PGE Polska Grupa Energetyczna S.A.

Financial Statements prepared in accordance with International Financial Reporting Standards for the year ended 31 December 2011.

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STATEMENT OF COMPREHENSIVE INCOME

	Note	Period ended 31 December 2011	Period ended 31 December 2010 (unaudited)*
Continuing operations			
Revenues from sale of products and merchandise		9.889.873.778,14	11.558.959.520,64
Revenues from services rendered		239.571.736,71	96.155.538,60
Revenues from rent		8.447.699,64	8.231.226,99
Total sales revenue	**12**	**10.137.893.214,49**	**11.663.346.286,23**
Costs of goods sold	**12**	(9.784.114.589,81)	(11.324.805.901,83)
Gross profit on sales		**353.778.624,68**	**338.540.384,40**
Other operating revenues	**12**	5.637.326,55	12.747.508,54
Distribution and selling expenses		(17.325.321,11)	(20.862.508,20)
General and administrative expenses		(122.397.293,54)	(106.757.348,26)
Other operating expenses	**12**	(40.851.545,96)	(16.030.858,61)
Financial revenues	**12**	4.889.376.013,75	2.874.333.771,69
Financial expenses	**12**	(105.359.075,16)	(91.869.111,46)
Profit before tax		**4.962.858.729,21**	**2.990.101.838,10**
Corporate income tax	**13**	(406.743.240,13)	(85.223.563,38)
Net profit from continuing operations		**4.556.115.489,08**	**2.904.878.274,72**
Profit for the period from discontinued operations			
Net profit for the operating period:		**4.556.115.489,08**	**2.904.878.274,72**
OTHER COMPREHENSIVE INCOME:			
Valuation of available-for-sale financial assets		304.073,35	80.736,72
Other comprehensive income for the period, net		**304.073,35**	**80.736,72**
TOTAL COMPREHENSIVE INCOME		**4.556.419.562,43**	**2.904.959.011,44**
Earnings per share			
– basic earnings per share for the period		2,44	1,55
– basic earnings from continuing operations		2,44	1,55

*) For information regarding comparative figures please refer to notes 9 and 11 of these financial statements.

STATEMENT OF FINANCIAL POSITION

	Note	As at 31 December 2011	As at 31 December2010 (unaudited)*	As at 1 January 2010 (unaudited)*
Non-current assets				
Property, plant and equipment	**15**	216.271.685,86	232.309.940,90	238.669.919,76
Intangible assets	**17**	17.537.679,88	18.449.262,65	23.212.973,40
Loans and receivables		4.783.678.775,23	612.964.747,62	1.949.757.468,24
Shares in subsidiaries	**18**	22.587.091.272,54	22.428.008.619,64	19.334.823.011,09
Available-for-sale financial assets	**38**	69.963.184,99	38.670.681,47	1.840.789.586,93
Deferred tax assets		4.326.865,50	27.133.105,48	25.166.168,53
Total non-current assets		**27.678.869.464,00**	**23.357.536.357,76**	**23.412.419.127,95**
Current assets				
Inventories	**19**	32.466.376,39	30.894.612,86	68.018.936,49
Income tax receivables		-	4.130.551,60	2.527.785,60
Shares in subsidiaries	**18**	217.877.247,47	214.077.274,50	-
Trade receivables	**38**	616.658.375,74	867.578.886,50	1.015.013.684,70
Other loans and financial assets	**38**	3.331.624.387,97	4.770.064.959,36	932.516.411,78
Available-for-sale short-term financial assets	**38**	39.067.211,14	1.724.482.916,13	-
Other current assets	**20**	94.672.215,85	660.934.034,35	124.911.964,07
Cash and cash equivalents	**21**	1.020.822.894,68	257.955.448,68	3.410.076.085,15
Total current assets		**5.353.188.709,24**	**8.530.118.683,98**	**5.553.064.867,79**
TOTAL ASSETS		**33.032.058.173,24**	**31.887.655.041,74**	**28.965.483.995,74**

*) For information regarding comparative figures please refer to notes 9 and 11 of these financial statements.

STATEMENT OF FINANCIAL POSITION

	Note	As at 31 December 2011	As at 31 December 2010 (unaudited)*	As at 1 January 2010 (unaudited)*
Equity				
Share capital	23	18.697.837.270,00	18.697.837.270,00	17.300.900.000,00
Equity of merging companies to be allocated to share capital of PGE S.A.		-	-	1.396.937.270,00
Revaluation reserve		(776.959,84)	(1.081.033,19)	(1.161.769,91)
Treasury shares	23	(228.980,00)	(228.980,00)	-
Reserve capital	23	8.553.142.587,71	6.727.589.161,87	6.591.665.786,74
Other capital reserves	23	49.779.301,47	49.779.301,47	-
Retained earnings	23	4.482.346.392,27	2.967.564.555,88	1.584.079.836,30
Total equity		**31.782.099.611,61**	**28.441.460.276,03**	**26.872.421.123,13**
Long-term liabilities				
Other liabilities	38	-	-	27.473,70
Provisions	29	18.784.020,00	21.410.634,89	18.052.656,90
Total long-term liabilities		**18.784.020,00**	**21.410.634,89**	**18.080.130,60**
Short-term liabilities				
Trade liabilities	38	423.572.941,06	973.071.576,01	1.085.524.842,53
Interest-bearing loans, borrowings, bonds and lease	38	-	2.011.131.664,61	556.541.563,89
Other short-term financial liabilities	38	4.480.627,10	25.040.486,57	31.454.424,32
Other short-term non-financial liabilities	31	45.016.801,33	36.123.238,22	18.692.982,16
Income tax liabilities		318.174.214,00	-	14.146.267,00
Deferred income	32	286.614,01	4.787.872,02	218.154,32
Short-term provisions	29	439.643.344,13	374.629.293,39	368.404.507,79
Total short-term liabilities		**1.231.174.541,63**	**3.424.784.130,82**	**2.074.982.742,01**
Total liabilities		**1.249.958.561,63**	**3.446.194.765,71**	**2.093.062.872,61**
TOTAL LIABILITIES AND EQUITY		**33.032.058.173,24**	**31.887.655.041,74**	**28.965.483.995,74**

*) For information regarding comparative figures please refer to notes 9 and 11 of these financial statements.

STATEMENT OF CHANGES IN EQUITY

for the period ended 31 December 2011

	Share capital	Revaluation reserve	Treasury shares	Reserve capital	Other capital reserves	Retained earnings	Total
As at 1 January 2011	**18.697.837.270,00**	**(1.081.033,19)**	**(228.980,00)**	**6.727.589.161,87**	**49.779.301,47**	**2.967.564.555,88**	**28.441.460.276,03**
Profit for the period	-	-	-	-	-	4.556.115.489,08	4.556.115.489,08
Other comprehensive income	-	304.073,35	-	-	-		304.073,35
Total comprehensive income for the period	***-***	***304.073,35***	***-***	***-***	***-***	***4.556.115.489,08***	***4.556.419.562,43***
Retained earnings distribution	-	-	-	1.825.553.425,84	-	(1.825.553.425,84)	-
Dividend	-	-	-	-	-	(1.215.780.226,85)	(1.215.780.226,85)
As at 31 December 2011	**18.697.837.270,00**	**(776.959,84)**	**(228.980,00)**	**8.553.142.587,71**	**49.779.301,47**	**4.482.346.392,27**	**31.782.099.611,61**

STATEMENT OF CHANGES IN EQUITY

for the period ended 31 December 2010 (unaudited)*

	Share capital	Capital of the subsidiaries to raise the share capital of PGE S.A.	Revaluation reserve	Treasury shares	Reserve capital	Other capital reserves	Retained earning	Total
As at 1 January 2010	**17.300.900.000.00**	**1.396.937.270,00**	**(1.161.769,91)**	**-**	**6.591.665.786,74**	**-**	**1.584.079.836,30**	**26.872.421.123,13**
Profit for the period	-	-	-	-	-	-	2.904.878.274,72	2.904.878.274,72
Other comprehensive income	-	-	80.736,72	-	-	-	-	80.736,72
Total comprehensive income for the period	**-**	**-**	***80.736.72***	**-**	**-**		***2.904.878.274,72***	***2.904.959.011,44***
Issue of shares due to merger	**1.396.937.270,00**	**(1.396.937.270,00)**	-	-	-	-	-	-
Share issue expenses	-	-	-	(228.980,00)	(350.110,06)	-	-	(579.090,06)
Retained earnings distribution	-	-	-	-	136.273.485,19	49.779.301,47	(186.052.786,66)	-
Dividend	-	-	-	-	-	-	(1.335.340.768,48)	(1.335.340.768,48)
As at 31 December 2010	**18.697.837.270,00**	**-**	**(1.081.033,19)**	**(228.980,00)**	**6.727.589.161,87**	**49.779.301,47**	**2.967.564.555,88**	**28.441.460.276,03**

*) For information regarding comparative figures please refer to notes 9 and 11 of these financial statements.

