>	<b>1.771</b>	<b>-</b>	<b>88.906</b>
<b>Long-term</b>	<b>290.163</b>	<b>109.347</b>	<b>422.340</b>	<b>187.591</b>	<b>33.355</b>	<b>-</b>	<b>1.042.796</b>

**Year ended 31 December 2008**

	Retirement, pension and other benefits provisions	Coal allowance	Energy tariff	Social Fund	Medical benefits	Other	Total
<b>As at 1 January 2008</b>	<b>261.656</b>	<b>122.535</b>	<b>228.285</b>	<b>133.043</b>	<b>38.285</b>	<b>304</b>	<b>784.108</b>
Present employment costs	9.685	1.296	3.920	2.105	604	-	17.610
Actuarial gains and losses excluding discount rate adjustment	63.433	(7.763)	131.568	22.547	(5.063)	-	204.722
Benefits paid	(23.608)	(6.529)	(13.892)	(6.140)	(1.194)	-	(51.363)
Past employment costs	151	-	11.548	-	-	-	11.699
Discount rate adjustments	16.552	6.486	36.831	10.216	2.191	-	72.276
Interest costs	14.655	7.195	13.503	7.757	2.210	-	45.320
Other changes	(1.308)	-	885	1.421	187	21	1.206
<b>As at 31 December 2008</b>	<b>341.216</b>	<b>123.220</b>	<b>412.648</b>	<b>170.949</b>	<b>37.220</b>	<b>325</b>	<b>1.085.578</b>
<b>Short-term</b>	<b>49.018</b>	<b>7.462</b>	<b>17.445</b>	<b>7.665</b>	<b>1.744</b>	<b>7</b>	<b>83.341</b>
<b>Long-term</b>	<b>292.198</b>	<b>115.758</b>	<b>395.203</b>	<b>163.284</b>	<b>35.476</b>	<b>318</b>	<b>1.002.237</b>

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

	31 December 2009	31 December 2008
Discount rate (%)	6,0	5,5
Expected inflation rate (%)	2,5	4,3
Employee turnover (%)	0,67 - 9,57	1,01 - 6,51
Expected salary growth rate (%)	2,5	4,90 - 8,0
Expected medical costs growth rate (%)	2,5 - 11,0	1,95 - 3,0
Expected Social Fund (ZFŚS) allowance rate (%)	2,0 - 5,5	2,50 - 5,0

Based on data obtained from an actuary, the Group assesses that the influence of changes in assumptions on the value of provisions for retirement and pension benefits, coal allowance, social fund, medical care and jubilee awards (Note 36) would be as follows:

- should the discount rate be higher by 1 percentage point (p.p.), relevant provisions would decrease by ca. 8% and should the discount rate be lower by 1 p.p. relevant provisions would increase by ca. 10%,
- should the planned increase in the basis for estimations be higher by 1 p.p., relevant provisions would increase by ca. 11% and should the planned increase in the basis for estimations be lower by 1 p.p., relevant provisions would decrease by ca. 8%.

## 32. Inventories

	31 December 2009			31 December 2008		
	Historical cost	Revaluation write off	Net realizable value	Historical cost	Revaluation write off	Net realizable value
Materials	1.022.653	119.156)	903.497	839.028	(97.507)	741.521
Finished goods	5.465	(25)	5.440	5.498	(64)	5.434
Semi-products and work in progress	58.416	-	58.416	72.406	-	72.406
Energy origin units of ownership	295.511	-	295.511	286.324	-	286.324
Merchandise	8.235	(767)	7.468	13.239	(890)	12.349
CO2 emission rights	949	(116)	833	13.196	(3.264)	9.931
<b>Total</b>	<b>1.391.229</b>	<b>(120.064)</b>	<b>1.271.165</b>	<b>1.229.691</b>	<b>(101.726)</b>	<b>1.127.965</b>

<b>Revaluation write off on inventories as at 31 December 2008</b>	<b>(101 726)</b>
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Revaluation write offs created	(29.208)
Revaluation write offs reversed	2.800
Revaluation write offs used	10.204
Other	(2.134)

<b>Revaluation write off on inventories as at 31 December 2009</b>	<b>(120.064)</b>
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Creation of the above revaluation write offs related mainly to spare parts and materials as a result of their amortization or obsolescence. Reversal of revaluation write offs, mainly on spare parts and materials, resulted from their disposal or usage to the value exceeding the previously measured carrying amount.



### **33. Other short-term and long-term assets**

#### **Other long-term assets**

	Year ended 31 December 2009	Year ended 31 December 2008
Prepayments for property, plant and equipment under construction	427.529	164.267
Other prepayments	57.558	52.416
<b>Total other long-term financial assets</b>	<b>485.087</b>	<b>216.683</b>

#### **Other short-term assets**

	Year ended 31 December 2009	Year ended 31 December 2008
Tax on civil law transactions	1	12.988
Property and tort insurance	19.488	15.248
IT services	3.176	1.749
Prepayments for deliveries	3.998	3.364
Other costs settled in time	10.154	21.659
Advances on deliveries	15.385	28.515
VAT receivable	192.934	125.896
Excise tax receivable	17.802	21.891
Deductions from profit receivable	-	23.745
Real estate tax settled in time	233	28
Other tax receivables	1.712	26.327
CO <sub>2</sub> emission rights for own use	116.661	23.461
Other short-term assets	9.603	8.173
<b>Total other short-term financial assets</b>	<b>391.147</b>	<b>313.044</b>

### 34. Cash and cash equivalents

Cash at the bank is subject to variable interest rates which are based on bank deposits' interest rates. Short-term deposits are made for different periods, from one day up to one month, depending on the Group's needs for cash, and are deposited at individually settled interest rates. Fair value of cash and cash equivalents as at 31 December 2009 amounted to PLN 7,712,823 thousand (as at 31 December 2008 amounted to PLN 2,140,837 thousand).

Restricted cash is related mainly to the Mine Liquidation Trust and amounts to PLN 105,674 thousand as at 31 December 2009 and PLN 69,683 thousand as at 31 December 2008.

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

	As at 31 December 2009	As at 31 December 2008
Cash on hand and cash at bank	267.336	275.736
Overnight deposits	493.813	711.160
Short-term deposits	6.951.674	1.153.941
<b>Total</b>	<b>7.712.823</b>	<b>2.140.837</b>
<b>Cash and cash equivalents presented in cash flow statement</b>	<b>7.705.934</b>	<b>2.137.317</b>
Credit limits at disposal	2.357.685	2.097.966

The difference between the value of cash and cash equivalents presented in the statement of financial position and the one presented in cash flow statements results mainly from interests accrued for but not received as at balance sheet date as well as foreign exchange differences from cash and cash equivalents.

## 35. Share capital and other capitals

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

### 35.1. Share capital

	As at 31 December 2008
Number of ordinary A series shares of nominal value PLN10 each	1.470.576.500
<b>Total number of shares</b>	<b>1.470.576.500</b>
	As at 31 December 2009
Number of ordinary A series shares of nominal value PLN10 each	1.470.576.500
Number of ordinary B series shares of nominal value PLN10 each	259.513.500
<b>Total number of Shares</b>	<b>1.730.090.000</b>

All shares of the Company have been paid.

On 3 September 2009, the Extraordinary Meeting of Shareholders adopted a resolution related to an increase of the share capital of the Company in the manner of an issue of new shares excluding the subscription right of the hitherto existing shareholder. Based on the resolution, the share capital was increased by the amount no greater than PLN 2,595,135,000 (PLN two billion five hundred and ninety five million one hundred and thirty five thousand) through an issue of B series shares of the nominal value of PLN 10 each. New shares were offered to Polish individual investors as well as to Polish and foreign corporate investors in the manner of a public offering within the Republic of Poland in accordance with 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") as well as individual offerings outside of the Republic of Poland. The B series shares were issued on the basis of the above mentioned resolution will participate in the 2009 dividend, i.e. starting from 1 January 2009 under the same conditions as all other shares of the Company.

The increase of share capital was registered on 30 November 2009. The share capital was increased by PLN 2,595,135 thousand.

### 35.2. Equity holders' rights

#### State Treasury rights

Even though, the shares of the Company are not privileged, the Company's Status takes into account special rights of the State Treasury as long as it is the shareholder of the Company. According to its provisions, the State Treasury holds right to approach the Management Board with a written demand of gathering the General Meeting of Shareholders, including particular issues to the meeting agenda, submitting projects of resolutions related to issues included in the agenda or issues that might be included in the agenda, obtaining copies of announcements placed in Court and Economical Monitor.

Moreover, based on the Company's Status, the State Treasury holds right to appoint one member of the Supervisory Board in the form of a written statement submitted to the Company during the General Meeting of Shareholders or outside the General Meeting of Shareholders with the use of the Management Board. Furthermore, this right can be executed by the State Treasury regardless the voting right during appointing other members of the Supervisory Board.

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

Based on the act of 3 June 2005 on special rights of the State Treasury and their execution in capital companies of significant importance for the public order or public safety (Dz. U. of 2005, No. 132 pos. 1108), the Minister of the Treasury, as long as the State Treasury is directly or indirectly shareholder in the Company, has the right to object any resolution or legal action of the Management Board that relates to the ability to dispose a part of company's property that is fundamental for its activities. The objection only relates to the Company of a significant importance for public order or safety if there is a reasonable assumption that such legal action might violate public order or public safety. The objection also comprised the resolution of the General Meeting of Shareholders relating to:

- liquidation of the Company,
- movement of the Company's office abroad,
- change of a core competence of the Company,
- sale or lease of a company or its organized part or establishment of limited law property

if there is a reasonable assumption that such a resolution might violate public order or public safety.

PGE Polska Grupa Energetyczna S.A. is subject to provisions of the act on special rights of the Minister of Treasury who represents the State Treasury and their fulfillment by capital companies or capital groups running business activities in electric energy sector, petroleum and fuel gases sector ("Golden Veto Act"). The Act regulates special rights of the State Treasury and their execution in capital companies of significant importance for the public order or public safety.

On 12 February 2010, Sejm adopted a new Golden Veto Act. According to the Act, the State Treasury has the special right to object to any resolution adopted or another legal action taken by the company's Management Board that relates to the ability to dispose a part of company's property that is fundamental for its activities.

An objection can also be expressed against any resolution adopted that relates to:

- liquidation of a company,
- changes of the aim or discontinuance of exploitation of the company's asset, which is critical infrastructure,
- change of a core competence of a company,
- sale or lease of a company or its organized part or establishment of limited law property,
- approval of material and financial plan, investment plan, or long-term strategic plan,
- movement of a company's office abroad

if an accomplishing of such a resolution resulted in an actual threat to operation, going concern or integrity of the critical infrastructure.

The new act introduces a function of attorney to critical infrastructure. The attorney is to be chosen by the company in consultation with the Minister of Treasury and the director of the Government Security Center. As at the date of preparation of the consolidated financial statements, the new "Golden Veto Act" did not come into force.

### 35.3. Equity holders of a significant share

	As at 31 December 2009	As at 31 December 2008
State Treasury	85%	100%
Other shareholders	15%	-
<b>Total</b>	<b>100%</b>	<b>100%</b>

The share in share capital of particular shareholders reflects the share in votes during General Meetings of Shareholders.

The change in the structure of shareholders is a result of the public offering of new shares on the Warsaw Stock Exchange.

As described in note 46.3 to the foregoing consolidated financial statements, a legal merger of the parent company with PGE Energia S.A and PGE Górnictwo i Energetyka S.A. is planned to take place in 2010. As a result of the merger, the shareholders of the above mentioned companies shall receive shares in the increased share capital of PGE S.A. that will be issued for the purpose of the merger in exchange for shares of PGE Energia S.A. and PGE Górnictwo i Energetyka S.A. (however, PGE S.A. shall not embrace own share in exchange for shares in subsidiaries). After the registration in the register court current shareholders' portion in the share capital will decrease.

### 35.4. Reserve capital

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

On 30 November 2009, the increase of the share capital of the Company took place. As a result, the surplus of the issue price over the nominal value, amounting to PLN 3,373,676 thousand, increased the reserve capital of the parent company. Moreover, the reserve capital was decreased by costs related to issue of new shares in the total amount of PLN 68,560 thousand. Issue costs comprised mainly:

- advisory and legal services related to preparation and updating of prospectus,
- additional remuneration for the employees of PGE S.A. and PGE Capital Group directly involved in realization of the IPO project regarding,
- tax on civil law transactions related to the conditional agreement on increase of the share capital in the manner of the issue of new shares,
- advisory on preparation of consolidated financial statements in accordance with IFRS.

### **35.5. Retained earnings and limitations to payment of a dividend**

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

	<b>31 December 2009</b>	<b>31 December 2008</b>
Amounts included in retained earnings that cannot be distributed by the parent:		
- retained earnings of subsidiaries, attributable to equity holders of the parent	7.021.543	4.844.302
- differences in the value of retained earnings as presented in stand-alone statutory financial statement and IFRS financial statement of the parent company	(43.993)	144.500
- 8% of the value of the parent company's statutory profit to be distributed to reserve capital as specified in the Commercial Code	115.240	44.277
Retained earnings of the parent, subject to distribution	1.327.058	527.829
<b>Total retained earnings presented in the consolidated financial statements attributable to equity holders of the parent</b>	<b>8.419.848</b>	<b>5.560.908</b>

Statutory financial statements of all PGE Capital Group entities are prepared in accordance with Polish accounting standards. The dividend can be paid on the basis of the financial result recognized in separate annual financial statements prepared for statutory purposes.

According to regulations of the Commercial Code, the parent company and subsidiaries which are joint stock companies are obliged to create reserve capital to cover potential losses. At least 8% of the profit for the reporting year recognized in the statutory financial statements is transferred to reserve capital, until this capital amounts to at least one third of share capital. The General Shareholders' Meetings decides on the use of the reserve capital; however the part of reserve capital which amounts to one third of share capital can only be used to cover losses recognized in statutory financial statements and cannot be distributed for other purposes.