STATEMENT OF CASH FLOWS

	Period ended 31 December 2011	Period ended 31 December 2010 (unaudited)*
Cash flow from operating activities		
Profit before tax	**4.962.858.729,21**	**2.990.101.838,10**
Adjustments for:		
Depreciation and amortization	23.419.023,92	28.938.571,47
Interest and dividend, net	(3.088.050.974,49)	(2.730.891.590,78)
Profit/ (loss) on investment activities	(1.633.628.436,50)	11.440.910,95
Change in receivables	254.237.832,87	242.921.534,38
Change in inventories	(1.571.763,53)	36.943.785,57
Change in liabilities, excluding loans and bank credits	(538.158.844,15)	(163.498.425,14)
Change in prepayments and other non-financial assets	22.061.220,49	(3.819.139,76)
Change in provisions	62.387.435,85	9.106.615,43
Income tax paid	(61.703.560,40)	(102.924.661,00)
Other	(52.788.928,19)	5.718.195,64
Net cash from operating activities	**(50.938.264,92)**	**324.037.634,86**
Cash flow from investing activities		
Disposal of property, plant and equipment and intangible assets	6.877.952,95	830.467,42
Purchase of property, plant and equipment and intangible assets	(10.700.008,13)	(19.892.174,59)
Disposal of financial assets	12.181.350.862,17	7.152.328.773,70
Purchase of financial assets	(11.683.200.799,68)	(12.872.344.188,10)
Dividends received	3.386.853.915,23	1.994.837.083,41
Interest received	242.224.829,34	203.174.698,54
Loans repaid	774.218,85	38.437.260,27
Loans granted	(4.000.000,00)	(44.600.000,00)
Net cash from investing activities	**4.120.180.970,73**	**(3.547.228.079,35)**
Cash flow from financing activities		
Proceeds from the issue of shares	-	(579.090,06)
Proceeds from loans, bank credits and issue of bonds	5.053.001.300,00	2.010.046.695,42
Repayment of loans, bank credits, bonds and finance lease	(7.081.450.154,58)	(588.772.278,89)
Dividends paid	(1.217.687.893,56)	(1.333.567.687,75)
Interest paid	(63.285.672,09)	(7.183.246,63)
Net cash flow from financing activities	**(3.309.422.420,23)**	**79.944.392,09**
Net change of cash and cash equivalents	**759.820.285,58**	**(3.143.246.052,40)**
Effect of foreign exchange rate changes	1.261.907,00	(184.285,57)
Cash and cash equivalents at the beginning of the period	**258.383.252,27**	**3.401.629.304,67**
Cash and cash equivalents at the end of period, including	**1.018.203.537,85**	**258.383.252,27**
Restricted cash	-	-

*) For information regarding comparative figures please refer to notes 9 and 11 of these financial statements.

APPLIED ACCOUNTING PRINCIPLES (POLICY) AND EXPLANATORY NOTES

1. General information

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

Company PGE S.A. is the Parent Company of PGE Capital Group ("PGE CG", "PGE Group") and prepares consolidated financial statements in accordance with International Financial Reporting Standards ("IFRS"). Pursuant to Art. 45 item 1b of the Accounting Act dated 29 September 1994, General Shareholders' Meeting dated 3 August 2010 decided to prepare the separate financial statements in accordance with IFRS. The first-time adoption of IFRS is described in note 9 of these financial statements.

Core operations of the Company comprise:

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

Business activities are conducted under appropriate concessions.

These financial statements have been prepared for the period ended 31 December 2011 and include comparative figures for the period ended 31 December 2010 and as at 1 January 2010.

2. The composition of the Management Board

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

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

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

- on 5 January 2011 the Supervisory Board adopted a resolution for the dismissal of Vice-President for Financial matters – Mr. Wojciech Topolnicki,
- on 16 March 2011 the Supervisory Board adopted a resolution for the dismissal of Vice-President for Operational matters – Mr. Marek Trawiński,
- on 16 March 2011 the Supervisory Board adopted a resolution for the appointment of Vice-President for Financial matters – Mr. Wojciech Ostrowski, effective 17 March 2011,
- on 16 March 2011 the Supervisory Board adopted a resolution for the appointment of Vice-President for Operational matters – Mr. Paweł Skowroński , effective 17 March 2011.

- on 14 December 2011 the Supervisory Board accepted the resignation of Mr. Tomasz Zadroga from the position of the President of the Management Board and appointed Mr. Paweł Skowroński to act as a New President of the Management Board.
- on 14 December 2011 the Supervisory Board adopted a resolution to dismiss Vice-President for Operational matters – Mr. Marek Szostek.

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

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

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

Therefore as at the date of signing these financial statements, the composition of the Management Board was as follows:

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

3. Approval of financial statements

These financial statements were approved for disclosure by the Management Board 13 March 2012.

4. Going concern

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

5. Presentation currency

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

6. Statement of compliance with International Financial Reporting Standards

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

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

7. Significant values based on professional judgement and estimates

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

Depreciation period of non-current assets

Depreciation rates are calculated on the basis of the estimated economic useful life of an item of property, plant and equipment and intangible assets as well as estimates of its residual value. Estimated economic useful life of assets is subject to verification at least once a year.

Recoverable amount of shares in subsidiaries

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

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

Valuation of provisions for retirement benefits

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

Other provisions and contingent liabilities

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

Deferred tax assets

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

Recognition of financial instruments

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

Impairment allowance on receivables

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

8. Change of estimates

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

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

9. First time adoption of International Financial Reporting Standards

International Accounting Standards Board has issued International Financial Reporting Standard no. 1 ("IFRS 1") "First time adoption of IFRS", which is applicable for financial statements for a period beginning on or after 1 January 2004. The IFRS 1 applies when entities adopt IFRSs for the first time or entities that applied IFRSs but their financial statements contained an explicit statement of no compliance with some IFRSs. IFRS 1 requires entity's first IFRS financial statements to be the first annual financial statements in which the entity adopts IFRSs, by an explicit and unreserved statement in those financial statements of compliance with IFRSs.

As discussed in note 1 to these financial statements the Company is a Parent Company of the PGE Group, which prepares consolidated financial statements in accordance with IFRS. PGE Group applied IFRS on 1 January 2006. According to art.45 point 1b of the Polish Accounting Act of 29 September 1994, the General Shareholders' Meeting held on 3 September 2010 decided on preparation of separate financial statements in accordance with IFRS.

Accordingly, these financial statements are the first annual financial statements prepared in accordance with IFRS approved by the EU. For the purposes of these financial statements, the date of transition to IFRSs is 1 January 2010. The financial statements prepared for the period ended 31 December 2010 were the last Company's available financial statements prepared in accordance with Polish accounting rules as defined in the Polish Accounting Act, as of the date of approval of these financial statements.

In accordance with IFRS 1, the financial statements have been prepared in a manner as if the Company had always applied IFRS, whereas the Company applied the following exemptions from the requirement to restate, referred to in IFRS 1:

Fair value or revaluation as the deemed cost (IFRS 1.30)

International Accounting Standard 29 *Financial Reporting in Hyperinflationary Economies* (IAS 29) requires, that values of assets and liabilities recognized in hyperinflationary periods be presented at current prices as at the end of the hyperinflationary reporting period and be the basis for assets and liabilities valuation in financial statements of future periods. The above standard applies to non-monetary balance sheet items. Significant balance sheet items of the Company are tangible assets and equity. Until the end of 1996, the Polish economy met the criteria of a hyperinflationary economy, and since 1997 no longer does. The Company did not apply IAS 29 in previous years and only carried out a revaluation of fixed assets as at 1 January 1995 in order to reflect the effects of inflation on their carrying value through the use of revaluation rates determined by the Minister of Finance for different groups of fixed assets, in accordance with regulations applicable in Poland. This revaluation was not made in accordance with IAS 29, because the Company did not use general price indicators and did not make a revaluation of fixed assets as at 31 December 1996.

Property, plant and equipment and intangible assets have been included in the consolidated financial statements of PGE Group prepared in accordance with IFRS. There assets were fair valued at amounts, which have been adopted for the first-time preparation of the consolidated financial statements of the PGE Group and initial public offering of PGE S.A. shares in November 2009. According to an exemption allowed by IFRS 1, Appendix D, paragraph D5-D8, the Company adopted these values as deemed cost as at 1 January 2010.

Adjustments between new and previous accounting standards applied
The reconciliation of equity, assets and net profit in the comparative period between accounting principles applied previously and IFRS is presented below:

		Equity as at 1 January 2010	Equity as at 31 December 2010	Net profit for the year ended 31 December 2010	Assets as at 31 December 2010
Data reported In financial statements prepared in accordance with the Polish Accounting Act		**26.935.055.802,19**	**28.519.569.847,10**	**2.920.423.465,45**	**32.002.907.058,55**
1.	Valuation of property, plant and equipment	129.504.144,48	123.226.040,37	(6.278.104,11)	152.130.914,04
2.	Valuation of intangible assets	5.404.042,07	4.539.983,99	(864.058,08)	5.604.918,50
3.	Valuation of financial assets	(197.730.903,87)	(206.123.683,85)	(8.473.516,70)	(206.688.045,07)
4.	Valuation of retirement, pensions and other benefits provisions	188.038,26	248.088,42	60.050,16	(58.193,58)
5.	Presentation of deferred tax, net	-	-	-	(61.701.615,93)
6.	Presentation of Social Fund, net	-	-	-	(4.539.994,77)
7	Other	-	-	10.438,00	-
	Impact of New accounting principles applied – total	**(62.634.679,06)**	**(78.109.571,07)**	**(15.545.190,73)**	**(115.252.016,81)**
Data reported in these financial statements prepared in accordance with IFRS		**26.872.421.123,13**	**28.441.460.276,03**	**2.904.878.274,72**	**31.887.655.041,74**

Significant presentation adjustments between Polish Accounting Standards and IFRS:

Valuation of property, plant, equipment and intangible assets

The Company discloses non-current assets in values, which have been adopted for the preparation of the consolidated financial statements of the PGE Group – for which the Company is the Parent Company , and applied these values as deemed cost determined as at the day of transition to IFRS.

Valuation of financial instruments

The difference in the valuation of financial instruments between financial statements prepared in accordance with the Accounting Act and financial statements prepared in accordance with IFRS relates mainly to shares held in Exatel and AWSA Holland II shares held. During the period before the date of transition to IFRS, shares of the above mentioned companies recognized in the financial statements were subject to an impairment allowance. After indications of impairment in the financial statement in accordance with the Accounting Act have receded, the above impairment write-down was reversed.

However, according to IAS 39 par. 66, losses due to impairment of unquoted equity instruments measured at cost are not reversed. Accordingly, the carrying value of the Exatel shares in the financial statements of the Company prepared in accordance with IFRS is lower by PLN 188,324 thousand and the value of AWSA Holland II shares is lower by PLN 50.673 thousand in relation to the value recognized in the financial statements prepared in accordance with the Accounting Act.

Assets of the Social Fund

According to the Polish law, the Company manages the Social Fund on behalf of their employees. Contributions paid to the Social Fund are deposited on separate bank accounts.

In the financial statement in accordance with IFRS, the Social Fund assets were not disclosed due to the lack of expected future economic benefits that could contribute to the impact of cash and cash equivalents on the Company's account.

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

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

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

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

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

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

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

Amended IAS 19 introduces a new presentation of actuarial gains and losses in the statement of comprehensive income. In accordance with accounting principles applied by the Company, all actuarial gains and losses are recognized in net profit for the period. Amended IAS 19 regulates, that the actuarial gains and losses relating to provisions for post-employment benefits are recognized in other comprehensive income. In the case of significant changes in actuarial assumptions in the following periods, amended IAS 19 might have a significant impact on costs and net financial result presented by the Company. For example as a result of valuation of post-employment benefits for 2011, net profit would decrease by PLN 3.160 thousand.

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

11. Accounting principles applied

The most significant accounting principles applied are presented below.

11.1. Principles of merger accounting

The Consolidation Programme of PGE I Group, commenced within PGE Group, has been initiated in 2009. The main purpose of the Programme is to gain a strong market and financial position ensuring inter alia the inevitable further development of PGE Group through legal and formal merger of entities in the following areas:

- retail sales of electric energy;
- distribution of electric energy;
- conventional energy (mining and production);
- renewable energy.

Organizational and legal part of the Consolidation Programme assumed the merger of 38 companies being subsidiaries directly or indirectly, into 4 entities, and also the merger of PGE Polska Grupa Energetyczna S.A. (taking over company) with PGE GiE S.A. and PGE Energia S.A. (acquired companies). On 26 January 2010, fulfilling the assumption of the Programme PGE S.A., PGE GiE S.A. and PGE Energia S.A. signed the „Merger Plan", describing, in accordance to Art.499 § 1 of the Commercial Code, among others, the method of the merger of the companies, as well as the share exchange ratio, in accordance to Art.501 of the Commercial Code.

According to the order of the District Court for the Capital City of Warsaw, XII Economic Department of National Court Register, the merger of PGE GiE S.A. and PGE Energia S.A. with PGE S.A. took place on 31 August 2010. As a result of merger, the acquired companies were dissolved without liquidation. The share capital of the taking over company was increased by an amount of PLN 1.396.937.270, resulting from the share exchange ratio approved, through an issue of 73.241.482 C series shares and 66.452.245 D series shares of the nominal value of PLN 10 each. The shares were issued to non-controlling shareholders of the acquired companies in accordance with Art. 514 of the Commercial Companies Code.

As a result of further implementation of the Programme, on 31 December 2010 according to order of District Court for the Capital City of Warsaw, XII Economic Department of National Court Register, the merger of PGE S.A. (taking over company) and PGE Electra S.A. (company acquired) occurred. The merger took place in compliance with art. 492 par. 1 p.1 and art. 515 par. 1 of the Commercial Company Code, namely the transfer of all assets of the company being acquired by PGE S.A. (merger in the way of takeover) without an increase of the share capital of the acquiring company and without issuing shares of acquiring company in exchange for shares of acquired company.

Accounting for the merger in the financial statements of the Company

The transaction with related entities fulfilled the definition of business combination under common control, which is excluded from IFRS 3 *"Business combinations".* 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 provision, the entity preparing its financial statement in accordance with IFRS is obliged to develop and apply 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; are neutral, prudent and complete in all material respects.

According to the analysis made by the Company, for mergers of entities under common control it is preferred that they 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. With regards to all the above, the financial statements are prepared as if the entities have always been combined.

The general principle in using the pooling of interest method is to aggregate individual items of the relevant positions of assets and equity and liabilities as well as revenues and costs of the merged companies, as at the merger date, after adjusting their value into the uniform method of valuation and making appropriate eliminations. The differences between the net assets contributed and the value of equity issued by the acquiring company has been recognized directly in equity of the acquiring company. The financial statements of the Company, acquiring the assets and liabilities of other entities, include comparative figures, as if the entities had been combined from the beginning of the previous reporting period.

The Company recognized the pooling of interests method in the following way:

- The book value of assets and liabilities of acquired companies PGE Energia S.A.. PGE GiE S.A. and PGE Electra S.A. were recognized by PGE S.A. after adjustments for comparability.
- Mutual debts and liabilities, revenues and costs of business transactions carried out in the financial year, including dividends received from the acquired companies and shares held in the acquired companies were eliminated.
- As a result of merger, the share capital of the acquiring company was increased by PLN 1.396.937 thousand and was presented in a separate caption in equity as a "Equity of the subsidiaries to be allocated to PGE S.A." for the comparative period and to the date of registration of the merger in 2010.
- The share capital of the acquired companies was eliminated. After the elimination, the reserve capital of merging companies was adjusted by the difference between the amounts of assets and liabilities taken over. In the financial statements after the merger, the sum of combined reserve capitals, other reserves and retained earnings of acquired companies, was presented.
- The cost incurred with respect to the merger was recognized as financial costs.
- Within bringing the assets of the merged companies into consistent regulation methods, the value of shares of previously owned by PGE GiE S.A. were revalued in accordance to valuation prepared for increasing of the PGE S.A. share capital in 2007. Therefore, the carrying value of shares in PGE Górnictwo i Energetyka Konwencjonalna S.A. increased by an amount of PLN 3.392.550 thousand as well as shares in PGE Elektrownia Opole S.A. by an amount PLN 812.285 thousand. The amount resulting from the revaluation of shares was recognized as the reserve capital.

11.2. Property, plant and equipment

Property, plant and equipment are assets:

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

Significant items of property, plant and equipment used before the date of transition to IFRS, i.e. 1 January 2010 were recognized at amounts which have been adopted for the preparation of the consolidated financial statements of the PGE Group, to which the Company belongs (deemed cost) and applied these values as deemed cost determined as at the date of transition to IFRS. The difference between the previous book value and new fair value was recorded in retained earnings. Property, plant and equipment and construction in progress after the transition to IFRS are measured at cost of acquisition or cost of manufacturing.

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

As at the date of acquisition of an assets or as at the date of transition into IFRS, an assets and all its significant components of different economic useful life are indentified. If costs of entire overhauls, inspections or replacement of main parts are significant, they are also identified as components.

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

The depreciable amount is the cost of an asset less its residual value. Depreciation commences when the asset is available for use. Depreciation is based on a depreciation plan reflecting the future useful life of the asset. The depreciation method used 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 month after completion the inspection/overhaul until the beginning of the next overhaul/inspection.

Spare parts and maintenance equipment classified as property, plant and equipment are depreciated over the remaining economic useful life of the related item (i.e. from the purchase date of the part till the end of the usage of the property, plant and equipment).

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

Group	Average remaining depreciation period in years	Applied total depreciation periods in years
Buildings and structures	25	2-52
Machinery and equipment	2	1-39
Vehicles	1	1-10
Other	4	1-15

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

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

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

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

11.3. Investment property

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

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

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

An investment property is recognized at acquisition price or cost of manufacturing including transaction costs. The cost of a purchased investment property comprises its purchase price and any directly attributable expenditure. The directly attributable expenditure includes, for example, professional fees for legal services, property transfer taxes and other transaction costs. The cost of a self-constructed investment property is its cost at the date when the construction or development is complete, until then it is recognized as construction in progress. After recognition as an asset, an item of investment property is carried at its cost less any accumulated depreciation and any accumulated impairment losses.

An investment property is derecognized from the statement of financial position on disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from its disposal. Gains or losses arising from the derecognition of investment property are recognized in profit or loss in the period of the derecognition.

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

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

11.4. Intangible assets

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

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

As at the date of initial recognition of an intangible asset, it is measured initially at acquisition or production cost with respect to development costs. The cost of a separately acquired intangible asset comprises:

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

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

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

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

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

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

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

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

Intangible assets with an indefinite useful life and those not being used are subject to impairment testing each year. The following useful lives are adopted for intangible assets:

Group	Average remaining amortization period in years	Applied amortization period in years
Acquired patents and licences	4	1-13
Costs of finished developed works	<1	5
Other	3	2-10

11.5. Research and development costs

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

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

Development works include:

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

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

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

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

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

11.6. Borrowing costs

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

11.7. Financial assets

Financial assets are classified in the following categories:

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

Held to maturity investments

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

Financial assets at fair value through profit or loss

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

- It is classified as held-for-sale. A financial asset is classified as held-for-sale if it 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,
  - a derivative, except for a derivative that is a designated and effective hedging instrument.
- Upon initial recognition it is designated by the entity as at fair value through profit or loss (in accordance with IAS 39). Any financial asset within the scope of this standard may be designated when initially recognized as a financial asset at fair value through profit or loss except for investments in equity instruments that do not have a quoted market price in an active market, and whose fair value cannot be reliably measured.

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

Loans and receivables

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

Available-for-sale financial assets

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

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

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

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

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

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

11.8. Non-current assets held for sale and discontinued operations

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

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

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

11.9. Impairment of non-financial non-current assets

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

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

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

11.10. Embedded derivatives

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

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

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

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

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

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

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

The Company assesses at initial recognition whether the embedded derivative is to be a recognized as separate instrument.

11.11. Derivatives and hedging instruments

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

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

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

11.12. Treasury shares

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

11.13. 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 labour and a justified portion of indirect production costs.