As at 31 December 2009, the value of share capital of the parent company amounted to PLN 17,300,900 thousand and reserve capital amounted to PLN 5,449,549 thousand. As at 31 December 2008, the value of share capital of the parent company presented in statutory financial statements prepared in accordance with the Polish Accounting Act amounted to PLN 14,705,765 thousand and reserve capital amounted to PLN 2,100,156 thousand.

As at 31 December 2009, there were no limitations to payment of a dividend.

The Management Board of the parent company is going to apply a dividend policy assuming payments of a dividend in the amount complying with the Group's development and allowing maintenance of an appropriate level of financial liquidity. In the short term, the Management Board will adjust the proposed level of the dividend payment to the situation on credit markets and to current investment needs of the Company. In the long term, after the Group's restructuring, the Management Board intends to recommend to the General Meeting of Shareholders the dividend payment compliant with electroenergetic industry standards, which in the Management Board's opinion, accounts for a payment of ca. 40-50% of the consolidated net profit attributable to the shareholders of the parent company. The payment of each dividend would depend in particular on the level of indebtedness of the Company, the level of planned capital expenditures and possible capital acquisitions.

### 35.6. Minority interest

	Year ended 31 December 2009	Year ended 31 December 2008
<b>Opening balance</b>	<b>7.365.921</b>	<b>8 168 035</b>
Dividends divided by subsidiaries	(119.359)	(42 914)
Share in change in value of financial instruments	(10.172)	12 618
Share of profit of subsidiaries	966.511	750 076
Purchase of minority interest by the Capital Group	(521.473)	(1 521 894)
<b>Closing balance</b>	<b>7.681.428</b>	<b>7 365 921</b>

The purchase of minority interests in 2008 relates to a purchase of shares in: PGE Elektrownia Bełchatów S.A., PGE Elektrownia Turów S.A., PGE KWB Bełchatów S.A. and Zakład Energetyczny Łódź-Teren Obrót S.A. as well as an increase of the share capital of PGE Elektrociepłownia Gorzów S.A.

The purchase of minority interest during the period ended 31 December 2009 relates to a purchase of shares in PGE Elektrownia Opole S.A., PGE KWB Turów S.A. and PGE Zespół Elektrociepłowni Bydgoszcz S.A.

## 36. Provisions

### Year ended 31 December 2009

	Post- employment benefits	Provisions for jubilee benefits	Provisions for third parties claims	Provisions for legal disputes	Provision for purchase of CO <sub>2</sub> emission rights	Provisions for employee claims	Provisions for reclamation of final excavations and ash storages	Provisions for liquidation of property, plant and equipment	Other provisions	TOTAL
<b>As at 1 January 2009</b>	<b>1.085.578</b>	<b>825.453</b>	<b>285.285</b>	<b>99.613</b>	<b>391.271</b>	<b>27.619</b>	<b>983.768</b>	<b>73.183</b>	<b>60.662</b>	<b>3.832.432</b>
Costs of present employment	23.714	38.438	-	-	-	-	-	-	-	62.152
Actuarial gains and losses excluding discount rate adjustment	76.173	17.328	-	-	-	-	-	-	-	93.501
Benefits paid	(46.676)	(77.044)	(100)	-	-	-	-	-	-	(123.821)
Costs of past employment	9.867	-	-	-	-	-	-	-	-	9.867
Revaluation of provision/ discount rate adjustments	(76.061)	(29.898)	-	-	-	-	(147.811)	-	-	(253.770)
Interest costs	63.644	42.064	-	-	-	-	48.734	3.865	1.650	159.957
Created during the year	-	-	61.874	29.192	170.509	965	55.023	25.775	396.452	739.790
Reversed	-	-	-	(34.016)	(10.405)	(286)	(30.730)	-	(42.265)	(117.702)
Used	-	-	-	(9.446)	(168.350)	(329)	(5.323)	(768)	(2.766)	(186.982)
Other changes	(4.537)	(14.475)	3.964	35	-	1.380	-	-	18.293	4.662
<b>As at 31 December 2009</b>	<b>1.131.702</b>	<b>801.866</b>	<b>351.023</b>	<b>85.378</b>	<b>383.025</b>	<b>29.349</b>	<b>903.661</b>	<b>102.055</b>	<b>432.026</b>	<b>4.220.085</b>
<b>Short-term as at 31 December 2009</b>	<b>88.906</b>	<b>82.597</b>	<b>351.023</b>	<b>52.756</b>	<b>311.004</b>	<b>5.357</b>	<b>6.236</b>	<b>3.902</b>	<b>79.545</b>	<b>981.326</b>
<b>Long-term as at 31 December 2009</b>	<b>1.042.796</b>	<b>719.269</b>	<b>-</b>	<b>32.622</b>	<b>72.021</b>	<b>23.992</b>	<b>897.425</b>	<b>98.153</b>	<b>352.481</b>	<b>3.238.759</b>

According to the current reclamation of final excavation plans, lignite mines of the Capital Group estimate that relevant costs will be incurred in the years 2032-2081 (for PGE Kopalnia Węgla Brunatnego Bełchatów S.A.) and in the years 2041-2090 (for PGE Kopalnia Węgla Brunatnego Turów S.A.).



**Period ended 31 December 2008**

	Post- employment benefits	Provisions for jubilee benefits	Provisions for third parties claims	Provisions for legal disputes	Provision for purchase of CO2 emission rights	Provisions for employee claims	Provisions for recultivation of final excavations and ash storages	Provisions for liquidation of property, plant and equipment	Other provisions	TOTAL
<b>As at 1 January 2008</b>	<b>784.108</b>	<b>637.196</b>	<b>1.098</b>	<b>187.515</b>	<b>-</b>	<b>8.112</b>	<b>1.430.766</b>	<b>81.878</b>	<b>49.887</b>	<b>3.180.560</b>
Costs of present employment	17.610	29.381	-	-	-	-	-	-	-	46.991
Actuarial gains and losses excluding discount rate adjustment	204.722	172.511	-	-	-	-	-	-	-	377.233
Benefits paid	(51.363)	(71.418)	-	-	-	-	-	-	(1.066)	(123.847)
Costs of past employment	11.699	-	-	-	-	-	-	-	-	11.699
Revaluation of provision/ discount rate adjustments	72.276	31.415	-	-	-	-	142.764	-	-	246.455
Interest costs	45.320	34.053	-	-	-	-	75.951	4.799	439	160.562
Created during the period	-	-	285.285	29.852	391.271	24.262	36.376	350	74.333	841.729
Reversed	-	-	-	(10.037)	-	(440)	(683.758)	(6.593)	(49.216)	(750.044)
Used	-	-	-	(108.349)	-	(424)	-	(4.536)	(984)	(114.293)
Other changes	1.206	(7.685)	(1.098)	632	-	(3.891)	(18.331)	(2.715)	(12.731)	(44.613)
<b>As at 31 December 2008</b>	<b>1.085.578</b>	<b>825.453</b>	<b>285.285</b>	<b>99.613</b>	<b>391.271</b>	<b>27.619</b>	<b>983.768</b>	<b>73.183</b>	<b>60.662</b>	<b>3.832.432</b>
<b>Short-term as at 31 December 2008</b>	<b>83.341</b>	<b>78.199</b>	<b>285.285</b>	<b>67.537</b>	<b>329.824</b>	<b>1.899</b>	<b>6.705</b>	<b>350</b>	<b>54.789</b>	<b>907.929</b>
<b>Long-term as at 31 December 2008</b>	<b>1.002.237</b>	<b>747.254</b>	<b>-</b>	<b>32.076</b>	<b>61.447</b>	<b>25.720</b>	<b>977.063</b>	<b>72.833</b>	<b>5.873</b>	<b>2.924.503</b>

## **Description of significant provisions**

### **36.1. Provisions for jubilee benefits**

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

### **36.2. Provisions for third-party claims**

In 2009, the parent company created additional provisions in the value of PLN 61.8 million to cover claims related to execution of trade agreements – no further details are disclosed due to trade secret of the Company in accordance with IAS 37.92.

### **36.3. Provision for legal disputes**

#### **Claim of Tajfun Real Sp. z o.o.**

In 2005, EXATEL S.A. filed a statement on termination of the Lease Agreement of Tajfun building in Warsaw, effective 1 August. Tajfun Real Sp. z o.o. filed to the Court of Arbitration at National Chamber of Commerce, a claim to establish that the Lease Agreement is binding for both parties until 31 July 2010 and related to the payment of the rent for August 2005. On 24 January 2006, Tajfun Real Sp. z o.o. terminated to lease agreement without the period of notice. By the verdict of 11 May 2007, the Supreme Court dismissed the further appeal of EXATEL S.A. related to the verdict of the Appeal Court in Warsaw of 8 November 2006 which confirmed that the Agreement on lease of the Tajfun building was binding until 31 July 2010. On 11 September 2007, Tajfun Real Sp. z o.o. filed to the Court of Arbitration at National Chamber of Commerce a claim for payment the rent for the period from September to January 2006. As at the balance sheet date the related provision amounted to PLN 16,888 thousand. The Management Board of EXATEL S.A. commenced actions aimed at conciliatory finishing of the dispute, in the form of an amicable settlement on the subject issue between EXATEL S.A. and Tajfun Real Sp. z o.o.

#### **Provisions for the use of land**

Entities of the PGE Group create provisions for damages related to a non-agreed usage of property. This issue mainly relates to distribution companies, which own distribution networks. As of the reporting date the provision amounted to ca. PLN 37.6 million. The provision is created to cover claims under court proceedings.

### **36.4. Provisions for costs of recultivation**

#### **Provision for recultivation of mine storage**

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

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

#### **Provision for recultivation of ash storages**

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

#### **Discount rate update**

Present value of provisions for recultivation is calculated on the basis of a risk free discount rate. Due to change of macroeconomic conditions, the Group updated applied discount rate at the reporting period end. As a result, the Group reversed a part of the recultivation provision in the amount of PLN 131 million, which has been also described in other operating revenues in note 14.2 of the foregoing consolidated financial statements.

### **36.5. Liquidation of property, plant and equipment.**

The provision for liquidation of property, plant and equipment relates to assets of PGE Elektrownia Turów S.A., which are going to be excluded from the production in years 2010-2013. The obligation of liquidation and recultivation of the area results from „The integrated permission for running electric energy and heat energy producing installation” in which the restitution of the area was specified. The amount of created provision was established on the basis of expected liquidation expenses and was recognized on the debit side in initial value of property, plant and equipment. Depreciation of activated liquidation expenses which is calculated on the basis of the estimated economic useful life of an appropriate item of property, plant and equipment as well as change in provision value resulting from reversal of the discount as at the balance sheet date influence on financial result of the Group. As at the balance sheet date, the value of provision amounts to PLN 102 million.

### **36.6. Other provisions**

#### **Dispute concerning the scope of taxation with real estate tax.**

The main caption of other provisions is a provision covering declared and predicted claims relating to real estate tax. The matter of dispute was described in detail in note 41 of the foregoing consolidated financial statements.

#### **Obligation of redemption of energy origin units of ownership**

Energy companies included in the Group are parties to proceedings against the Energy Regulatory Office, related to an obligation of redemption of energy units of origin – so called green and red certificates. As at 31 December 2009, the provision created to cover possible penalties amounted to PLN 48 million. The final value of possible penalties will depend on the results of the court proceedings and may be subject to change.

**Provision for „waiver fee”**

As a result of allegations against PGE Elektrownia Bełchatów S.A. concerning an infringement of financing conditions of the company's investment programme, the provision was created to cover a fee to financing institutions for annulment of infringements, which are described in detail in note 43.6 of the foregoing consolidated financial statements. As at the balance sheet date, the provision was created in the amount of PLN 11 million.

### 37. Other non-financial liabilities

The non-financial liabilities for the years ended 31 December 2009 and 31 December 2008 are as follows:

	As at 31 December 2009	As at 31 December 2008
Liabilities from dividends	1.810	-
Excise tax	73.347	99.386
VAT tax	314.392	227.732
Real estate tax	4.094	2.831
Liabilities from social insurances	207.868	189.212
Personal income tax	64.249	73.389
Distribution from profit	869	-
Environmental fees	99.397	85.474
Payroll	191.233	202.000
Third party payments related to future periods	67.804	41.717
Other	142.016	104.520
<b>Total</b>	<b>1.167.079</b>	<b>1.026. 261</b>

The position "other" mostly consists of the liability related to unrealized connection contracts and payments to the Corporate Fund for Employment Benefits, the Employment Pension Program and to the State Fund for Rehabilitation of Persons with Disabilities.

### 38. Deferred income and government grants

<b>Government grants</b>	As at 31 December 2009	As at 31 December 2008
Redemption of loans from environmental funds	42.447	25.411
Other government grants	35.966	39.643
<b>Total deferred income, including:</b>	<b>78.413</b>	<b>65.054</b>
Long-term	75.284	60.180
Short-term	3.129	4.874

<b>Other deferred income</b>	As at 31 December 2009	As at 31 December 2008
Property, plant and equipment acquired free of charge	139.807	134.009
Subsidies granted and connection fees	880.571	793.713
Lease income	3.609	3.666
Other deferred income	31.309	56.298
<b>Total deferred income, including:</b>	<b>1.055.296</b>	<b>987.686</b>
Long-term	1.017.522	959.792
Short-term	37.774	27.894

Government grants presented in the consolidated financial statements represent, mainly, the value of redeemed loans granted by environmental funds. A portion of loans from environmental funds is redeemed under the condition that they are used for investments aimed at protection of the environment.