Cost of usage of inventories is determined as follows:

- Materials and merchandise – at weighed average cost, however in case of representation and advertising materials and office supplies the purchases may be recognized in profit or loss in the period when purchased. The Company may also recognize in profit or loss other kinds of materials, for which a store is not maintained, if quarterly inventory counts of unused materials and appropriate adjustment of costs is made

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

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

11.14. Trade receivables

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

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

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

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

11.15. 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.

11.16. Other assets and prepayments

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

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

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

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

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

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

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

Other assets also comprise receivables from the state.

11.17. Equity

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

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

11.18. Provisions

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

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

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

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

The following provisions are expected to be raised:

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

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

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

Based on the Inter-Corporate Collective Labour Agreement (Ponadzakładowy Układ Zbiorowy Pracy) amended in 2005, the Company is obliged to pay a so called "energy tariff", to former employees of the energy industry. Due to the above, since December 2005 the Company raises an appropriate provision.

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

Retirement and pension benefits and jubilee benefits

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

11.19. Profit-based payments for employees benefits and special funds

According to Polish industry practice, shareholders may distribute the entity's profit as employee benefits, such as: an allocation to the Social Fund (ZFŚS) or employee profit share. According to IFRS, profit allocation to the Social Fund or employee profit share are classified as operating expenses in the period for which the profit distribution took place.

11.20. Liabilities

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

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

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

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

All other liabilities are classified as non-current.

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

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

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

11.21. The Social Fund

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

11.22. Deferred income

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

- Amounts received or due from business partners to be realized in subsequent reporting periods;
- Grants obtained to finance acquisition or production of fixed assets, fixed assets under construction and development works, recognized through other operating income in an amount equivalent to the depreciation charges on non-current assets financed from this source. This applies in particular to forgiven loans and credits and grants to acquire an item of property, plant and equipment and to finance development works;
- Property, plant and equipment and intangible assets acquired free of charge. Deferred income is amortized to other operating income settled in line with the depreciation charges on these assets;
- Gains relevant to sale and leaseback of property, plant and equipment and intangible assets. Deferred income is amortised to other operating income over the period of the lease. If there is a high probability of the buy-back of the leased asset after the lease period and the lease period is significantly different from the economic useful life of the asset, income is recognized in proportion to depreciation of the asset.
- EUA allocated to the Company gratuitously under the National Allowances Allocation Programme (NAAP). The emission allowances are recognised at fair value as at the date of their initial recognition. During the reporting period EUA are amortised in equal instalments to the respective positions of the Statement of comprehensive income.

11.23. Leases

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

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

11.24. Taxes

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

Deferred tax asset or deferred tax liability is calculated on the basis of temporary differences between the carrying amount of a given asset or liability and its tax base and tax loss as recoverable in the future. A deferred tax liability is recognized for all taxable temporary differences, except to the extent that the deferred tax liability arises from:

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

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

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

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

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

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

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

11.25. Revenues

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

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

Revenues from sale of goods and merchandise

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

Revenues from sale of goods and merchandise include:

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

Revenues from services rendered

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

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

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

11.26. Expenses

Cost of goods sold

Cost of goods sold includes:

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

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

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

11.27. Other operating revenues and expenses

Other operating expenses and revenues include in particular:

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

11.28. Financial revenues and expenses

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

- disposal of financial assets,
- revaluation of financial instruments, except financial assets available for sale, the result of which is reflected in other comprehensive income,
- share of profits of other entities,
- interest,
- changes in provisions related to passage of time (unwinding of the discount effect),
- exchange differences resulting from operations performed during the reporting period and measurement of the carrying amount of assets and liabilities at the balance sheet date, except for the exchange differences recognized in the initial value of a non-current asset, to the extent they are recognized as an adjustment to interest expense and exchange differences related to valuation of financial instruments classified to the AFS portfolio,
- other items related relevant to financial operations.

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

11.29. Statement of cash flows

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

11.30. Operating segments

The Company does not have segments.

12. Revenues and expenses

12.1. Sales revenues

	Period ended 31 December 2011	Period ended 31 December 2010
Sales revenues		
Sales of finished foods and merchandise with excise tax	9.889.873.778,14	11.558.959.520,64
Revenues from sale of finished goods and merchandise	**9.889.873.778,14**	**11.558.959.520,64**
Revenues from sale of services	239.571.736,71	96.155.538,60
Revenues from leases	8.447.699,64	8.231.226,99
Total sales revenues	**10.137.893.214,49**	**11.663.346.286,23**

The decrease of revenues from sale of finished goods and merchandise is due to changes in the business model in year 2011 as compared to year 2010, which mainly relates to sale of electric energy.
This matter is explained in note 41 of these financial statements.

12.2. Costs by type and functions

	Period ended 31 December 2011	Period ended 31 December 2010
Cost by type		
Depreciation/amortization	23.419.023,92	28.938.571,47
Materials and energy	3.566.994,69	4.942.483,20
External services	56.704.435,83	73.932.423,23
Taxes and charges	9.570.631,88	7.666.663,85
Personnel expenses	62.426.311,27	70.178.036,04
Other costs by type	64.781.371,62	59.942.874,98
Total costs by type	**220.468.769,21**	**245.601.052,77**
Change in prepayments, accruals and inventories	(651.127,34)	(9.479.381,78)
Distribution and selling expenses	(17.325.321,11)	(20.862.508,20)
General and administrative expenses	(122.397.293,54)	(106.757.348,26)
Cost of merchandise and materials sold	9.704.019.562,59	11.216.304.087,30
Cost of goods sold	**9.784.114.589,81**	**11.324.805.901,83**

During 2011 the Company changed the method of settlement of expenses related to trade in electricity and related products, including exchange fees, clearing fees and transmission services.

Therefore, for the purpose of comparability, the Company restated information presented in costs by functions for 2010.

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

	Period ended 31 December 2011	Period ended 31 December 2010
Included in cost of goods sold:	**10.485.219,45**	**16.849.333,85**
Property, plant and equipment depreciation	8.027.159,43	11.104.825,36
Impairment of property, plant and equipment	-	-
Intangible assets amortization	2.458.060,02	5.744.508,49
Included in distribution and selling expenses:	**1.993.060,58**	**31.468,74**
Property, plant and equipment depreciation	1.424.474,45	29.382,82
Intangible assets amortization	568.586,13	2.085,92
Included in general and administrative expenses:	**10.936.990,73**	**12.053.877,76**
Property, plant and equipment depreciation	8.454.295,08	8.701.510,92
Intangible assets amortization	2.482.695,65	3.048.907,69
Impairment allowances raised on property, plant and equipment	-	303.459,15
Included in change in inventories, goods, prepayments and accruals	**3.753,16**	**3.891,12**
Included in costs of products and services for the entity's own use	**-**	**-**

12.4. Employee benefits expenses

	Period ended 31 December 2011	Period ended 31 December 2010
Payroll	47.860.359,98	56.504.213,65
Social security expenses	6.302.866,28	6.527.746,74
Retirement and pensions costs	2.535.344,71	2.749.828,32
Jubilee awards and allowances	655.551,00	407.772,50
Other post-employment benefits	-	7.779,97
Other payroll-related expenses	5.072.189,30	3.980.694,86
Total employee benefits expenses:	**62.426.311,27**	**70.178.036,04**
Included in costs of goods sold	13.255.635,37	24.466.885,36
Included in distribution and selling expenses	6.143.260,34	2.192.157,24
Included in change in prepayments, accruals and inventories	(294.112,79)	2.129.555,20
Included in general and administrative expenses	43.321.528,35	41.389.438,24

During 2011 the Company changed the method of presentation of the costs of employment relating to civil law contracts for management, which were previously presented as payroll expenses. Currently these costs are presented as of other costs by type. The costs relating to comparative period are also presented as other costs by type.

12.5. Other operating revenues

	Period ended 31 December 2011	Period ended 31 December 2010
Profit on disposal of property, plant and equipment	3.813.350,72	443.582,02
Reversal of impairment allowance for receivables	50.809,54	-
Reversal of impairment allowance for non-financial assets	-	53.945,11
Provisions reversed	700.288,58	11.760.920,00
Compensations, penalties and fines received	3.006,84	41.704,51
Grants received	918.365,87	-
Taxes refunded	54.986,19	-
Court fees refunded	17.806,00	38.182,00
Surpluses / disclosures of assets	410,00	78,31
Other	78.302,81	409.096,59
Total other operating revenues	**5.637.326,55**	**12.747.508,54**

12.6. Other operating expenses

	Period ended 31 December 2011	Period ended 31 December 2010
Impairment allowance raised for receivables	622.470,69	26.405,27
Impairment allowance raised for non-financial assets	-	95.361,18
Provisions raised	39.483.985,59	12.911.906,45
Compensations paid	2.093,20	126.271,43
Donations granted	112.115,62	764.613,18
Court fees paid	29.064,55	43.823,24
Forgiveness of receivables	78.345,64	-
Scrapping of non-current assets	454.212,89	161.803,44
Other	69.257,78	1.900.674,42
Total other operating expenses	**40.851.545,96**	**16.030.858,61**

12.7. Financial revenues

	Period ended 31 December 2011	Period ended 31 December 2010
Financial revenue from financial instruments	**4.888.001.133,43**	**2.866.793.786,24**
Dividends	2.847.154.575,23	2.534.467.059,92
Interest income	361.642.291,36	328.881.910,40
Reversal of impairment allowance	12.783,54	3.412.923,90
Profit on disposal of investments	1.630.269.385,12	31.892,02
Exchange gains	48.922.098,18	-
Other financial revenue	**1.374.880,32**	**7.539.985,45**
Discount rate adjustment	440.224,00	-
Provisions reversed	74.870,00	1.110,00
Interest on statutory receivables	148,51	4.327.765,00
Other	859.637,81	3.211.110,45
Total financial revenues	**4.889.376.013,75**	**2.874.333.771,69**