Subsidies granted in caption other deferred income comprise mainly fees for connection to power network, which are presented as donations to property, plant and equipment in the foregoing consolidated financial statements.

### 39. Legal claims and contingent liabilities and receivables

	As at 31 December 2009	As at 31 December 2008
<b>Contingent liabilities</b>		
Credit collateral	250	250
Share call option	-	94.653
Repayment of bill collateral	4.425	-
Liabilities from bank guarantees	50	371
Collaterals for repayment of bank guarantees granted	25	200
Legal claims	11.556	7.095
Contractual fines and penalties	6.880	-
Damages related to non-agreed usage of property	7.099	3.494
Real estate property buyout	536	-
Other contingent liabilities	85.097	135.760
<b>Total contingent liabilities</b>	<b>115.918</b>	<b>241.823</b>

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

#### 39.1. Share call option

On 28 May 2003, the parent company signed a Restructuring Agreement with Vattenfall Aktiebolag regarding SwePol Link. In line with point 8.2 of the Restructuring Agreement, by 30 September 2004 Vattenfall Aktiebolag had an irrevocable and unconditional right to convince PSE S.A. to purchase from Vattenfall Aktiebolag shares corresponding to 32% of the voting rights in SwePol Link for a determined price. The first put option was exercised on 5 January 2005. Under the second put option, Vattenfall Aktiebolag will have an irrevocable right to sell shares constituting 16% or 17% of the voting rights to PGE S.A. The contingent liability expired on 29 January 2009 due to execution of the second put option.

#### 39.2. Contractual fines and penalties

Contingent liability concerns contractual fines for delays in realization of investments commenced by the Mayor of Gryfino City and Commune for PGE Zespół Elektryczny Dolna Odra S.A. Both parties are in the process of appointing their representatives to the team that will prepare an agreement to the above matter.

#### 39.3. Damages related to non-agreed usage of property

As a result of their business activities, distribution entities of the Group use a large number of real estate properties, on which machinery, buildings and construction related to transmission activity are placed. In respect of a significant number the real estates used, there are doubts whether the entities have legitimate right to make the usage of them. In August 2008, as a result of amendments to the Civil Code, an institution of transmission servitude was introduced. Such servitude can be constituted for, among others, distribution companies in relation to real estates on premises of which there are assets related to the distribution activity owned by these companies. Due to the above, both distribution companies and real estate owners have an additional possibility to settle legal status related to usage of such real estates.

In case of real estates, in relation to which the Group entities do not have legal right or the legal right is doubtful, there is a risk that owners of these real estate properties, alleged owners or third parties may file legal claims demanding compensation for a non-agreed usage of these real estates. As described in detail in note 36.3. of the consolidated financial statements, an appropriate provision is created covering claims under court proceedings. Claims filed to which lower risk of compensation payment is attributed by particular entities, are presented as contingent liabilities.

### **39.4. Other contingent liabilities**

Other contingent liabilities mainly (PLN 49 million) comprise a possible refund of means that were received by PGE Group entities from environmental funds for chosen investments. If the investment does not bring the expected environmental effect, a relevant financing will have to be reimbursed.

### **39.5. Other legal and court issues**

#### **Risk related to dispute between PGE - PSE-Operator S.A.**

On 2 July 2004, the Company concluded an agreement with PSE-Operator S.A. on making available transmission capacities for the execution of historic contracts concluded by PSE S.A. (currently under business name PGE S.A.). On 11 September 2007, PSE-Operator S.A. instituted arbitration proceedings against the Company in relation to the above mentioned agreement of 2 July 2004. PSE-Operator S.A. filed the lawsuit on 18 January 2008. As part of the lawsuit, PSE-Operator S.A. requested an adjudication that it is not subject to obligation resulting from the above mentioned agreement to make available for the parent company transmission capacities of the intersystem exchange for the execution of historic contracts as regards the Contract concluded with Atel as well as a decision that the agreement of 2 July 2004 had expired. Otherwise, PSE-Operator S.A. filed for termination of the agreement of 2 July 2004, pursuant to Article 357<sup>1</sup> of the Civil Code.

The Company filed a mutual lawsuit, pointing to a lack of legal grounds for terminating the contract and refusal to render the service of transmission capacity reservation as well as transmission service itself.

On 4 June 2008, the plenipotentiaries of PSE-Operator S.A. sent a lawsuit correspondence in which PSE-Operator additionally demanded (in case if the original demands were not taken into account) establishing lack of obligation to execute the above mentioned agreement of 2 July 2004 by PSE-Operator S.A. In response to the above correspondence of 4 June 2008, the Company filed its legal correspondence on 18 July 2008 in which the Company sustained its demands, and additionally included in the mutual claim (as a contingent demand) a demand to designate the manner of the execution of PSE-Operator S.A. obligations resulting agreement of 2 July 2004 through appointment that PSE-Operator S.A. is obliged to make available transmission capacities of technical profile including the link between Poland and Slovakia on monthly auctions until the end of 2008, and starting from 2009 – on annual auctions.

On 31 August 2009, the Arbitration Court in Warsaw pronounced a sentence which stated that PSE-Operator, due to the force majeure, was not obliged to execute the agreement of 2 July 2004.

#### **Risk resulting from dispute between PGE and ATEL (current name Alpiq Holding AG)**

On 28 October 1997, PSE S.A. (currently under business name PGE Polska Grupa Energetyczna S.A.) concluded an Agreement with Atel on delivery of electricity over the 16-year period, i.e. from 1 January 1998 to 30 September 2014. The agreement was executed, in a manner specified in it, by both parties. However, due to changes in Polish law and Community law, a dispute between the parties arose.

In connection with the accession of the Republic of Poland to the European Union on 1 May 2004, Polish law changed in the scope covered by the obligation to implement Community law governing the activities of the energy sector. First of all, as a result of subject transformations of PSE S.A. related to separation of entities running business activities in the field of production and sale of electricity (currently PGE S.A.) from entities running business activities in the field of transmission of electricity (currently PSE-Operator S.A.), on 2 July 2004, PGE S.A. signed an agreement with PSE-Operator S.A. on making available transmission capacities for execution of historical contracts concluded with PSE S.A. Based on this agreement, it became possible to continue the deliveries within the execution of the contract signed between PGE S.A. and Atel in 1997. Second of all, starting from 2006, PSE-Operator ceased to reserve transmission capacities on the basis of Already Allocated Capacity (AAC). Third of all, in the period from March 2008 to December 2008, PSE-Operator did not offer transmission capacities on auctions related to energy transmission from Poland to Slovakia.



In autumn 2007, the parties commenced negotiations related to execution of the agreement. However, in the letter of 3 March 2009, Atel informed the Company on the lack of will to continue negotiations. On 13 March 2009, the plenipotentiary of the Company, authorized to run the above mentioned negotiations, was informed that Atel filed a claim related to lack of execution of the agreement of 1997 in the period from 1 March 2008 to 28 February 2009 as well as breaches in execution of the agreement in July 2006. On 29 May 2009, the parent company gave an answer to the claim.

In September 2009, a chief arbitrator was elected in the dispute between Atel and PGE. On 5 November 2009, the chief arbitrator sent a letter to the parties, in which officially he announced the formation of Arbitration Court, and introduced a temporary schedule of works of the Court. Furthermore, the Court issued the first in the proceedings Procedural Decree no. 1, in which it proposed the basic rules of procedure that will be obligatory during the proceedings and rules for the arbitrators.

The organizational meeting took place on 11 December 2009, with the plenipotentiary of PGE present. During the meeting the initial schedule of activities to be taken in the course of the arbitration proceedings was approved. According to the schedule, the proceedings against the Court will hold a written form for the next year – it relates both to gathering of documentation, exchange of pleadings and testimony in writing. Final oral hearing, summarizing the whole of the accumulated material is planned for April 2011.

The company created provisions for legal disputes due until the balance sheet date.

On 1 March 2010, an updated claim of Alpiq Ltd. was submitted to the Arbitration Court. The amount presented of the claim does not differ significantly from the provision created by the Company.

At the current stage of the arbitration proceedings, it is impossible to forecast the result of the proceedings or to estimate the final amount of the claim.

#### **PGE Polska Grupa Energetyczna S.A. - ŻEG Sp. z o.o. claim**

On 17 May 2006 the Company informed Żarnowiecka Elektrownia Gazowa Sp. z o.o. of a breach of agreement for supply of electric power and energy signed on 30 December 1998. The obligations resulting from the agreement included, among others, the construction of a gas power plant by ŻEG, in a proper term, and commencing supplies of electric energy to the Company. As the deadlines were not kept, the Company terminated the agreement and demanded a penalty payment with statutory interest from ŻEG. Simultaneously, PGE S.A. asked for a cession of ownership rights of ŻEG, as specified in the above mentioned agreement. In response ŻEG informed in a letter dated 3 July 2006 of assessing the claims as unjustified. In the letter ŻEG accused the Company of breaching the agreement on supply of electric power and energy and informed of plans to prosecute the claims. As at the date of preparation of the consolidated financial statements the Company was unable to fairly and reliably assess the value of the potential claim.

#### **Contractual liabilities related to the purchase of gas from PGNiG**

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

#### **39.6. Contingent receivables**

As at balance sheet date, the Group has ca. PLN 20.2 million of contingent receivables related to a reimbursement of VAT and financing received from the National Fund for Environmental Protection and Water Management to realize a project of purification of mining water in PGE KWB Turów S.A.



Additionally, the matter of a possible excise tax refund for the years 2006-2008 described in detail in note 46 of the consolidated financial statements.

#### **40. Investment liabilities**

As at the balance sheet date, the Group was obliged to incur capital expenditures on property, plant and equipment in the amount of PLN 3,681,550 thousand. These amounts relate to modernization of Group's assets and a purchase of machinery and equipment. The major investment currently realized in the Group is the construction of an 858 MW block together with a transmission line realized by PGE Elektrownia Bełchatów S.A. The estimated capital expenditures related to this investment to be incurred amount to PLN 1,263 million. Other significant investment liabilities concern:

- The modernization of blocks no. 5 and 6 in PGE Elektrownia Bełchatów S.A. for the total amount of ca. PLN 1 billion;
- The construction of installation for desulfurization of fumes and construction of biomass cauldron in PGE Zespół Elektrownia Dolna Odra S.A. for a total amount of ca. PLN 521 million;
- Investment liabilities of distribution entities in total amount of ca. PLN 332 million.

## **41. 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 and in case of entities solely owned by the State Treasury – distribution from profit.

Basic tax rates in 2009 were as follows: corporate income tax – 19%, basic value added tax rate – 22%, lowered: 7%, 3%, 0%, furthermore some goods and products are subject to tax exemption. Dividend paid to the State Treasury – 15%.

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

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

### **41.1. Excise tax**

For details on a possible excise tax refund for the years 2006-2008 for production entities please refer to note 46 of the consolidated financial statements.

#### **PGE Elektrownia Turów S.A.**

In the period from 2 June 2008 to 24 July 2008, PGE Elektrownia Turów was facing a control of a customs office related to excise tax settlement for the period from 1 January 2006 to 31 December 2006. After the control, the entity submitted remarks and asked the customs office for adequate explanations on the control protocol (in relation to possible surplus payment). In the following actions taken, the entity adjusted "Statements on volume and manner of using the released electricity" (adjustment of these documents does not have any impact on the value of the excise tax). However, as there was no unambiguous explanation on the surplus payment from the customs office, the entity filed a motion to the Minister of Finance demanding an individual interpretation. As a result of a negative response from the Minister of Finance, the Entity filed a complaint to Regional Administrative Court (WSA) in Wrocław on 11 February 2009. On 13 July 2009, due to the incorrect legal foundation of the interpretation, the Regional Administrative Court decided about reversal of complained interpretation. In January 2010, the company received a changed interpretation of the Minister of Finance in which it was reconfirmed that the entity's opinion is incorrect. In February 2010, PGE Elektrownia Turów S.A. issued an appeal to remove the legal provision – until the day of preparation of the consolidated financial statements, the issue was not settled.

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

PGE Polska Grupa Energetyczna S.A. filed a motion demanding excise tax reimbursement related to Intra-Community delivery of electric energy for the period September-December 2007 and January-February 2008. The custom organ refused to reimburse the part of the tax claiming that the delivery was made for a Swiss company and therefore it was not an Intra-Community Delivery. After explanations received, including Swiss custom organ, in February 2010, the Company received positive decisions concerning reimbursement of tax mentioned above. The amount of claimed excise tax amounted to PLN 20.3 million.

**41.2. Real estate tax**

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

In order to define the subject of taxation, the act on taxes and local fees refers to building legal regulations, the amendment of which is unfavorable for PGE Group entities. The definition of the building was change with an act of 23 April 2009 on the change to building law act and other acts (including the act on taxes and local fees). According to the new definition, the notion of a building also comprises installations and technical machinery used for exploitation of a particular building. It is possible that the change of this definition will cause that the notion of a building will be expanded and comprise installations and technical machinery located in buildings, including the buildings of electric energy producing entities, which were hitherto considered as part of a building. According to the Ministry of Finance, the change of the definition of a building is only precisising of the regulation and should not influence the scope of taxation of particular building objects with real estate tax. The change in building law regulations could mean that the scope of taxation has always been interpreted so widely or lead to a conclusion that the scope of taxation was expanded since amendment of building regulations came into force.

Taking into consideration changes mentioned above and proceedings carried out in the Group entities, the Group created appropriate provisions in the 2009 consolidated financial statements. No further details are disclosed due to the professional secret, which is compliant with IAS 37.92.

## 42. Information on related entities

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

### 42.1. Associates

The information on investments in associates accounted for using the equity method is presented in note 27.