12.8. Financial expenses

	Period ended 31 December 2011	Period ended 31 December 2010
Financial expenses from financial instruments	**80.722.681,73**	**77.827.757,35**
Interest expenses	80.721.739,12	67.557.908,80
Impairment allowance	-	293.361,37
Impairment losses	942,61	15.948,77
Exchange losses	-	9.960.538,41
Other financial expenses	**24.636.393,43**	**14.041.354,11**
Interest expenses (including the effect of discount unwinding)	18.673.838,07	12.588.986,85
Provisions raised	5.322.536,66	148.264,95
Interest paid relating to statutory liabilities	28.596,00	225.399,72
Other	611.422,70	1.078.702,59
Total financial expenses	**105.359.075,16**	**91.869.111,46**

13. Income tax

Main elements of income tax expense for the periods ended 31 December 2011 and 31 December 2010 are as follows:

	Period ended 31 December 2011	Period ended 31 December 2010
Statement of comprehensive income		
Current income tax	*384.008.326,00*	*87.403.066,65*
Current income tax expense	391.949.763,00	87.424.157,65
Previous periods' current income tax adjustments	(7.941.437,00)	(21.091,00)
Deferred income tax		
Related to temporary differences originated and reversed	22.734.914,13	(2.179.503,27)
Income tax expense presented in the statement of comprehensive income	**406.743.240,13**	**85.223.563,38**
Statement of financial position		
Deferred income tax		
Deferred income tax on unrealized profit / (loss) on financial assets available for sale	71.325,85	18.938,24
Tax loss recognized in equity	**71.325,85**	**80.736.72**

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 the years ended 31 December 2011 and 31 December 2010 is as follows:

	Period ended 31 December 2011	Period ended 31 December 2010
Profit before tax from continued operations	**4.962.858.729,21**	**2.990.101.838,10**
Profit before tax from discontinued operations	-	-
Profit before tax	**4.962.858.729,21**	**2.990.101.838,10**
Income tax according to Polish statutory tax rate of 19%	942.943.158,00	568.119.349,00
Previous periods current income tax adjustments	(7.941.437,00)	(21.091,00)
Costs not recognised as tax-deductible costs	13.206.690,77	5.039.452,74
Non-taxable provisions and impairment allowance raised	11.666.210,85	-
Other	1.540.479,92	5.039.452,74
Non-taxable income	(541.469.911,98)	(487.305.585,95)
Dividends	(540.959.369,29)	(481.548.741,38)
Tax loss not recognized as tax asset used	-	-
Reversal of non-taxable provisions and impairment allowance	(15.436,86)	(4.486.219,82)
Other	(495.105,83)	(1.270.624,75)
Other	4.740,34	(608.561,41)
Tax at effective tax rate amounting to 8,2% [2010: 2,9%]	**406.743.240,13**	**85.223.563,38**
Income tax (expense) as presented in statement of comprehensive income	406.743.240,13	85.223.563,38
Income tax attributable to discontinued operations	-	-

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

14. Discontinued operations

During the year ended 31 December 2011 the Company did not discontinue any significant operations.

15. Property, plant and equipment

Period ended 31 December 2011	Land	Buildings and construction	Machinery and equipment	Vehicles	Other property, plant and equipment	Construction in progress	Total
Gross book value							
Opening balance	**-**	**243.325.414,94**	**69.876.273,25**	**2.331.219,56**	**4.557.307,70**	**5.248.680,10**	**325.338.895,55**
Direct purchase	-	-	-	-	92.000,00	5.347.391,54	**5.439.391,54**
Transfer from construction in progress	-	3.699.453,38	2.017.501,33	1.074.021,51	479.411,61	(7.270.387,83)	**-**
Sales/ disposals	-	(3.713.600,00)	(77.076,81)	(651.294,86)	(4.200,00)	-	**(4.446.171,67)**
Transfer between groups	-	-	-	-	-	-	**-**
Donations and transfers free of charge	-	-	-	-	(80.179,00)	-	**(80.179,00)**
Scrapping	-	(611.232,86)	(6.107.442,31)	-	(136.731,15)	-	**(6.855.406,32)**
Other	-						
Closing balance	**-**	**242.700.035,46**	**65.709.255,46**	**2.753.946,21**	**4.907.609,16**	**3.325.683,81**	**319.396.530,10**
Depreciation and impairment allowance							
Opening balance	**-**	**39.730.050,04**	**48.597.553,70**	**1.731.308,73**	**2.970.042,18**	**-**	**93.028.954,65**
Depreciation for the period	-	7.911.130,70	8.658.453,01	884.015,60	455.957,70	-	**17.909.557,01**
Increase of impairment allowance	-	-	-	-	-	-	**-**
Decrease of impairment allowance	-	-	-	-	-	-	**-**
Sales/ disposals	-	(676.117,38)	(48.114,86)	(603.949,20)	(4.200,00)		**(1.332.381,44)**
Transfers between groups	-	-	-	-			
Donations and transfers free of charge	-	-	-	-	(72.742,55)	-	**(72.742,55)**
Scrapping	-	(501.363,45)	(5.777.684,58)	-	(129.495,40)	-	**(6.408.543,43)**
Other	-	-	-	-	-	-	**-**
Closing balance	**-**	**46.463.699,91**	**51.430.207,27**	**2.011.375,13**	**3.219.561,93**	**-**	**103.124.844,24**
Opening balance net book value	**-**	**203.595.364,90**	**21.278.719,55**	**599.910,83**	**1.587.265,52**	**5.248.680,10**	**232.309.940,90**
Closing balance net book value	**-**	**196.236.335,55**	**14.279.048,19**	**742.571,08**	**1.688.047,23**	**3.325.683,81**	**216.271.685,86**

Period ended 31 December 2010	Land	Buildings and construction	Machinery and equipment	Vehicles	Other property, plant and equipment	Construction in progress	Total
Gross book value							
Opening balance	**-**	**240.933.370,10**	**63.058.806,81**	**3.358.742,71**	**5.031.168,59**	**3.294.743,81**	**315.676.832,02**
Direct purchase	-	5.476,35	2.740.057,97	-	-	11.691.350,85	**14.436.885,17**
Transfer from construction in progress	-	2.456.549,02	6.476.819,42	-	693.499,42	(9.626.867,86)	**-**
Sales/ disposals	-	(65.588,53)	(908.984,76)	(1.028.223,16)	(412.451,33)	-	**(2.415.247,78)**
Transfer between groups		-	2.917,39	-	(2.917,39)	-	**-**
Donations and transfers free of charge		-	(91.850,02)	-	(464.779,81)	-	**(556.629,83)**
Scrapping	-	(4.392,00)	(1.203.100,00)	-	(65.532,75)	-	**(1.273.024,75)**
Other	-	-	(198.393,56)	700,01	(221.679,03)	(110.546,70)	**(529.919,28)**
Closing balance	-	**243.325.414,94**	**69.876.273,25**	**2.331.219,56**	**4.557.307,70**	**5.248.680,10**	**325.338.895,55**
Depreciation and impairment allowance							
Opening balance	**-**	**31.467.639,62**	**39.699.999,73**	**2.318.562,47**	**3.520.710,44**	**-**	**77.006.912,26**
Depreciation for the period	-	8.014.980,92	10.831.692,43	407.718,75	585.727,08	-	**19.840.119,18**
Increase of impairment allowance	-	303.459,15	-	-	-	-	**303.459,15**
Decrease of impairment allowance	-	-	-	-	-	-	**-**
Sales/ disposals	-	(55.590,45)	(724.820,15)	(991.066,12)	(398.821,25)	-	**(2.170.297,97)**
Transfers between groups	-	-	2.917,39	-	(2.917,39)	-	**-**
Donations and transfers free of charge	-	-	(91.263,18)	-	(454.557,26)	-	**(545.820,44)**
Scrapping	-	(439,20)	(924.827,07)	-	(58.420,41)	-	**(983.686,68)**
Other		-	(196.145,45)	(3.906,37)	(221.679,03)	-	**(421.730,85)**
Closing balance	-	39.730.050,04	48.597.553,70	1.731.308,73	2.970.042,18	-	**93.028.954,65**
Opening balance net book value	-	**209.465.730,48**	**23.358.807,08**	**1.040.180,24**	**1.510.458,15**	**3.294.743,81**	**238.669.919,76**
Closing balance net book value	-	**203.595.364,90**	**21.278.719,55**	**599.910,83**	**1.587.265,52**	**5.248.680,10**	**232.309.940,90**

During the period ended 31 December 2011 Company did not include expenses related to external financing in the value of property, plant and equipment and construction in progress.

16. Investment property

As at 31 December 2011 Company did not recognize any investment property.

17. Intangible assets

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

The project "Consolidation of human capital management within the mySAP.com system" (currently SAP ERP) is a significant component of the Company's non-commissioned intangible assets. Completion of the project is planned for 2012. The carrying amount of the project represents 52% of the total value of non-commissioned intangible assets.

Year ended 31 December 2011	Development costs	Licenses and patents		Other intangible assets	Non-commissioned intangible assets	Total
		Total	Including computer software			
<u>**Gross book value**</u>						
Opening balance	**786.194,46**	**10.778.155,19**	**10.778.155,19**	**32.730.697,09**	**5.517.135,08**	**49.812.181,82**
Direct purchase	-	3.635.820,82	3.635.820,82	-	1.724.022,83	5.359.843,65
Transfer of non-commissioned intangible assets	-	627.080,75	627.080,75	-	(627.080,75)	-
Sales/ disposals	-	(924,00)	(924,00)	-	-	(924,00)
Transfers between groups	-	32.491.388,65	32.491.388,65	(32.491.388,65)	-	-
Donations and transfers free of charge	-	-	-	-	-	-
Scrapping	-	-	-	(31.720,00)	-	(31.720,00)
Other changes of values	-	4.244,75	4.244,75	(25.626,80)	(288.928,35)	(310.310,40)
Closing balance	**786.194,46**	**47.535.766,16**	**47.535.766,16**	**181.961,64**	**6.325.148,81**	**54.829.071,07**
Amortization and revaluation allowance						
Opening balance	**550.336,12**	**6.935.178,10**	**6.935.178,10**	**19.113.694,20**	**-**	**26.599.208,42**
Amortization for the period	157.238,89	8.638.233,76	8.638.233,76	20.058,37	-	8.815.531,02
Sales/ disposals	-	(924,00)	(924,00)	-		(924,00)
Transfers between groups	-	18.915.644,14	18.915.644,14	(18.915.644,14)	-	-
Scrapping	-	-	-	(31.720,00)	-	(31.720,00)
Other changes of values	-	1.023.339,79	1.023.339,79	(25.626,81)	-	997.712,98
Closing balance	**707.575,01**	**35.511.471,79**	**35.511.471,79**	**160.761,62**	**-**	**36.379.808,42**
<u>**Net book value**</u>						
Opening balance	**235.858,34**	**3.842.977,09**	**3.842.977,09**	**13.617.002,89**	**5.517.135,08**	**23.212.973,40**
Closing balance	**78.619,45**	**12.024.294,37**	**12.024.294,37**	**21.200,02**	**6.325.148,81**	**18.449.262,65**

18. Shares in subsidiaries

As at 31 December 2011	Seat	% of share capital	Long-term	Short-term
Shares in subsidiaries				
PGE Górnictwo i Energetyka Konwencjonalna S.A.	Bełchatów	91,04	12.990.286.126,96	-
PGE Obrót S.A.	Rzeszów	99,31	6.632.840.606,18	-
PGE Elektrownia Opole S.A.	Bełchatów	93,25	1.488.892.219,81	-
PGE Dystrybucja S.A.	Lublin	10,05	946.976.884,87	-
PGE Energia Odnawialna S.A.	Warsaw	100,00	323.615.881,38	-
PGE Energia Jądrowa S.A.	Warsaw	100,00	103.500.000,00	-
PGE EJ 1 Sp. z o.o.	Warsaw	49,00	54.390.000,00	-
PWE Gubin Sp. z o.o.	Sękocice	100,00	25.452.000,00	-
ELECTRA Deutschland GmbH	Germany	100,00	13.989.818,59	-
PGE Serwis Sp. z o.o in liquidation	Warsaw	100,00		3.799.972,97
PGE Systemy S.A.	Warsaw	100,00	4.500.000,00	-
Electra Bohemia s.r.o.	Czech Republic	100,00	1.597.734,75	-
PGE Inwest Sp. z o.o.	Warsaw	100,00	1.050.000,00	-
Exatel S.A.	Warsaw	94,94	-	214.004.877,00
PGE Inwest Sp. z o.o. II S.K.A. w likwidacji	Warsaw	100,00	-	72.397,50
Total			**22.587.091.272,54**	**217.877.247,47**

Shares in subsidiaries are recorded at cost less any impairment allowance.

During the year ended 31 December 2011 following significant changes relating to shares in subsidiaries took place:

- on 4 February 2011 the General Shareholders' Meeting of Electra Deutschland GmbH adopted a resolution to increase the share capital by EUR 2.000.000 EUR to the amount of EUR 3.350.000. Shares in the increased share capital were taken up by PGE Polska Grupa Energetyczna S.A.. The increase was registered on 1 March 2011.
- in the first half of the year 2011 PGE S.A. purchased 51 registered shares in PGE Obrót S.A. from non-controlling shareholders (constituting 0,001% of the share capital of the company)
- in the III quarter of year 2011 PGE S.A. purchased 9.170 registered shares in PGE Górnictwo i Energetyka Konwencjonalna S.A. from non-controlling shareholders (constituting 0,0014% of the share capital of the company). Shares were acquired in accordance with the privatization contract which binds PGE S.A. and employees of PGE Elektrociepłownia Bydgoszcz S.A. acquired by PGE Górnictwo i Enegetyka Konwencjonalna S.A.
- on 29 July 2011 the General Shareholders' Meeting of PGE Systemy S.A. adopted a resolution to increase the share capital from the amount of PLN 1.500.000 to the amount of PLN 5.000.000. Newly issued shares were acquired by the company's sole shareholder, PGE S.A.
- on 8 September 2011 the General Shareholders' Meeting of PGE Energia Jądrowa S.A. decided to increase the share capital from the amount of PLN 62.500.000 to the amount of PLN 87.500.000. Newly issued shares were acquired by the company's sole shareholder, PGE S.A.

- on 8 September 2011 General Shareholders' Meeting of PGE EJ1 sp. z o.o. (PGE Energia Jądrowa S.A. and PGE S.A. own 51% and 49% of the company's share capital, respectively) decided to increase the share capital from the amount of PLN 38.000.000 to the amount of PLN 73.000.000. PGE Energia Jądrowa S.A. and PGE S.A. acquired 357.000 and 343.000 newly issued shares with a nominal value of PLN 50 each, respectively.
- on 27 October 2011 PGE S.A. purchased from the State Treasury the following shares:
  - 82.479 shares in PGE Elektrownia Opole S.A., constituting 8,25% of the share capital of the company;
  - 44.087 shares in PGE Górnictwo i Energetyka Konwencjonalna S.A., constituting 0,0068% of the share capital of the company;
  - 24.423 shares in PGE Dystrybucja S.A., constituting 0,0025% of the share capital of the company;
  - 96 shares in PGE Obrót S.A., constituting 0,0019% of the share capital of the company;
- on 30 December 2011 PGE S.A. and PGE Energia Odnawialna S.A. signed a "datio in solutum" agreement, which relates to the settlement of dividend due to PGE S.A. According to the mentioned agreement after fulfilment of its terms the amount of 103.196 registered shares of PGE Górnictwo i Energetyka Konwencjonalna S.A. (constituting 0,016% of the share capital) will be transferred to PGE S.A. in order to fulfil the obligation of PGE Energia Odnawialna S.A. relating to the due dividend.

Short-term shares in subsidiaries represent shares, which disposal or redemption is planned until the end 2012.

During 2011 companies PGE Inwest Sp. z o.o. II S.K.A and PGE Serwis Sp. z o.o. were put into liquidation.

Shares in Exatel S.A. are presented as short-term. Disposal of the shares is planned for 2012, which is described in note 41 of these financial statements. As at 31 December the assets did not fulfil the definition of assets held-for-sale as described in IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations.*

19. Inventories

	Historical cost	Impairment allowances	Net realizable value	Historical cost	Impairment allowances	Net realizable value	Historical cost	Impairment allowances	Net realizable value
	31 December 2011			31 December 2010			1 December 2010		
Materials	-	-	-	-	-	-	4.559,00	-	4.559,00
Semi-products and work in progress	-	-	-	-	-	-	335.151,29	-	335.151,29
Energy origin rights	29.343.600,16	-	29.343.600,16	29.472.772,19	-	29.472.772,19	67.029.861,47	-	67.029.861,47
CO_2 emission rights	3.742.856,34	(620.080,11)	3.122.776,23	1.633.648,14	(211.807,47)	1.421.840,67	765.811,02	(116.446,29)	649.364,73
Total	**33.086.456,50**	**(620.080,11)**	**32.466.376,39**	**31.106.420,33**	**(211.807,47)**	**30.894.612,86**	**68.135.382,78**	**(116.446,29)**	**68.018.936,49**

Renewable energy origin rights and CO_2 emission rights are presented as merchandise in inventories.

As at 31 December 2011 the Company held 105.105.235 certificates of origin registered by the Polish Power Exchange, which carrying value amounted to PLN 29.344 thousand. As at the balance sheet date the Company also held 178.126 tonnes of CO2 emission rights. As at 31 December 2011 their carrying value less impairment allowance amounted to PLN 3.123 thousand.

Impairment allowances for inventories as at 1 January 2011	**(211.807,47)**
Impairment allowance raised	(1.177.785,79)
Impairment allowance reversed	769.513,15
Other	-
Impairment allowances for inventories as at 31 December 2011	**(620.080,11)**

The impairment allowance in amount of PLN 620 thousand was raised to adjust the value of CO_2 emission rights recognising market value in realizable value as at balance sheet date.

20. Other short-term and long-term assets

Other long-term assets

As at following balance sheet dates: 31 December 2011, 31 December 2010 and 1 January 2010 Company did not recognize any other long-term assets.

Other short-term assets

	As at 31 December 2011	As at 31 December 2010	As at 1 January 2010
Deferred expenses			
Tax on civil law transactions	75.299.138,00	75.299.138,00	-
Property and tort insurance	1.087.324,76	1.654.547,78	1.671.243,77
IT services	885.059,77	482.893,49	729.919,67
Other costs deferred	11.778.827,17	3.633.747,99	404.706,25
Other short-term assets		-	-
Net assets of Social Fund and other funds	-	310.287,36	451.582,68
VAT receivable	-	27.249.151,18	101.889.476,51
Excise tax receivable	-	-	14.495.500,00
Other tax receivable	-	-	1.998,00
Advances for deliveries	654.647,92	423.563,25	243.025,19
Dividends receivable	4.967.218,23	545.979.985,06	4.967.218,23
Other short-term assets	-	5.900.720,24	57.293,77
Total other short-term assets	**94.672.215,85**	**660.934.034,35**	**124.911.964,07**

Tax on civil law transactions and other deferred costs relate mainly to the purchase of shares of Energa S.A. The acquisition of shares of Energa S.A. is described in note 41 of these financial statements.