	Sale to related parties	Purchase from related parties	Receivables from related parties	Liabilities towards related parties
<b>Year 2009</b>	36.941	21.687	5.281	2.879
<b>Year 2008</b>	29.642	29.484	4.085	2.540

### 42.2. Transactions with State Treasury entities

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

	Sale to related parties	Purchase from related parties	Trade receivables from related parties	Including overdue	Trade liabilities towards related parties	Including overdue
<b>2009</b>	4.709.255	3.958.263	423.245	43.179	523.156	444
<b>2008</b>	6.042.289	5.104.510	445.663	5.576	460.531	5.212

The most important transactions with State Treasury entities refer to PSE-Operator S.A., professional power stations and regional energy companies.

### **42.3. Key management personnel remuneration**

The key management comprises the Management Boards and Supervisory Boards of the Group entities.

	<b>Year ended 31 December 2009</b>	<b>Year ended 31 December 2008</b>
Short-term employee benefits (salaries and salary related costs)	40.618	34.511
Jubilee and retirement benefits	867	880
Post-employment benefits	870	571
Termination benefits	1.280	1.256
Share-based payments	-	-
<b>Total remuneration paid to key management</b>	<b>43.635</b>	<b>37.218</b>

  

	<b>Year ended 31 December 2009</b>	<b>Year ended 31 December 2008</b>
The Management Board of the Parent	1.991	1.498
The Supervisory Board of the Parent	338	294
The Management Boards – subsidiaries	33.402	28.357
The Supervisory Boards – subsidiaries	7.904	7.069
<b>Total</b>	<b>43.635</b>	<b>37.218</b>

For detailed information on the remuneration of the Management Board and the Supervisory Board of the parent company please refer to note 1.6 of the Management Report on activities of PGE Capital Group.

## 43. Financial instruments

### 43.1. Carrying amount and fair value of categories and classes of financial instruments

Categories and classes of financial assets:	Caption in the statement of financial position	Carrying amount				Fair value			
		31 December 2009		31 December 2008		31 December 2009		31 December 2008	
		Long-term	Short-term	Total	Long-term	Short-term	Total	Total	Total
<b>1. Held-to-maturity investments</b>									
(i) Bonds, bills and notes receivable acquired		-	-	-	-	134.180	134.180	-	134.180
<b>Total held-to-maturity investments:</b>		-	-	-	-	134.180	134.180	-	134.180
<b>2. Loans and receivables, including:</b>									
(i) Trade receivables	a)	-	2.059.119	2.059.119	-	1.792.607	1.792.607	2.054.595	1.786.014
(ii) Deposits and investments		1.226	24.344	25.570	4.784	82.383	87.167	25.570	87.167
(iii) Other financial loans and receivables		387.738	962.891	1.350.629	365.079	702.388	1.067.467	1.354.651	1.072.822
▪ Bonds, bill and notes receivable acquired	b)	238.204	46.737	284.941	266.578	8.038	274.616	284.941*	274.616*
▪ Originated loans	b)	144.391	25.885	170.276	95.926	16.088	112.014	174.298	117.369.
▪ Other financial receivables	b)	5.143	159.640	164.783	2.575	71.891	74.466	164.783	74.466
▪ LTC compensations	b)	-	730.629	730.629	-	606.371	606.371	730.629	606.371
<b>Total loans and receivables:</b>		388.964	3.046.354	3.435.318	369.863	2.577.378	2.947.241	3.434.816	2.946.003
<b>3. Available-for-sale financial assets, including:</b>									
(i) Shares in entities not quoted on active markets		193.534	688	194.222	195.505	-	195.505	n/a	n/a
(ii) Shares quoted on active markets		1.854	-	1.854	-	74.462	74.462	1.854	74.462
(iii) Investment funds' units		-	4.617	4.617	-	10.176	10.176	4.617	10.176
(iv) Other financial assets available for sale		2.823	679	3.502	11.474	13.132	24.606	3.502	24.606
<b>Total available-for-sale financial assets:</b>		198.211	5.984	204.195	206.979	97.770	304.749	9.973	109.244

Categories and classes of financial assets:	Caption in the statement of financial position	Carrying amount						Fair value	
		31 December 2009			31 December 2008			31 December 2009	31 December 2008
		Long-term	Short-term	Total	Long-term	Short-term	Total	Total	Total
<b>4. Cash and cash equivalents</b>		-	7.712.823	<b>7.712.823</b>	-	2.140.837	<b>2.140.837</b>	<b>7.712.823</b>	<b>2.140.837</b>
<b>Financial assets not included in IAS 39</b>									
Lease receivables	b)	602	340	<b>942</b>	767	563	<b>1 330</b>	<b>942</b>	<b>1 330</b>

\* as described in note 44.5.1 of the foregoing consolidated financial statements, the main item in the caption "bonds, bills and notes receivable acquired" are bonds issued by the company Autostrada Wielkopolska S.A. The bonds are measured at amortized cost with the use of an effective discount rate. Taking into account that these bonds are not quoted on an active market and are subject to variable interest rate as well as the fact, that there is no available information on current market credit margin applicable to similar financial instruments, the Company assumed that the bonds' book value is approximately the fair value for the purpose of a disclosure compliant with IFRS 7. The Company is currently in the process of determining the fair value of this financial instrument.

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

Categories and classes of financial liabilities:	Caption in the statement of financial position	Carrying amount						Fair value	
		31 December 2009			31 December 2008			31 December 2009	31 December 2008
		Long-term	Short-term	Total	Long-term	Short-term	Total	Total	Total
<b>1. Financial liabilities at fair value through profit or loss held for trading:</b>									
(i) Derivatives		-	37.701	<b>37.701</b>	-	62.639	<b>62.639</b>	<b>37.701</b>	<b>62.639</b>
<b>Total financial liabilities at fair value through profit or loss:</b>		-	<b>37.701</b>	<b>37.701</b>	-	<b>62.639</b>	<b>62.639</b>	<b>37.701</b>	<b>62.639</b>
<b>2. Financial liabilities at amortized cost:</b>									
(i) Interest bearing loans and credits	a)	4.056.270	855.018	<b>4.911.288</b>	4.470.791	1.405.692	<b>5.876.483</b>	<b>4.947.462</b>	<b>5.945.203</b>
(ii) Bonds issued	a)	-	114.911	<b>114.911</b>	-	1.632.385	<b>1.632.385</b>	<b>114.911</b>	<b>1.632.385</b>
(iii) Trade liabilities		-	1.082.582	<b>1.082.582</b>	-	1.012.111	<b>1.012.111</b>	<b>1.080.641</b>	<b>1.008.852</b>
(v) Other financial liabilities at amortized cost	b)	15.285	554.744	<b>570.029</b>	13.875	627.325	<b>641.200</b>	<b>570.029</b>	<b>641.200</b>
<b>Total financial liabilities at amortized cost:</b>		<b>4.071.555</b>	<b>2.607.255</b>	<b>6.678.810</b>	<b>4.484.666</b>	<b>4.677.513</b>	<b>9.162.179</b>	<b>6.713.043</b>	<b>9.227.640</b>
<b>3. Other financial liabilities not included in IAS 39</b>									
(i) Liabilities from finance lease and lease agreements with option of purchase	b)	656	1.014	<b>1.670</b>	1.599	1.127	<b>2.726</b>	<b>n/a</b>	<b>n/a</b>
<b>Total other financial liabilities:</b>		<b>656</b>	<b>1.014</b>	<b>1.670</b>	<b>1.599</b>	<b>1.127</b>	<b>2.726</b>	<b>-</b>	<b>-</b>

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

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



#### 43.2. Profit and loss account

	Assets and liabilities at fair value through profit or loss	Available-for-sale financial assets	Held-to-maturity financial assets	Loans and receivables	Financial liabilities at amortized cost	Total financial instruments by class
<b>Year ended 31 December 2009</b>						
Dividends	-	12.497	-	-	-	<b>12.497</b>
Gains / (losses) from interest	84.319	6.387	-	46.253	(259.049)	<b>(122.090)</b>
Gains / (losses) from foreign exchange	47.020	(32)	-	(29.130)	(6.276)	<b>11.582</b>
Reversal of revaluation write offs / increase of value	25.018	1.868	2.202	36.280	1	<b>65.369</b>
Creation of revaluation write offs / decrease of value	-	(5.082)	-	(97.264)	(30.016)	<b>(132.362)</b>
Gains / (losses) on investment disposal	147	54.529	1.928	8.345	-	<b>64.949</b>
<b>Total net profit / (loss)</b>	<b>156.504</b>	<b>70.167</b>	<b>4.130</b>	<b>(35.516)</b>	<b>(295.340)</b>	<b>(100.055)</b>
<b>Year ended 31 December 2008</b>						
Dividends	-	3.213	-	-	-	<b>3.213</b>
Gains / (losses) from interest	74.084	1.668	10.034	106.641	(294.734)	<b>(102.308)</b>
Gains / (losses) from foreign exchange	63.587	4	-	45.001	(210.055)	<b>(101.463)</b>
Reversal of revaluation write offs / increase of value	29	56.951	-	26.043	2.480	<b>85.503</b>
Creation of revaluation write offs / decrease of value	(46.364)	(4.808)	-	(39.628)	(22)	<b>(90.822)</b>
Gains / (losses) on investment disposal	2.579	19.302	-	580	234	<b>22.695</b>
<b>Total net profit / (loss)</b>	<b>93.915</b>	<b>76.330</b>	<b>10.034</b>	<b>138.637</b>	<b>(502.097)</b>	<b>(183.181)</b>

During the period ended 31 December 2009, the amount of PLN 41.287 thousand, net of the effect of deferred tax, related to a measurement of available-for-sale financial assets was reflected in other comprehensive income.

### **43.3. Fair value of financial instruments**

The book value of the following assets and liabilities constitutes a reasonable estimate of their 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.

#### **43.3.1 Financial instruments quoted on active markets (shares, bonds)**

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

#### **43.3.2 Financial instruments not quoted on active markets, for which the fair value can be measured reliably**

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

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

Fair value of derivative transactions of an IRS type is based on the market curve of future interest rates. Risk-free 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 agency.

#### **43.3.3 Financial instruments not quoted on active markets, for which the fair value cannot be measured reliably**

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

As at the balance sheet date, the Group does not plan any significant disposals of the above positions. The Group does not have any information that would allow reliable estimation of the range of fair values of the above positions.

### **43.4. Description of significant positions within particular classes of financial instruments**

#### **43.4.1 Loans and receivables**

The most significant position of loans and receivables are trade receivables, described in detail in note 44.5.2.

#### 43.4.2 Available-for-sale financial assets

The most significant positions of available-for-sale financial assets are shares in entities not quoted on active markets and shares quoted on active markets. The Group is not able to reliably estimate the fair value of entities that are not quoted on active markets, therefore the value of these is presented in the purchase price adjusted by applicable revaluation write-offs.

As at 31 December 2009, the shares of AWSA Holland II BV of the value of PLN 115,173 thousand are the most significant position of shares not quoted on active financial markets.

#### 43.4.3 Financial assets and liabilities at fair value through profit or loss

The most significant positions of financial instruments valued at fair value through the profit or loss are bonds, bills and notes. As at 31 December 2009, the Group did not recognize any financial assets at fair value through profit or loss.

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

Based on the transaction, the bank – party to a contract pays to the entity interest based on a variable rate, and PGE Elektrownia Turów S.A. pays to Citibank interest based on a fixed rate. As a result of the imposition of the IRS transactions on the hedged Nordic Investment Bank credit, the interest rate changed from variable to fixed.

Hedge instruments owned by the Group are presented in the table below:

Type of hedge	Description of the hedging instrument	Fair value of the hedging instrument as at the balance sheet date	Description of the risk subject to the hedge
Cash flow hedge	IRS transaction - change of a variable interest rate USD LIBOR 6m to a fixed rate (5,20%) for NIB 40 credit; half-year payments, amortized in accordance to credit repayment schedule	(5.241)	Currency credit in the amount of USD 40 million, interest rate LIBOR 6m+ 0,23% margin; half-yearly payments,
Cash flow hedge	IRS transaction - change of a variable interest rate USD LIBOR 6m to a fixed rate (5,2050%) for NIB 30 credit; half-year payments, amortized in accordance to credit repayment schedule	(5.850)	Currency credit in the amount of USD 30 million, interest rate LIBOR 6m +0,18% margin; half-yearly payments
Cash flow hedge	IRS transaction - change of a variable interest rate USD LIBOR 6m to a fixed rate (5,61%) for NIB 80 credit; half-year payments, amortized in accordance to credit repayment schedule	(26.610)	Currency credit in the amount of USD 80 million, interest rate LIBOR 6m +0,5% margin; half-yearly payments
<b>Total</b>		<b>(37.701)</b>	

As the Group does not apply hedge accounting, the change in fair value of the above hedging instruments is recognized in profit or loss in the relevant reporting period.

The above mentioned agreements were concluded in September 2003 and expire in years 2015, 2016 and 2019. The estimation of the fair value of IRS instruments is based on the comparison of discounted future cash flows, so-called "swap legs". The value of cash flows resulting from interest rate on "variable leg" of the transaction and the amount of the discount is calculated on the basis of the curve of market interest rates.

During the period ended 31 December 2009 the Group revaluated the fair value of IRS transaction and recognized the negative accrued valuation of the IRS transaction fair value amounting to PLN 24.938 thousand in the statement of comprehensive income. Furthermore, during the period the Group incurred the costs of swap payments accounting for 13.819 thousand. Taking into account the long-term period of the transactions concluded and that the credit limit granted by the party of the transaction has not been exceeded, the entity did not take any actions aimed at closing the above described transaction.

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

#### 43.4.4 Financial liabilities at amortized cost

##### 43.4.4.1 Interest bearing loans and credits

Loans and credits drawn by the Group as at 31 December 2009.

Currency	Reference rate	Value of credit / loan as at reporting date (in thousands)		Due in the period:					
		In currency	In PLN	Until 1 year	From 1 to 2 years	From 2 to 3 years	From 3 to 4 years	From 4 to 5 years	Above 5 years
PLN	Variable	2.448.340	2.448.340	336.040	556.037	307.283	305.697	205.580	737.703
	Fixed	1.259.234	1.259.234	427.073	832.161	-	-	-	-
<b>Total PLN</b>		<b>3 707.574</b>	<b>3.707.574</b>	<b>763.113</b>	<b>1.388.198</b>	<b>307.283</b>	<b>305.697</b>	<b>205.580</b>	<b>737.703</b>
EURO	Variable	148.176	608.734	276	10.277	8.408	13.773	11.268	564.732
	Fixed	-	-	-	-	-	-	-	-
<b>Total EURO</b>		<b>148.176</b>	<b>608.734</b>	<b>276</b>	<b>10.277</b>	<b>8.408</b>	<b>13.773</b>	<b>11.268</b>	<b>564.732</b>
USD	Variable	123.171	351.075	43.241	42.755	42.755	42.755	42.755	136.814
	Fixed	-	-	-	-	-	-	-	-
<b>Total USD</b>		<b>123.171</b>	<b>351.075</b>	<b>43.241</b>	<b>42.755</b>	<b>42.755</b>	<b>42.755</b>	<b>42.755</b>	<b>136.814</b>
CHF	Variable	84.180	232.851	37.334	36.824	36.824	36.824	36.824	48.221
	Fixed	3.996	11.054	11.054	-	-	-	-	-
<b>Total CHF</b>		<b>88.176</b>	<b>243.905</b>	<b>48.388</b>	<b>36.824</b>	<b>36.824</b>	<b>36.824</b>	<b>36.824</b>	<b>48.221</b>
<b>Total loans and credits</b>			<b>4.911.288</b>	<b>855.018</b>	<b>1.478.054</b>	<b>395.270</b>	<b>399.049</b>	<b>296.427</b>	<b>1.487.470</b>

Loans and credits drawn by the Group as at 31 December 2008 are presented below.

Currency	Reference rate	Value of credit / loan as at reporting date (in thousands)		Due in the period:					
		In currency	In PLN	Until 1 year	From 1 to 2 years	From 2 to 3 years	From 3 to 4 years	From 4 to 5 years	Above 5 years
PLN	Variable	3.114.703	3.114.703	906.524	631.915	300.408	280.479	221.886	773.491
	Fixed	1.682.761	1.682.761	425.300	838.307	419.154	-	-	-
<b>Total PLN</b>		<b>4 797.464</b>	<b>4.797.464</b>	<b>1.331.824</b>	<b>1.470.222</b>	<b>719.562</b>	<b>280.479</b>	<b>221.886</b>	<b>773.491</b>
EURO	Variable	95.750	395.023	489	14.567	13.446	13.433	12.400	340.688
	Fixed	-	-	-	-	-	-	-	-
<b>Total EURO</b>		<b>95 750</b>	<b>395.023</b>	<b>489</b>	<b>14.567</b>	<b>13.446</b>	<b>13.433</b>	<b>12.400</b>	<b>340.688</b>
USD	Variable	130.596	386.800	22.499	44.427	44.427	44.427	44.427	186.593
	Fixed	-	-	-	-	-	-	-	-
<b>Total USD</b>		<b>130.596</b>	<b>386.800</b>	<b>22.499</b>	<b>44.427</b>	<b>44.427</b>	<b>44.427</b>	<b>44.427</b>	<b>186.593</b>
CHF	Variable	98.096	274.807	39.500	37.294	37.294	37.294	37.294	86.131
	Fixed	7.992	22.389	11.380	11.009	-	-	-	-
<b>Total CHF</b>		<b>106.088</b>	<b>297.196</b>	<b>50.880</b>	<b>48.303</b>	<b>37.294</b>	<b>37.294</b>	<b>37.294</b>	<b>86.131</b>
<b>Total loans and credits</b>			<b>5.876.483</b>	<b>1.405.692</b>	<b>1.577.519</b>	<b>814.729</b>	<b>375.633</b>	<b>316.007</b>	<b>1.386.903</b>

The values presented in the above tables as at 31 December 2009 comprise an investment credit drawn by PGE Elektrownia Opole in PEKAO SA Bank. The purpose of the credit is to finance the "block 1-4" construction with a carrying amount of PLN 1,257,461 thousand as at 31 December 2009 (PLN 1,682,761 thousand as at 31 December 2008). The above mentioned investment credit is a credit drawn in PLN at a fixed interest rate and a due date of 31 December 2012. Furthermore PGE Elektrownia Bełchatów S.A. has drawn 5 investment credits from the European Investment Bank, the European Bank of Restructuring and Development and a consortium of banks with Citi Bank Handlowy acting as the agent in order to finance a 858 MW block's construction of a carrying value of PLN 1,640,588 thousand as at 31 December 2009 (PLN 1,649,448 thousand as at 31 December 2008). The above mentioned investment credits are credits drawn in PLN at a variable interest rate based on WIBOR 3M and WIBOR 6M. Moreover, PGE Elektrownia Bełchatów S.A. has drawn in Nordycki Bank Inwestycyjny a credit with a variable interest rate, denominated in EUR. The financing of the investment in PGE Elektrownia Bełchatów S.A. is also described in detail in note 43.6 to the foregoing consolidated financial statements.

The value of credit lines at disposal as at 31 December 2009 amounted to PLN 1,321,905 thousand in current bank accounts and PLN 1,035,780 thousand within other credits (the latter value includes the credit of PGE Elektrownia Bełchatów S.A., which was described in detail in note 43.6). The due dates of used granted credit lines in current bank accounts are within eighteen months from the balance sheet date.

### 43.5. Liabilities from bonds issued

Bonds issued as at 31 December 2009.

Currency	Reference rate	Value of the issue as at reporting date (in PLN thousand)	Due in the period					
			Until 1 year	From 1 to 2 years	From 2 to 3 years	From 3 to 4 years	From 4 to 5 years	Above 5 years
PLN	Variable	114.911	114.911	-	-	-	-	-
	Fixed	-	-	-	-	-	-	-
<b>Total bonds</b>		<b>114.911</b>	<b>114.911</b>	-	-	-	-	-

Bonds issued as at 31 December 2008.

Currency	Reference rate	Value of the issue as at reporting date (in PLN thousand)	Due in the period					
			Until 1 year	From 1 to 2 years	From 2 to 3 years	From 3 to 4 years	From 4 to 5 years	Above 5 years
PLN	Variable	1.632.385	1.632.385	-	-	-	-	-
	Fixed	-	-	-	-	-	-	-
<b>Total PLN</b>		<b>1.632.385</b>	<b>1.632.385</b>	-	-	-	-	-

As at 31 December 2009, the main programme of issuing bonds in the Capital Group are the agreements signed with a consortium of banks, with ING Bank Śląski S.A. acting as an agent, on 19 May 2009, of a guaranteed borrowing facility, the purpose of which is to refinance liabilities of PGE Group entities and to finance operations of the Company. The value of the programme of issuing bonds amounts to PLN 2 billion. As at 31 December 2009, the whole value of the programme is covered by the issue guarantee.

The agreement enables issuing strips. As at 31 December 2009, no bonds were issued to Guarantor Banks within the programme. The maturity date of the agreement is settled at 8 November 2010.

#### **43.6. Compliance with covenants of credit agreements**

##### **PGE Elektrownia Bełchatów S.A.**

On 10 August 2006, PGE Elektrownia Bełchatów S.A. concluded long-term financing agreements in the total amount of EUR 879 million with the following Commercial banks and European Multilateral Institutions:

- Citibank NA London/Bank Handlowy w Warszawie S.A. and ING Bank N.V/ING Bank Śląski S.A.,
- the European Bank of Restructuring and Development ("EBRD"), the European Investment Bank ("EIB") and the Nordic Investment Bank ("NIB").

The above mentioned investment credits are designated to finance the program of Company's modernization, which include construction of New Energy Block 858 MW fueled with lignite, construction of transmission line connecting New Energy Block with National Electro- energetic System and complex modernization of existing production installations.

On 5 September 2008, the company, PGE Górnictwo i Energetyka S.A. and PGE Polska Grupa Energetyczna S.A. received from Bank Handlowy w Warszawie S.A., acting as Global Credit Agent on behalf of commercial bank and EBRD, a notification on alleged infringement of finance agreements conditions. The allegation of infringement pointed out, among others, that the entity and PGE GiE did not fulfill the obligation to assure that agreements between the company and the PGE Group entities will be concluded based on the market conditions and the obligation to take reasonable endeavors to maximize gross revenues due to the company from the sales of electric energy.

In the period in which any cases of infringement of finance agreements concluded with both commercial banks and EBRD arise, the Creditors, according to those agreements, are not obliged to make available of any financing in accordance with agreements described in this note. According to received notification, in Creditors' opinion, if alleged infringements are not eliminated, an Infringement Case may arise. In the letter dated 15 October 2008, Elektrownia Bełchatów informed the Global Credit Agent about negotiated with PGE Annex 1 to the "Framework Agreement to Agreements on Sale of Electricity and on maintenance of Net Production Capacity of 1-12 blocks in Elektrownia Bełchatów of 5 September 2005", concluded by and between the PGE and the company.

In the meantime, i.e. on 10 and 13 October 2008, a Term Credit and EBRD Credit installment was paid in the total value of PLN 40 million, which was approved by the banks.

During 2008 and 2009, the company and the creditors were negotiating key conditions on infringement annulment (negotiations concerned among others changes to documentation of financing including mechanism on principles of establishing electricity sale prices, prolongation of agreement with bank's market adviser -Redpoint company and increase margin of interest and fees for unused part of credit).

In November 2009, the company sent a letter to the Global Credit Agent with a proposition of new solution:

- introducing a „ fee for earlier repayment” under the condition that, the Creditors will agree to pay an EBI Credit installment in the amount of PLN 250 million,
- introducing a “fee for implanting changes”,
- changing credit margins,
- maintaining a provision for Unused Engagement Amount,
- annulment of a Reserve Credit.

Changes of conditions proposed by company is dependent on creditors' confirmation of infringement annulment, agreement on a merger by takeover of the mining and producing business line entities of the PGE Group (for details on the matter please refer to note no. 46 of foregoing consolidated financial statements) and agreement on payment of the next installment of the Term Credit and EBOiR Credit in the total amount of PLN 220 million. This proposition depends also on an approval of corporate authorities of the company of the proposed price conditions.



In response to the above proposition, on 20 November 2009, the Global Credit Agent informed that the Creditors did not accept price conditions proposed by the company and the approach to „Work Fee” payment and assured that they will present their own proposition afterwards. Moreover, the Creditors informed that they need more information in order to make a decision on the annulment of the Reserve Credit or on the agreement on a merger by takeover of the mining and producing business line entities of the PGE Group. Furthermore, the Creditors perceive the agreement on the merger as a separate issue which is not related to a current situation of infringement cases and assessment of this incident will take place as soon as information on final conditions of that merger is provided.

On 21 January 2010, the Creditors submitted a new proposition on changes to price conditions of financing and to a fee for infringement annulment, the so called „Waiver Fee”, which is currently analyzed by the Company.

Until the day of preparation of the foregoing consolidated financial statements, the infringement cases resulting from an Agreement on the General Conditions of Project financing were not annulled. The company does not have access to financing given by commercial banks and EBOiR and EBI until the infringement cases are annulled. Despite lasting infringement cases, NIB agreed on usage of the remaining part of NIB credit and on 23 December 2009 the amount of EUR 54,250 thousand was activated on the hitherto conditions.

On 4 March 2010, the Global Credit Agent informed the company that as a result of publication of the consolidation programme (described in detail in note 46 of the consolidated financial statements), the First Date of Mechanism Activation compliant with the Agreement on the General Conditions of Project financing occurred. As a result of the above, the Global Credit Agent demands a fulfillment of the contractual conditions by assuring, that all proceeds received by the company resulting from sales of electric energy and producing capacities will be paid to a pointed Revenues Account, from which payments related to business operations of the company can be realized.

On 12 March 2010, the Management Board of PGE Elektrownia Bełchatów S.A. adopted a resolution related to an intention of an earlier repayment of the majority of the debt in April 2010. The final value of the debt repayment will depend on the result of negotiations that will be held with the chosen financial institutions providing the financing. The debt will be repaid by providing financing to the company by the parent company.



#### **43.7. Collaterals for repayment of liabilities**

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

As at 31 December 2009 and 31 December 2008, the Group has also recognized a mortgage on the 858 MW Block under construction by PGE Elektrownia Bełchatów and a registered deposit on movable assets and marketable property rights related to this Block and the agreement for transfer of ownership of steam-gas block as a security in PGE Elektrociepłownia Rzeszów S.A.

Repayment of loans are also secured by deposits on property, plant and equipment, a long-term agreement on coal supply, guarantee contracts and transfer of ownership of coal as a security (for a loan).