21. Cash and cash equivalents

Cash at the bank is subject to variable interest rates which are based on bank deposits' interest rates. Short-term deposits are made for different periods, from one day up to one month, depending on the Company's needs for cash, and are deposited at individually agreed interest rates. Fair value of cash and cash equivalents as at 31 December 2011 amounted to PLN 1.020.822.894,68 (as at 31 December 2010, amounted to PLN 257.955.448,68 PLN).

The balance of cash and cash equivalents comprise following positions:

	As at 31 December 2011	As at 31 December 2010	As at 1 January 2010
Cash on hand and cash at bank	200.508.638,80	257.955.448,68	33.739.296,06
Overnight deposits	17.702.708,33	-	73.129.200,20
Short-term deposits	802.611.547,55	-	3.303.207.588,89
Total	**1.020.822.894,68**	**257.955.448,68**	**3.410.076.085,15**
Cash and cash equivalents presented in the statement of cash flows	**1.018.203.537,85**	**258.383.252,27**	**3.401.629.304,67**
Credit limits at disposal	800.000.000,00	720.194.779,41	897.216.980,45

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

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

22. Assets classified as held for sale

As at 31 December 2011 Company did not report any assets held-for-sale.

During year 2011 assets held-for-sale comprised shares in Polkomtel S.A., which were sold on 9 November 2011. This transaction is described in note 41 of these financial statements.

23. Share capital and other equity

The basic assumption of the Company's 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 Company. 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.

23.1. Share capital

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

	As at 31 December 2010
Number of Series A ordinary Shares with a nominal value of 10 PLN each	1.470.576.500
Number of Series B ordinary Shares with a nominal value of 10 PLN each	259.513.500
Number of Series C ordinary Shares with a nominal value of 10 PLN each	73.241.482
Number of Series D ordinary Shares with a nominal value of 10 PLN each	66.452.245
Total	**1.869.783.727**

	As at 1 January 2010
Number of Series A ordinary Shares with a nominal value of 10 PLN each	1.470.576.500
Number of Series B ordinary Shares with a nominal value of 10 PLN each	259.513.500
Total	**1.730.090.000**

All shares of the Company are paid up.

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

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

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

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

On 29 February 2012, the State Treasury sold shares in PGE S.A., constituting 7,01% of the share capital of the Company.

In accordance with a notification received from the State Treasury, as a result of the mentioned sale transaction the shareholding in the Company owned by the State Treasury amounts to 61,89%.

23.2. Rights of the shareholders

Rights of the State Treasury

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

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

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

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

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

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

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

Right regarding the Company's operations

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

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

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

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

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

23.3. Treasury shares

As a consequence of PGE S.A.'s merger with PGE Górnictwo i Energetyka S.A. and PGE Energia S.A., PGE S.A. acquired 22,898 treasury shares for PLN 579 thousand. The value of each share was based on the valuation made for the purpose of the merger. This acquisition of shares was transacted for the purpose of their redemption. Treasury shares shall be redeemed pursuant to a resolution of the General Meeting of Shareholders, through lowering of the share capital.

23.4. Other capital reserves

The other capital reserves were created from distribution of the profit of PGE Electra S.A. for 2009. As a result of the merger of PGE S.A. with PGE Electra S.A., the Company acquired all assets, liabilities and equity as well as reserve capital in the amount of PLN 49.779 thousand of the acquired company. The merger took place in during 2010 and is described in note 11 of these financial statements.

23.5. Reserve capital

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

23.6. Retained earnings and restrictions

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

	31 December 2011	31 December 2010	1 January 2010
Amounts included in retained earnings that cannot be distributed:	(73.769.096,81)	(73.333.408,81)	(56.313.313,77)
8% of the value of the Company's statutory profit to be allocated to reserve capital as specified in the Commercial Code	-	-	1.464.466,31
retained earnings due to change in accounting policies (including adoption of IFRS)	(73.769.096,81)	(73.333.408,81)	(57.777.780,08)
Profit / (loss) recognized as retained earnings in positions of other comprehensive income	-	-	-
other retained earnings not subject to distribution	-	-	-
Retained earnings subject to distribution	4.556.115.489,08	3.040.897.964,69	1.640.393.150,07
Total retained earnings presented in the financial statements	**4.482.346.392,27**	**2.967.564.555,88**	**1.584.079.836,30**

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

Retained earnings in the amount of PLN 73.769.096,81 arose from adoption of new accounting policies, including in particular adoption of IFRS in the statutory financial statements. Adjustments regarding retained earnings are described in note 9 of these financial statements.

As at 31 December 2011 there were no other restrictions on payment of dividends.

24. Earnings per share

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

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

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

	Year ended 31 December 2011	**Year ended 31 December 2010**
Net profit on continuing operations	4.556.115.489,08	2.904.878.274,72
Net profit	**4.556.115.489,08**	**2.904.878.274,72**
Net profit attributable to ordinary equity holders of the Company used to calculate earnings per share	**4.556.115.489,08**	**2.904.878.274,72**
Number of ordinary shares at the beginning of the reporting period	1.869.760.829	1.730.090.000
Number of ordinary shares at the end of the reporting period**	1.869.760.829	1.869.760.829
Average weighted number of ordinary shares issued used to calculate basic earnings per share	**1.869.760.829**	**1.869.760.829***

* As described in note 11.1 of these financial statements on 31 August 2010 PGE S.A. merged with PGE Energia S.A. and PGE Górnictwo i Energetyka S.A. Since the above mentioned transaction was accounted for under the pooling of interest method, the earnings per share ratio for the period ended 31 December 2010 was calculated based on the number of shares after the increase in share capital.

* *Ordinary shares at the end of the reporting period do not include treasury shares acquired for the purpose of redemption.

25. Dividends paid and dividends declared

	Dividends paid from the profit for the year ended		
	31 December 2011	**31 December 2010**	**31 December 2009**
Cash dividends from ordinary Shares			
Dividend paid from retained earnings		1.215.344.538,85	1.335.330.330,48
Dividend paid from other reserve capital			-
Total cash dividends from ordinary shares		**1.215.344.538,85**	**1.335.330.330,48**
Cash dividends per share (in PLN)		**0,65**	**0,71**

Dividend in 2010 from the profit for 2009

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

Dividend 2011 from the profit for 2010

On 29 June 2011 General Shareholders' Meeting approved the distribution of PLN 1.215.345 thousand from the net profit from 2010 as a dividend. The dividend as described in the resolutions adopted by the General Shareholders' Meeting on 29 June 2011 was paid on 30 September 2011.

Until the debut on the 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 profit before tax reflected in the statutory financial statements less current corporate income tax. According to IFRS such payments are recognized as dividends paid to a shareholder and are recognised as a change in equity. Since December 2009 the Company is no longer obliged to pay such a distribution from profit. However, the Company has presented an adjustment of distribution from profit from previous periods amounting to PLN 435 thousand as dividends in the Statement of changes in equity for the period ended 31 December 2011.

Dividend from the profit for 2011

During 2011 the Company made no advance payments of dividends from the profit for the year 2011.

These financial statements were prepared before profit distribution and approval of the amount of the dividend.

The Management Board of the Company recommends a dividend in the amount of PLN 2.468.084.294,28 (PLN 1,32 per share), representing 50% of the net profit reported in the consolidated financial statements for the year ended 31 December 2011.

26. Leasing

26.1. Operating lease receivables and liabilities

As at 31 December 2011 and 31 December 2010 Company did not report any receivables and liabilities due to operating lease.

Company incurs annual fees related to a perpetual usufruct of land. These costs amounted to PLN 1.041.981,52 for the year ended 31 December 2011.

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

As at 31 December 2011 and 31 December 2010 Company did not report any receivables and liabilities due to finance lease and lease agreement with purchase option.

27. Deferred tax asset and liability

Components of deferred tax asset	As at 31 December 2011	As at 31 December 2010	As at 1 January 2010
Difference between tax value and carrying amount of property, plant and equipment	-	421.039,08	193.628,06
Current period costs not realized for tax purpose	183.906,18	-	270.409,02
Provisions for employee benefits	4.003.176,69	3.394.092,47	4.606.026,14
Accruals for employee bonuses	2.502.879,88	1.614.568,93	1.419.601,54
Difference between tax value and carrying amount of other financial assets	78.783.158,56	78.854.484,41	78.873.422,65
Difference between tax value and carrying amount of financial liabilities	-	205.873,36	868.550,11
Difference between tax value and carrying amount of inventories	117.815,22	40.243,42	22.124,80
Payroll and other employee benefits	-	-	149.555,08
Other provisions	2.595.669,23	1.120.557,95	278.294,83
Other	732.542,05	3.183.861,81	647.272,85
Gross deferred tax asset	**88.919.147,81**	**88.834.721,43**	**87.328.885,08**
Impairment allowance for deferred tax asset	-	-	-
Net deferred tax asset	**88.919.147,81**	**88.834.721,43**	**87.328.885,08**

Components of deferred tax liability	As at 31 December 2011	As at 31 December 2010	As at 1 January 2010
Difference between tax value and carrying amount of property, plant and equipment	28.218.066,35	29.969.808,18	31.937.413,31
Accrued interest on deposits, loans granted, bonds and receivables	55.684.389,51	27.902.458,60	23.212.373,56
Difference between tax value and carrying amount of financial assets	611.166,46	-	844,59
Difference between tax value and carrying amount of financial liabilities	-	3.808.965,89	6.899.871,88
Current period revenues unrealized for tax purposes	-	-	5.256,66
Other	78.659,99	20.383,28	106.956,55
Deferred tax liability	**84.592.282,31**	**61.701.615,95**	**62.162.716,55**

After off-set of balances the Company's deferred tax is presented as a net: Deferred tax asset	**4.326.865,50**	**27.133.105,48**	**25.166.168,53**