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

	<b>Carrying amount of assets being collateral for repayment of liabilities as</b>	
	<b>31 December 2009</b>	<b>31 December 2008</b>
Property, plant and equipment <sup>1)</sup>	3.688.228	2.995.274
Inventories	23.220	15.000
Trade receivables <sup>2)</sup>	446.926	368.107
Cash	57.186	9.986
Other assets	-	-
<b>Total assets being collaterals for repayment of liabilities</b>	<b>4.215.560</b>	<b>3.388.367</b>

1) Including assets from finance lease

2) Including receivables subject to pledge and cession of rights

#### **43.8. Issues related to financial instruments not applicable for the Group**

During the reporting period ended 31 December 2009, there were no events in the Capital Group that needed to be disclosed, such as:

- Until the balance sheet date, the Group did not designate any financial instrument at fair value through profit or loss at initial recognition (IFRS 7, item 9, 10, 11),
- There was no reclassification of financial assets that might have changed the method of their measurement (IFRS 7, item 12),
- There were no collaterals held by the Group on any class of assets, which might have improved credit terms (IFRS 7, item 15), nor has the Group taken over any assets resulting from vindications of collaterals it held as security (IFRS 7, item 38),
- The Group has not issued any instruments that contain both a liability and an equity component (IFRS 7, item 17),
- Except from the issued described in not 43.6 of the consolidated financial statements, the Capital Group did not breach any other provisions of credit agreements (IFRS 7, item 18),
- The Group manages assets accumulated on the bank account of the mine liquidation trust; however it does not receive any income from this kind of trust activities (IFRS 7, item 20.c.ii),
- The Group does not apply hedge accounting,
- There were no financial assets acquired at a price significantly different from their fair value (IFRS 7, item 28)

#### **44. Objectives and principles of financial risk management**

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

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

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

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

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

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

The PGE Capital Group applies an active approach to interest rate risk and currency risk management. This approach assumes that the market risk generated by the PGE Capital Group entities shall be transferred to the parent company, i.e. PGE SA with the use of Intra-Group transactions. The active approach to market risk management assumes the following:

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

The function of interest rate risk and currency risk management in the PGE Capital Group is held by the parent company, i.e. PGE SA with active support of other PGE Group entities.

#### 44.1. Liquidity risk

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

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

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

#### 44.2. Interest rate risk

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

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

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

		Type of interest rate	Nominal value as at 31.12.2009	Nominal value as at 31.12.2008
Financial assets exposed to interest rate risk	PLN	Fixed	90.805	243.588
		Variable	7.346.595	2.066.213
	Other currencies	Fixed	390.924	365.719
		Variable	366.228	74.624
Financial liabilities exposed to interest rate risk	PLN	Fixed	1.259.234	1.682.761
		Variable	2.563.251	4.747.088
	Other currencies	Fixed	11.054	22.389
		Variable	1.230.361	1.119.269
<b>Net exposure</b>	PLN	Fixed	<b>(1.168.429)</b>	<b>(1.439.173)</b>
		Variable	<b>4.783.344</b>	<b>(2.680.875)</b>
	Other currencies	Fixed	<b>379.870</b>	<b>343.330</b>
		Variable	<b>(864.133)</b>	<b>(1.044.645)</b>

Interest on financial instruments of a variable interest rate is updated in periods shorter than one year. Interest on financial instruments of a fixed interest rate are flat throughout the whole period until maturity of these instruments, except for bonds issued by Autostrada Wielkopolska S.A., which were acquired with a discount and are interest-free until 30 November 2018, and since 30 November 2018 are interest bearing at variable interest rate.

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

#### **44.3. Currency risk**

In PGE Capital Group entities 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 profit or loss

Presented below are main sources of exposure to currency risk:

- Capital expenditures denominated in or indexed to foreign currencies;
- Loans and borrowings of Group 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 CO<sub>2</sub> emission rights denominated in or indexed to foreign currencies;
- Purchase of CO<sub>2</sub> emission rights denominated in or indexed to foreign currencies;
- Expenses related to current exploitation of production goods denominated in or indexed to foreign currencies;
- Financial assets of deposit characteristics denominated in foreign currencies.

Consolidated financial statements for the year ended 31 December 2009 prepared in accordance with IFRS (all amounts in PLN thousand)

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

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

	Total carrying amount in PLN	Currency position as at 31 December 2009							
		EUR		USD		CHF		SEK	
		in currency	in PLN	in currency	in PLN	in currency	in PLN	in currency	in PLN
<b>Financial assets</b>									
Deposits and investment	25.570	-	-	-	-	-	-	-	-
Bonds, bills and notes receivable acquired	284.941	57.983	238.204	-	-	-	-	-	-
Trade receivables	2.059.119	7.215	29.641	236	673	4	12	-	-
Cash and cash equivalents	7.712.823	89.121	366.125	5	15	20	55	82	33
Originated loans	170.276	-	-	-	-	-	-	381.801	152.720
Other financial receivables	164.783	500	2.054	-	-	-	-	-	-
Shares in entities not quoted on active markets	194.222	-	-	-	-	-	-	-	-
Shares quoted on active markets	1.854	-	-	-	-	-	-	-	-
Other financial assets	8.119	-	-	-	-	-	-	-	-
Lease receivables	942	-	-	-	-	-	-	-	-
Compensations related to LTC	730.629	-	-	-	-	-	-	-	-
<b>Financial liabilities</b>									
Derivatives	(37.701)	-	-	(13.227)	(37.701)	-	-	-	-
Interest bearing loans and credits	(4.911.288)	(148.176)	(608.734)	(123.171)	(351.075)	(88.176)	(243.905)	-	-
Bonds and debt instruments issued	(114.911)	-	-	-	-	-	-	-	-
Trade and other financial liabilities at amortized cost	(1.652.611)	(17.949)	(73.739)	(381)	(1.085)	(6)	(17)	(38.067)	(15.227)
Liabilities from finance lease and lease agreements with option of purchase	(1.670)	-	-	-	-	-	-	-	-
<b>Net currency position</b>		<b>(11.306)</b>	<b>(46.449)</b>	<b>(136.538)</b>	<b>(389.173)</b>	<b>(88.158)</b>	<b>(243.855)</b>	<b>343.816</b>	<b>137.526</b>

	Total carrying amount in PLN	Currency position as at 31 December 2008							
		EUR		USD		CHF		SEK	
		in currency	in PLN	in currency	in PLN	in currency	in PLN	in currency	in PLN
<b>Financial assets</b>									
Deposits and investments	87.167	-	-	-	-	-	-	-	-
Bonds, bills and notes receivable acquired	408.796	63.891	266.578	-	-	-	-	-	-
Trade receivables	1.792.607	3.741	15.609	-	-	-	-	-	-
Cash and cash equivalents	2.140.837	17.545	73.204	459	1.360	20	55	13	5
Originated loans	112.014	-	-	-	-	-	-	259.463	99.141
Other financial receivables	74.466	-	-	-	-	-	-	-	-
Shares in entities not quoted on active markets	195.505	-	-	-	-	-	-	-	-
Shares quoted on active markets	74.462	-	-	-	-	-	-	-	-
Other financial assets	34.782	-	-	-	-	-	-	-	-
Lease receivables	1.330	-	-	-	-	-	-	-	-
Compensations related to IFG	606.371	-	-	-	-	-	-	-	-
<b>Financial liabilities</b>									
Derivatives	(62.639)	-	-	(21.149)	(62.639)	-	-	-	-
Interest bearing loans and credits	(5.876.483)	(95.750)	(395.023)	(130.596)	(386.800)	(106.088)	(297.196)	-	-
Bonds and debt instruments issued	(1.632.385)	-	-	-	-	-	-	-	-
Trade and other financial liabilities at amortized cost	(1.653.311)	(5.253)	(21.919)	(185)	(549)	-	-	(7.236)	(2.765)
Liabilities from finance lease and lease agreements with option of purchase	(2.726)	-	-	-	-	-	-	-	-
<b>Net currency position</b>		<b>(15.826)</b>	<b>(61.551)</b>	<b>(151.471)</b>	<b>(448.628)</b>	<b>(106.068)</b>	<b>(297.141)</b>	<b>252.240</b>	<b>96.381</b>

#### 44.4. Goods' price risk

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

- Electric energy;
- Heat energy;
- Coal;
- Gas;
- CO<sub>2</sub> emission rights;
- Energy origin units of ownership of electricity from renewable sources ("green certificates") or from high efficiency cogeneration plants ("red certificates").

Due to the fact that most of the natural resources used by power generation plants and originate from Group-owned mines, the Group's exposure to price fluctuations of these resources is not significant.

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

Type of fuel	Year 2009		Year 2008	
	Tonnage – external purchase (in thousand tons)	Cost of purchase (PLN million)	Tonnage – external purchase (in thousand tons)	Cost of purchase (PLN million)
Coal	6.987	1.915	7.534	1.452
Gas [m3 thousand]	561.601	423	532.492	372
Biomass	451	140	408	85
Fuel oil	48	58	64	74
<b>Total</b>		<b>2.536</b>		<b>1.983</b>

#### 44.5. Credit risk

Significant Group entities that trade electricity in bulk conclude transactions only with companies with a good credit rating or they require collateral from the companies with a lower credit rating. All customers who want to conclude significant transactions and use trade credits are initially verified. Moreover, due to a current monitoring of receivables, the risk of unrecoverable receivables is insignificant.

Credit risk is connected with a potential credit event that can occur, such as insolvency of a customer, partial payment of a receivable, significant delay in receivable payment or other breaches of contract conditions.

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

- Basic activities of entities – the credit risk results from, among others, purchases and sales of electricity and heat energy, purchases and sales of mine fuels, etc.;
- Investment activities of entities – the credit risk results from transactions resulting from investment projects which depend on the financial situation of the Group's suppliers;
- Management of market risk in the Group – the credit risk relates to the possibility of there being a lack of fulfilling of liabilities of the second side of the derivative transaction in relation to the PGE Capital Group entity, if fair value of the derivative transaction is positive from the point of view of the Group. The said source of the credit risk relates mainly to PGE S.A.



- Allocation of free cash of entities – the credit risk results from investing free cash of PGE Group entities in securities bearing credit risk i.e. financial instruments other than those issued by State Treasury.

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

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

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

- Trade receivables from key customers, as at 31 December 2009 the three most significant customers accounted for 13% of the trade receivables balance. In addition, receivables from sale of electricity to households account for ca. 33% of the trade receivables balance,
- Compensation to dissolvent of Long-Term Contracts described in note 46 of the foregoing consolidated financial statements.

Maximum credit risk exposure resulting from Company's financial assets is equal to the carrying value of these items. The total maximum credit risk exposure resulting from the Company's assets amounted to PLN 11,353,273 thousand as at 31 December 2009. As described in detail in note 39, the maximum credit risk exposure resulting from guarantees granted amounted to PLN 4,725 thousand as at 31 December 2009.

#### **44.5.1 Bonds, bills and notes receivable acquired**

Bonds issued by Autostrada Wielkopolska S.A. account for 84% of the purchased bonds balance as at 31 December 2009.

#### **44.5.2 Trade receivables**

The terms of payments for trade receivables are usually 2-3 weeks, however in 2009 the Group received payments for receivables after 28 days on average. Trade receivables relate mainly to receivables for energy sold and additional services rendered. According to the management, due to current control over trade receivables, there is no additional credit risk that would exceed the level reflected by allowances for receivables.

The Group manages the credit risk of customers mainly by using the following mechanisms and techniques: evaluation of financial standing of the customers and setting up credit limits; requiring certain 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; systematic measurement of credit risk resulting from trade activity; cooperation with business intelligence agencies and debt collection companies.

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

<b>Geographical region/ country</b>	<b>31 December 2009</b>		<b>31 December 2008</b>	
	<b>Receivables balance</b>	<b>Share %</b>	<b>Receivables balance</b>	<b>Share %</b>
Poland	2.011.406	97,7%	1.718.397	95,8%
Germany	8.361	0,4%	30.158	1,7%
Czech Republic	6.830	0,3%	13.590	0,8%
Other	32.522	1,6%	30.462	1,7%
<b>Total</b>	<b>2.059.119</b>	<b>100,0%</b>	<b>1.792.607</b>	<b>100%</b>

#### **44.5.3 Deposits, cash and cash equivalents**

The Group manages credit risk related to cash by diversification of banks in which surpluses of cash are allocated. All entities, that the Group concludes deposit transactions with, operate in the financial sector. These can only be banks registered in Poland or divisions of foreign banks with high ratings, adequate equity and strong, stable market position in Poland. The most significant cash balances of the Group allocated in three banks accounted for 80% as at 31 December 2009.

#### **44.5.4 Loans granted, other receivables**

Other financial receivables comprise mostly the receivables from to LTC compensations (for more details please refer to note 46.1 of the consolidated financial statements) and acquired bonds of Autostrada Wielkopolska S.A.. LTC compensations' receivable constitutes ca. 53% and bonds of Autostrada Wielkopolska S.A. constitute 18% of loans and receivables balance as at 31 December 2009 (excluding trade receivables).

#### **44.5.5 Derivatives**

All entities the Group concludes derivative transactions with operate in the financial sector. These are Polish banks with high ratings, of adequate equity and strong, stable market position. As at the balance sheet date, the Group presented derivative transactions concluded, described in detail in note 43.4.3 of the consolidated financial statements.

#### **44.5.6 Guarantees granted**

Guarantees granted by the Group entities are presented in note 39 of the consolidated financial statements.

#### 44.5.7 Ageing of receivables and write offs on receivables

As at 31 December 2009, trade receivables, loans granted and shares in entities not quoted on active markets were subject to revaluation write offs. The change in write offs' accounts for these classes of financial instruments are presented in the table below:

	Trade receivables	Loans granted	Shares in entities not quoted on active markets
<b>31 December 2009</b>			
<b>Revaluation write offs as at 1 January</b>	<b>(246.423)</b>	<b>(11.897)</b>	<b>(48.680)</b>
Revaluation write offs used	23.853	-	-
Revaluation write offs reversed	65.414	109	17.719
Revaluation write offs created	(85.180)	-	(3.427)
<b>Revaluation write offs as at 31 December</b>	<b>(242.336)</b>	<b>(11.788)</b>	<b>(34.388)</b>
Value before the revaluation write off	2.301.455	182.064	228.610
Net value (carrying amount)	2.059.119	170.276	194.222
<b>31 December 2008</b>			
<b>Revaluation write offs as at 1 January</b>	<b>(271.110)</b>	<b>(11.897)</b>	<b>(140.529)</b>
Revaluation write offs used	29.106	-	349
Revaluation write offs reversed	45.451	-	96.405
Revaluation write offs created	(49.870)	-	(4.905)
<b>Revaluation write offs as at 31 December</b>	<b>(246.423)</b>	<b>(11.897)</b>	<b>(48.680)</b>
Value before the revaluation write off	2.039.030	123.911	244.185
Net value (carrying amount)	1.792.607	112.014	195.505

The majority of revaluation write offs created by the Group during the reporting period relate to trade receivables of energy companies from retail customers. Revaluation write offs in energy companies amounted to PLN 209,705 thousand as at 31 December 2009. Factors that were taken into consideration by the Company in the calculation of the impairment of the above positions are described in note 12 of the foregoing consolidated financial statements.

In periods before the balance sheet date, the parent company made prepayments for transmission services to Vattenfall Aktiebolag („VAB”). These prepayments were related to an execution of Restructuring Agreement signed by PGE S.A. and VAB on 28 May 2003 were associated with a purchase of SwePol Link AB shares as well as a construction and exploitation of a permanent electricity link between Polish and Swedish electric system. The prepayments are settled within a realization of the above agreement, which expires in August 2010. Taking into consideration the character of transactions mentioned above, in the consolidated financial statements prepared in accordance with IFRS, a part of the prepayments made is presented as the cost of purchase of shares in an associate and the other part is presented as a loan. As at 31 December 2009, the value of prepayments presented as a loan amounted to PLN 153 million and the part adjusting the value of shares in an associate accounted for PLN 57 million.

During the reporting period, the Company was working on the settlement of the status of the remaining prepayments after the expiry of the contract with the VAB. As at the day of preparation of the foregoing consolidated financial statements, there is an uncertainty whether the Company's efforts to extend the cooperation will be successful. As a result, it is uncertain that the amounts engaged will be retrieved. The Company, however, assesses that the cooperation will continue and that the prepayments will be settled, and as a consequence there are no sufficient premises to create a revaluation write off on the above mentioned assets as at the balance sheet date.

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

Trade receivables and other loans and receivables	Before due date	< 30 days	30 – 90 days	Past due		
				90 – 180 days	180 – 360 days	>360 days
31 December 2009						
Before the revaluation write off	3.048.949	216.215	83.222	102.655	35.168	344.880
Revaluation write off	(37.284)	(7.042)	(4.883)	(17.468)	(25.379)	(329.285)
After revaluation write off	3.011.665	209.173	78.339	85.187	9.789	15.595

Trade receivables and other loans and receivables	Before due date	< 30 days	30 – 90 days	Past due		
				90 – 180 days	180 – 360 days	>360 days
31 December 2008						
Before the revaluation write off	2.589.769	172.361	90.742	42.229	14.411	361.952
Revaluation write off	(32.353)	(853)	(2.284)	(4.933)	(11.404)	(359.563)
After revaluation write off	2.557.416	171.508	88.458	37.296	3.007	2.389

#### 44.6. Liquidity risk

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

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

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

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

<b>31 December 2009</b>	<b>Less than 3 months</b>	<b>Between 3 and 12 months</b>	<b>Between 1 and 5 years</b>	<b>More than 5 years</b>	<b>Total</b>
Bonds issued	114.951	-	-	-	114.951
Interest bearing loans and credits	210.787	762.541	2.815.519	1.900.076	5.688.923
Trade and other financial liabilities at amortized cost	1.603.823	33.503	15.277	8	1.652.611
Liabilities from finance lease and lease agreements with an option of purchase	253	761	656	-	1.670
Derivatives	1.461	15.904	47.864	17.341	82.570
<b>Total</b>	<b>1.931.275</b>	<b>812.709</b>	<b>2.879.316</b>	<b>1.917.425</b>	<b>7.540.725</b>

<b>31 December 2008</b>	<b>Less than 3 months</b>	<b>Between 3 and 12 months</b>	<b>Between 1 and 5 years</b>	<b>More than 5 years</b>	<b>Total</b>
Bonds issued	23.377	1.626.624	-	-	1.650.001
Interest bearing loans and credits	860.038	911.513	3.426.527	2.137.257	7.335.335
Trade and other financial liabilities at amortized cost	1.639.436	-	13.571	304	1.653.311
Liabilities from finance lease and lease agreements with an option of purchase	282	845	1.599	-	2.726
Derivatives	1.255	13.020	43.375	20.105	77.755
<b>Total</b>	<b>2.524.388</b>	<b>2.552.002</b>	<b>3.485.072</b>	<b>2.157.666</b>	<b>10.719.128</b>

#### 44.7. Market risk – analysis of sensitivity

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

- interest rate risk,
- currency risk.

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

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

Potential foreign exchange rates' changes were calculated on  $\pm 13,25\%$  for EUR/PLN,  $\pm 19,69\%$  for USD/PLN,  $\pm 16,16\%$  for CHF/PLN and  $\pm 12,46\%$  for SEK/PLN.

In sensitivity analysis related to interest rate risk, the Group applies parallel shift of interest rate curve related to a potential possible change of referential interest rates during the following year. For the purpose of sensitivity analysis on the interest rate risk for currencies, for which the Group is exposed

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to as at the balance sheet date, potential interest rates' changes was estimated on  $\pm 105$  bp for WIBOR,  $\pm 51$  bp for EURIBOR,  $\pm 41$  bp for LIBOR USD i  $\pm 16$  bp for LIBOR CHF.

In case of sensitivity analysis of interest rates' fluctuations, the effect of risk factors' changes were recognized in the value of interest income or expenses related to financial instruments at amortized cost and as the fair value as at the balance sheet date 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.

#### 44.7.1 Sensitivity analysis for currency risk

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

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

Financial instruments by class	31 December 2009		Sensitivity analysis for currency risk as at 31 December 2009							
	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	
	PLN thousand	PLN thousand	Exchange rate EUR/PLN + 13,25%	Exchange rate EUR/PLN -13,25%	Exchange rate USD/PLN + 19,69%	Exchange rate USD/PLN -19,69%	Exchange rate CHF/PLN + 16,16%	Exchange rate CHF/PLN -16,16%	Exchange rates SEK/PLN + 12,46%	Exchange rate SEK/PLN -12,46%
Trade receivables	2.059.119	30.326	3.927	(3.927)	132	(132)	2	(2)	-	-
Loans granted	170.276	152.720	-	-	-	-	-	-	19.021	(19.021)
Bonds, bills, notes receivable acquired	284.941	238.204	31.562	(31.562)	-	-	-	-	-	-
Cash and cash equivalents	7.712.823	366.228	48.512	(48.512)	3	(3)	9	(9)	4	(4)
Derivatives	(37.701)	(37.701)	-	-	(7.423)	7.423	-	-	-	-
Interest bearing loans and credits	(4.911.288)	(1.203.714)	(80.657)	80.657	(69.126)	69.126	(39.413)	39.413	-	-
Trade liabilities and other financial liabilities at amortized cost	(1.652.611)	(90.068)	(9.770)	9.770	(214)	214	(3)	3	(1.897)	1.897
<b>Gross profit change</b>			<b>(6.426)</b>	<b>6.426</b>	<b>(76.628)</b>	<b>76.628</b>	<b>(39.405)</b>	<b>39.405</b>	<b>(17.128)</b>	<b>17.128</b>



Consolidated financial statements for the year ended 31 December 2009 prepared in accordance with IFRS (all amounts in PLN thousand)

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

Financial instruments by class	31 December 2008		Sensitivity analysis for currency risk as at 31 December 2008							
	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	Exchange rate	Exchange rate	Exchange rate	Exchange rate	Exchange rate	Exchange rate	Exchange rate
			EUR/PLN + 22,75%	EUR/PLN -22,75%	USD/PLN + 32,25%	USD/PLN -32,25%	CHF/PLN + 26,79%	CHF/PLN -26,79%	SEK/PLN + 23,35%	SEK/PLN -23,35%
Trade receivables	1.792.607	15.609	3.551	(3.551)	-	-	-	-	-	-
Loans granted	112.014	99.141	-	-	-	-	-	-	23.153	(23.153)
Bonds, bills, notes receivable	408.796	266.578	60.646	(60.646)	-	-	-	-	-	-
Cash and cash equivalents	2.140.837	74.624	16.654	(16.654)	439	(439)	15	(15)	1	(1)
Derivatives	(62.639)	(62.639)	-	-	(20.201)	20.201	-	-	-	-
Interest bearing loans and credits	(5.876.483)	(1.079.019)	(89.868)	89.868	(124.743)	124.743	(79.625)	79.625	-	-
Trade liabilities and other financial liabilities at amortized cost	(1.653.311)	(25.233)	(4.987)	4.987	(177)	177	-	-	(646)	646
<b>Gross profit change</b>			<b>(14.004)</b>	<b>14.004</b>	<b>(144.682)</b>	<b>144.682</b>	<b>(79.610)</b>	<b>79.610</b>	<b>22.508</b>	<b>(22.508)</b>

#### 44.7.2 Sensitivity analysis for interest rate risk

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

Financial assets and liabilities	31 December 2009		Sensitivity analysis for interest rate risk as at 31 December 2009							
	Carrying amount	Amount exposed to risk	WIBOR		EURIBOR		LIBOR USD		LIBOR CHF	
			gross financial result		gross financial result		gross financial result		gross financial result	
			WIBOR + 105bp	WIBOR - 105bp	EURIBOR +51bp	EURIBOR -51bp	LIBOR USD +41bp	LIBOR USD -41bp	LIBOR CHF +16bp	LIBOR CHF -16bp
	PLN thousand	PLN thousand								
Cash and cash equivalents	7.712.823	7.712.823	49.587	(49.587)	1.129	(1.129)	3	(3)	-	-
Derivatives	(37.701)	(37.701)	-	-	-	-	(5.718)	5.718	-	-
Interest bearing loans and credits	(4.911.288)	(3.641.000)	(38.171)	38.171	(2.580)	2.580	(1.525)	1.525	(424)	424
Bonds issued	(114.911)	(114.911)	(9.205)	9.205	-	-	-	-	-	-
<b>Gross profit change</b>			<b>2.211</b>	<b>(2.211)</b>	<b>(1.451)</b>	<b>1.451</b>	<b>(7.240)</b>	<b>7.240</b>	<b>(424)</b>	<b>424</b>

Financial assets and liabilities	31 December 2008		Sensitivity analysis for interest rate risk as at 31 December 2008							
	Carrying amount	Amount exposed to risk	WIBOR		EURIBOR		LIBOR USD		LIBOR CHF	
			gross financial result		net financial result		net financial result		net financial result	
			WIBOR +262bp	WIBOR -262bp	EURIBOR +131bp	EURIBOR -131bp	LIBOR USD +138p	LIBOR USD -138bp	LIBOR CHF +89bp	LIBOR CHF -89bp
Cash and cash equivalents	2.140.837	2.140.837	61.751	(61.751)	966	(966)	13	(13)	-	-
Derivatives	(62.639)	(62.639)	-	-	-	-	(26.346)	26.346	-	-
Interest bearing loans and credits	(5.876.483)	(4.171.333)	(71.345)	71.345	(3.916)	3.916	(4.345)	4.345	(2.728)	2.728
Bonds issued	(1.632.385)	(1.632.385)	(44.159)	44.159	-	-	-	-	-	-
<b>Gross profit change</b>			<b>(53.753)</b>	<b>53.753</b>	<b>(2.950)</b>	<b>2.950</b>	<b>(30.678)</b>	<b>30.678</b>	<b>(2.728)</b>	<b>2.728</b>

Interest rates fluctuations do not have a direct influence on equity of the Group.

## 45. Employment structure

Employment in the Group (in posts) as at 31 December 2009 and 31 December 2008 was as follows:

	As at 31 December 2009	As at 31 December 2008
<b>Total employees, including:</b>	<b>46.357</b>	<b>46.626</b>
Mining and Production	22.774	23.240
Renewable Energetics	483	458
Wholesale turnover, including:	454	477
Parent company	262	306
Distribution	12.687	12.796
Retail sale	1.778	1.722
Other consolidated entities	8.181	7.933

## 46. Significant events during the reporting period and subsequent events

### 46.1. Compensation for long term contacts

Legislation works related to restructuring of Long-Term Contracts ("LTC") ended on 29 June 2007, when Sejm passed the bill on rules of covering producers' costs related to early termination of long-term agreements for the sales of electric power and energy (Official Journal, No. 130, item 905, year 2007) ("LTC Act").

Within the term specified in the LTC Act, i.e. until 31 December 2007, PGE Polska Grupa Energetyczna S.A. signed Termination Agreements with all producers that were parties at LTC. Signing of a termination agreement by the producers was the basis for receiving compensation for expenses not covered by revenues from sales of electricity, power reserve and system services on the competitive market after early dissolution of LTC, which resulted from expenditures made by producers before 1 May 2004 for property, plant and equipment related to production of electricity. In accordance with the Act, the maximum stranded cost limit and amounts used for calculation of annual cost adjustments were established for every producer. After LTC termination, producers received compensations in the form of advances, starting from 2008. Then, during the so-called period of adjustment, lasting until expiration of the longest long-term agreement of the given producer, an annual adjustment of stranded costs shall be made. In the year following the year in which period of adjustment is terminated for given producer, final adjustments of stranded costs shall be made.

PGE Capital Group entities were also parties to long-term contracts and after their termination they were granted rights for compensation. The maximum value of stranded costs including stranded costs relating to 2007 and additional costs (according to 44 article of the LTC Act), according to an appendix 2 amounted to:

- PGE Elektrownia Opole S.A. – PLN 1,965,700 thousand;
- PGE Elektrownia Turów S.A. – PLN 2,571,151 thousand;
- PGE Zespół Elektrowni Dolna Odra S.A. – PLN 633,496 thousand;
- PGE Elektrociepłownia Rzeszów S.A. – PLN 421,810 thousand;
- PGE Elektrociepłownia Lublin-Wrotków Sp. z o.o. – PLN 616,743 thousand;
- PGE Elektrociepłownia Gorzów S.A. – PLN 108,028 thousand.

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

The regulations of LTC Act refer both to individual producers as well as producers, which are members of capital groups in the meaning of the LTC Act. This matter concerns especially Elektrownia Bełchatów, Elektrownia Opole and Elektrownia Turów. The essence of provisions referred to producers composing capital groups is ambiguous, especially in relation to the calculation of annual and final adjustments. The Group performed detailed analysis and estimations of annual and final adjustments on the basis of the most reliable and compliant with LTC Act provisions, in Group's opinion, assumptions. The estimation of the annual and final adjustments of the three, mentioned above producers composing capital group was performed based on the following assumptions:

- Calculation of annual adjustment was made on assumption that positive difference between the estimated and actual financial result of the year realized by Elektrownia Bełchatów can affect the annual stranded cost adjustment of Elektrownia Opole and Elektrownia Turów for given year only if positive annual adjustment arise.
- Calculation of final adjustment was made on assumption that value of due stranded costs and value of final adjustment should be calculated individually for each producer. If positive final adjustment arise in Elektrownia Opole and Elektrownia Turów, the value of this adjustment will be adjusted by sum of differences between financial results estimated in LTC Act and actually realized by Elektrownia Bełchatów in the proportion to share of maximum amount of stranded costs assigned for given producer to the total amount of stranded costs for all producers composing the group.

The calculation of the estimated results of each company and relating compensations, annual adjustments of stranded costs and final adjustments was performed by the Group with the best of its knowledge in this area and with support of external experts.

### **Revenues from LTC compensations in 2008**

During 2008, the Group entities received two advance payments to cover stranded costs in the total value of PLN 716 million. However, on the basis of the model, which takes into account (as described above) the estimated annual adjustment and a portion of the final adjustment), in accordance with the adopted accounting policy, the 2008 revenue comprised PLN 1,322 million. The difference between advance payments received and the revenue recognized in the statement of comprehensive income was reflected in other receivables as at 31 December 2008.

### **Revenues from LTC compensations in 2009**

On 31 July 2009, the President of ERO issued against the PGE Group production entities, entitled to receive means to cover stranded costs on the basis of LTC Act, decisions on annual adjustment of stranded costs for the year 2008 (a first, but incomplete year of this Act being effective). These decisions are unfavorable for particular PGE Group entities and according to the Group these have been issued with a breach of the LTC Act.

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

- the calculation of the annual adjustment for particular entities was at variance with mathematical formulas included in the LTC Act,
- the costs of CO<sub>2</sub> emission rights incurred by particular entities were not included in the annual adjustment of the stranded costs,
- the correction of annual adjustment of stranded costs of particular entities was at variance with regulations included in art. 32 of the LTC Act which related to capital group production entities,
- incorrect assumption (which was a basis for the ERO decisions under appeal proceedings) that particular entities do not operate on the competitive electric energy market, which is contrary to the previous statement of the President of ERO that PGE Group entities operate on the competitive market and therefore, in particular, are not obliged to submit the used tariffs for approval of the President of ERO.

The PGE Group had taken into account the interpretation of LTC Act regulations included in the above ERO decisions, the revenues recognized in the consolidated financial statements for the year 2008 would have been lower by ca. PLN 0,4 billion as compared to a recorded amount of PLN 1,322 million.

The Management Board of the Group is convinced that the appeal shall be settled in favor of the particular entities subject to compensations, therefore the PGE Group recognizes the revenues from LTC compensations in accordance with the LTC Act interpretation adopted by the Group. Due to the above, the present consolidated financial statements do not comprise the adjustments resulting from unfavorable interpretations included in the ERO decisions both in relation to revenues for the year 2008 and revenues for the year 2009. The decisions of the President of ERO related to the year 2009 will be issued by the end of July 2010. The Group is not certain which key values will be adopted by the President of ERO for the settlement of means to cover stranded costs for this period and whether until this date the Competition and Consumer Protection Court will issue a statement related to the decisions of the President of ERO under appeal proceedings commenced by the production entities. Nevertheless the Group assesses that if the President of ERO maintained his interpretation of the LTC Act regulations, the Group revenues for the period from 1 January to 31 December 2009 according to the President of ERO might be lower by ca. PLN 0,8 billion.

Moreover, as described in detail in note 46.3 to the foregoing consolidated financial statements, the PGE Group commenced the "Consolidation Programme". In the opinion of the Management Board of the Group, the merger of the production entities into one legal subject should not influence the interpretation of the President of ERO of the calculation method of LTC compensations. However, we draw attention to the uncertainty of final interpretation of the President of ERO in this scope.

#### **46.2. Initial Public Offering of PGE Polska Grupa Energetyczna S.A. and debut on Warsaw Stock**

PGE Group performed works related to initial public offering (IPO) on the Warsaw Stock Exchange during the reporting period. On 3 September 2009, the Extraordinary Meeting of Shareholders of the parent company adopted a resolution related to an increase of the share capital of the Company in the manner of an issue of new shares excluding the subscription right of the hitherto existing shareholder. Based on the resolution, the share capital is to be increased by the amount no greater than PLN 2,595,135,000 (PLN two billion five hundred and ninety five million one hundred and thirty five thousand) through an issue of B series shares of the nominal value of PLN 10 each.

On 6 November 2009, the subscription rights to the shares of PGE Polska Grupa Energetyczna S.A. made a debut on the Warsaw Stock Exchange. 259,513,500 shares were issued. Proceeds from the issue amounted to PLN 5,968,810 thousand. The increase of the share capital was registered in the National Court Register on 30 November 2009. The increase of share capital was settled as follows:

- Share capital was increased by PLN 2,595,135 thousand,
- The surplus of the issue price over the shares' nominal value i.e. PLN 3,373,675 thousand increased the reserve capital of the Company;
- Reserve capital was decreased by expenses related to Initial Public Offering in the amount of PLN 68,560 thousand which were incurred during 2008 and 2009.

#### **46.3. PGE Capital Group Consolidation**

The consolidation process of PGE Capital Group, realized under the Consolidation Programme of PGE Capital Group, commenced in 2009. The purpose of the Programme is a legal and organizational merger of the entities in the following business areas:

- retail sale of electric energy;
- distribution of electric energy;
- conventional energy (mining and production);
- energy from renewable sources

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and also a merger of PGE Górnictwo i Energetyka S.A. and PGE Energia S.A. with PGE Polska Grupa Energetyczna S.A., as well as carrying out legal and organizational changes in the field of wholesale energy trade. The merger in each business line will take place in compliance with art. 492 par. 1 p. 1 of the Commercial Code i.e. by takeover.

The following entities take part in the Programme:

*A. Retail sale of electric energy:*

1. PGE Obrót S.A. (formerly PGE Rzeszowski Zakład Energetyczny S.A.) – acquiring company
2. PGE Lubelskie Zakłady Energetyczne S.A.
3. PGE Łódzki Zakład Energetyczny S.A.
4. PGE Zakład Energetyczny Białystok S.A.
5. PGE ZEŁT Obrót sp. z o.o.
6. PGE Zakłady Energetyczne Okręgu Radomsko-Kieleckiego S.A.
7. PGE Zakład Energetyczny Warszawa-Teren S.A.
8. PGE Zamojska Korporacja Energetyczna S.A.

*B. Distribution of electric energy:*

1. PGE Dystrybucja S.A. – acquiring company
2. PGE Dystrybucja LUBZEL sp. z o.o.
3. PGE Dystrybucja Łódź sp. z o.o.
4. PGE Dystrybucja Rzeszów sp. z o.o.
5. PGE Dystrybucja Białystok sp. z o.o.
6. PGE Dystrybucja Łódź-Teren S.A.
7. PGE Zakłady Energetyczne Okręgu Radomsko-Kieleckiego Dystrybucja sp. z o.o.
8. PGE Dystrybucja Warszawa-Teren sp. z o.o.
9. PGE Dystrybucja Zamość sp. z o.o.

*C. Conventional energy (mining and production)*

1. PGE Elektrownia Bełchatów S.A. – acquiring company
2. PGE Kopalnia Węgla Brunatnego Bełchatów S.A.
3. PGE Kopalnia Węgla Brunatnego Turów S.A.
4. PGE Elektrownia Turów S.A.
5. PGE Elektrownia Opole S.A.
6. PGE Zespół Elektrowni Dolna Odra S.A.
7. PGE Zespół Elektrociepłowni Bydgoszcz S.A.
8. PGE Elektrociepłownia Lublin-Wrotków sp. z o.o.
9. PGE Elektrociepłownia Gorzów S.A.
10. PGE Elektrociepłownia Rzeszów S.A.
11. PGE Elektrociepłownia Kielce S.A.
12. Energetyka Boruta sp. z o.o.
13. Przedsiębiorstwo Energetyki Ciepłej sp. z o.o. w Gryfinie
14. PEC Gorzów sp. z o.o.

*D. Energy from renewable sources:*

1. PGE Energia Odnawialna S.A. – acquiring company
2. Elektrownia Wodna Żarnowiec S.A.
3. PGE Zespół Elektrowni Wodnych Dychów S.A.
4. Zespół Elektrowni Wodnych Porąbka-Żar S.A.
5. EGO-Odra S.A.
6. Zespół Elektrowni Wodnych Solina-Myczkowce S.A.
7. Elektrownia Wiatrowa Kamieńsk sp. z o.o.

*E. Wholesale:*

1. PGE Electra S.A.



and:

1. PGE SA
2. PGE Górnictwo i Energetyka SA
3. PGE Energia SA

As a result of Consolidation Programme parent company will be merged with PGE Górnictwo i Energetyka S.A. and PGE Energia S.A.

On 26 January 2010 regarding the Consolidation Programme, Management Boards of particular entities adopted Consolidation Plans, which were submitted to the appropriate Courts running the National Court Register. In accordance with adopted schedule, organizational and legal stage of consolidation consisting of a legal merger of entities should end in third quarter of 2010.

In addition, on 16 February 2010, the Management Board made a decision related to a planned merger of PGE SA with a subsidiary PGE Electra S.A. The planned merger will take place in compliance with art. 492 par. 1 p. 1 and art. 515 par. 1 of the Commercial Code, namely the transfer of all assets of the Taken Over Company to PGE (merger in the way of takeover) without an increase of the share capital of PGE S.A.

The Consolidation Programme also comprises a construction of an organizational structure, preparing a strategy for future consolidated entities and identification of effectiveness and competitiveness improvement programs. As at the date of preparation of the foregoing financial statements there were no binding decisions undertaken concerning the final organization structure of consolidated companies or consolidated PGE Group business model.

Moreover, depending on the chosen method of the merger settlement, the Consolidation Programme may have a material impact on presented value of assets and liabilities, which will be disclosed in future consolidated financial statements of the PGE Capital Group.

#### **46.4. „Non-core” Programme**

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

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

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

Within the realized Conception, there were non-energy related assets identified functioning in the form of entities and areas not separated from the structures of core business entities and the process of disposal and reorganization of these assets was commenced within the PGE Group.

As at the balance sheet date, the assets under the Programme do not meet conditions of IFRS 5 *Non-current Assets Held for Sale and discontinuous activity*.



#### **46.5. Excise tax on electricity in energy production entities**

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

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

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

Furthermore, on 15 October 2009, the Supreme Administrative Court addressed the Constitutional Tribunal with a legal inquiry whether the provisions of the Tax Ordinance Act which are basis for the Group production companies to apply for an excise tax excess payment refund are complicate with the Constitution of the Republic of Poland. Currently it is not possible to predict the content of the Tribunal's verdict and the timing of the verdict's announcement. Approaching the Tribunal may cause a suspension of current proceedings and if the provisions referred to occur to be incompliant with the Constitution, there is a risk that PGE Group production entities will be deprive of a possibility for a refund of the excise tax excess payment. unable to regain the return of the excise tax surplus payment.

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

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

Furthermore, in September 2009 the Company filed a motion related to an excess payment of the excise tax on imports and Intra-Community acquisition of electric energy in the period from January 2006 to February 2009. The Company states that the excess payment results from discrepancies between the Polish and Community law. In February 2010, the Company received decisions for the period from January – December 2006 declining the excess payment of excise tax, paid in relation to imports of electric energy. As at the day of preparation of the foregoing financial statements the tax office did not issue any statement on the excess payment related to Intra-Community acquisition of electric energy. The Company is currently preparing appeals against the decisions of the Head of the I Customs Office in Warsaw. The total amount of the claims amounts to PLN 54 million plus interest due.

#### **46.6. Investment credit in PGE Elektrownia Bełchatów S.A.**

For details on the investment credit in PGE Elektrownia Bełchatów S.A. and subsequent events related to the credit please refer to note 43.6 of the consolidated financial statements.

#### **46.7. Partial electricity price release on the retail sale market**

In prior year, 2008, for the first time, electricity prices in A, B, C, D and R tariff groups for the electricity retail sale entities were not governed by the President of Energy Regulatory Office. The President of ERO planned a complete release of electricity retail sale entities from submitting electricity turnover tariffs for approval (in relation to household customers as well) starting from 1 January 2009. However, in September 2008, the obligation to use and submit tariffs related to G group customers for approval was extended for the whole of year 2009.

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

Signed on the Polish original  
Tomasz Zadroga  
President of the  
Management Board

Signed on the Polish original  
Wojciech Topolnicki  
Vice-President of the  
Management Board

Signed on the Polish original  
Marek Szostek  
Vice-President of the  
Management Board

Signed on the Polish original  
Piotr Szymanek  
Vice-President of the  
Management Board

Signed on the Polish original  
Marek Trawiński  
Vice-President of the  
Management Board