28. Employment benefits

Retirement and pension allowances

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

Energy tariff

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

Social Fund and medical benefits

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

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

Year ended 31 December 2011

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

Year ended 31 December 2010

	Retirement, pension and other benefits provisions	Energy tariff	Social Fund	Medical benefits	Total
As at 1 January 2010	**1.582.009,00**	**9.454.398,00**	**5.620.138.00**	**3.640.871,00**	**20.297.416,00**
Present employment costs	81.286,13	57.895,38	52.452,84	30.030,98	**221.665,33**
Actuarial gains and losses excluding discount rate adjustment	(157.311,56)	271.768,71	83.843,77	(979.556,71)	**(781.255.79)**
Benefits paid	(218.420,00)	(573.686,05)	(430.750,90)	(190.643,00)	**(1.413.499,95)**
Past employment costs	-	76.011,00	-	-	**76.011,00**
Discount rate adjustments	29.784,05	462.033,87	246.593,70	120.746,81	**859.158,43**
Interest costs	89.688,00	565.230,00	325.396,00	213.354,00	**1.193.668,00**
Other changes	-	(150.147,00)	-	-	**(150.147,00)**
As at 31 December 2010	**1.407.035,62**	**10.163.503,91**	**5.897.673,41**	**2.834.803,08**	**20.303.016,02**
Short-term	694.321,50	662.582,91	470.722,90	232.243,04	**2.059.870,35**
Long-term	712.714,12	9.500.921,00	5.426.950,51	2.602.560,04	**18.243.145,67**

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

	31 December 2011	31 December 2010
Discount rate (%)	5,75%	5,50%
Expected inflation rate (%)	2,5%	2,5%
Employee turnover (%)	9,69%	8,78%
Expected salary growth rate (%)	5,1%	2,4%
Expected medical costs growth rate (%)	3,5%	2,8%
Expected Social Fund (ZFŚS) allowance rate (%)	5,0%	5,0%

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

- should the discount rate be higher by 1 percentage point (p.p.), the respective provisions would decrease by ca 7,5% and should the discount rate be lower by 1 p.p. the respective provisions would increase by ca 8,8%,
- should the planned increase in the basis for estimations be higher by 1 p.p., the respective provisions would increase by ca. 9,7% and should the planned increase in the basis for estimations be lower by 1 p.p., relevant provisions would decrease by ca.8,4%.

29. Provisions

Year ended 31 December 2011

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

Year ended 31 December 2010

	Post-employment benefits	**Provisions for jubilee awards**	**Provisions for third-party claims**	**Provisions for legal disputes**	**Provisions for employee claims, including provisions for bonuses**	**Provisions for certificates of origin held for redemption**	**Other**	**Total**
As at 1 January 2010	**20.297.416,00**	**3.873.758,00**	**351.467.792,03**	**43.500,00**	**6.896.111,75**	**-**	**3.878.586,91**	**386.457.164,69**
Costs of present employment	221.665,33	484.552,62	-	-	-	-	-	**706.217,95**
Actuarial gains and losses excluding discount rate adjustment	(781.255,79)	(803.200,67)	-	-	-	-	-	**(1.584.456,46)**
Benefits paid	(1.413.499,95)	(430.253,00)	-	-	-	-	-	**(1.843.752,95)**
Costs of past employment	76.011,00	-	-	-		-	-	**76.011,00**
Revaluation of provision/ discount rate adjustments	859.158,43	108.365,02	-	-	-	-	-	**967.523,45**
Interest costs	1.193.668,00	225.080,00	11.170.238,85	-	-	-	-	**12.588.986,85**
Raised during the year	-	-	98.029.284,94	32.010,00	17.659.970,36		27.651.219,04	**143.372.484,34**
Reversed	-	-	(110.613.266,56)	(75.510,00)	(87.510,08)	-	(14.395.843,48)	**(125.172.130,12)**
Used	-	-	-	-	(16.402.121,62)	-	(2.975.851,85)	**(19.377.973,47)**
Other changes	(150.147,00)	-	-	-	-	-	-	**(150.147,00)**
As at 1 December 2010	**20.303.016,02**	**3.458.301,97**	**350.054.049,26**	**-**	**8.066.450,41**	-	**14.158.110,62**	**396.039.928,28**
Short-term	**2.059.870,35**	**290.812,75**	**350.054.049,26**	**-**	**8.066.450,41**	-	**14.158.110,62**	**374.629.293,39**
Long-term	**18.243.145,67**	**3.167.489,22**	**-**	**-**	-	-	**-**	**21.410.634,89**

Description of significant provisions

29.1. Provisions for post employment and jubilee benefits

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

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

29.2. Provisions for third-party claims

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

Company revised the provision for the contractual claim from ATEL (presently Alpiq Holding (AG). As at 31 December 2011 the provision amounted to EUR 79 million including interest due. The provision including interest calculated using the average rates of exchange of the National Bank of Poland amounted to PLN 408.333 thousand. The dispute is described in note 30 of these financial statements.

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

The Company raised a provision for claims from contractors relating to damage resulted from the failure of the CSTE (Central System of Trading Electricity), which is provided to PGE Group companies. As at 31 December 2011 the provision amounted to PLN 2.467 thousand.

29.3. Provisions for employee claims

The Company raised provisions for remuneration including annual and quarterly bonuses for employees and others employed under civil law contracts for management, to which rights were obtained before the end of 2011. Bonus entitlements result from remuneration regulations and contracts of employment.

29.4. Provision for energy origin units held for redemption

The Company creates provision for the amount of certificates of energy origin related to sales in the current or previous periods, in amount of certificates not redeemed till the balance sheet date. In accordance with applicable regulations it is necessary to create a provision, which results from the obligation to redeem the certificates of energy origin and specific replacement fee for them. As at 31 December 2011 the provision amounted to PLN 225 thousand.

29.5. Other provisions

Provisions for costs of transmission services

The provision relates to the costs of transmission services provided by Vattenfall AB in amount of PLN 13.161 thousand.

Provisions for unused holiday

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

30. Legal claims and contingent liabilities and receivables

Contingent liabilities	As at 31 December 2011	As at 31 December 2010	As at 1 January 2010
Collaterals for repayment of bank guarantees granted	16.616.680,00	9.856.615,00	10.131.210,00
Other contingent liabilities	-	2.466.745,63	4.140.050,61
Total contingent liabilities	**16.616.680,00**	**12.323.360,63**	**14.271.260,61**

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

30.1. Surety for the obligations of Electra Deutschland

PGE Polska Grupa Energetyczna S.A. provided a surety for repayment of bank guarantees for the obligations of Electra Deutschland GmbH to foreign third parties. The liability of the Company is limited to a total amount of PLN 16,617 thousand. The guarantees expires in the first quarter of 2013.

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

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

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

Oral hearing, summarizing the outcome of written procedure, was held in Vienna on 12-16 September 2011. Witnesses of both parties as well as experts were interviewed during the hearing. The Tribunal did not give a ruling after the hearing. The arbitrators set the following deadlines for submission of *post hearing briefs:* 16 November 2011 (first round, which was postponed to 22 November at the request of both parties) and 17 January 2012 (second round). The amount of the claim submitted by Alpiq is approx. EUR 168 million. Despite the fact that an additional date of a final hearing was set for 18 February, it did not take place.

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

30.3. Promise referring to ensure financing of new investments in Group companies

Due to planned strategic investments in PGE Group companies, the Company committed in the form of promise to group companies, to ensure financing of planned investments. The promises relate to specific investments and may be used only for such purposes. As at 31 December 2011 the estimated value of the promise amounts to PLN 15,2 billion.

30.4. Employee claims

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

30.5. Contingent receivables and other contingent assets

As at 31 December 2011, the Company did not report any material contingent receivables.

Excise tax reimbursement

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

Subsidy from PAED

In May 2011, an agreement was signed with the Polish Agency for Enterprise Development ("PAED") for co-financing of a training and consultancy project for PGE Group employees, which is discussed in more detail in Note 32. During 2012-2013, the Company expects to receive about PLN 5,434 thousand in subsidies. The value of subsidies may be reduced or be subject to refund if there is non-compliance with the requirements strictly prescribed by the agreement. The Agreement for the PAED is secured by a bill of exchange submitted by the Company and certified by a notary public, for an amount of PLN 6,684 thousand.

31. Other non-financial liabilities

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

	As at 31 December 2011	As at 31 December 2010	As at 1 January 2010
Liabilities for dividends	215.066,02	2.558.420,73	-
Excise tax	-	5.660,00	5.386,00
VAT tax	42.727.984,17	-	9.317.154,61
Liabilities for social insurances	808.448,45	917.887,17	2.388.988,62
Tax on civil law transactions	-	30.983.872,00	-
Personal income tax	1.083.284,40	1.449.830,40	1.612.323,40
Payroll	2.769,46	1.748,00	4.475.849,37
Other	179.248,83	205.819,92	893.280,16
Total	**45.016.801,33**	**36.123.238,22**	**18.692.982,16**

The "other" item comprise mostly of the liability related the Social Fund and to the State Fund for Rehabilitation of Persons with Disabilities.

32. Deferred income and government grants

Government grants	As at 31 December 2011	As at 31 December 2010	As at 1 January 2010
Redemption of loans from environmental funds	-	-	-
Other government grants	286.614,01	-	46.770,75
Total deferred income, including:	**286.614,01**	**-**	**46.770,75**
Long-term	-	-	-
Short-term	**286.614,01**	-	**46.770,75**

Other deferred income	As at 31 December 2011	As at 31 December 2010	As at 1 January 2010
Property, plant and equipment acquired free of charge	-	-	-
Subsidies granted and connection fees	-	-	-
Lease income	-	-	171.383,57
Other deferred income	-	4.787.872,02	-
Total deferred income, including:		**4.787.872,02**	**171.383,57**
Long-term	-	-	-
Short-term	-	**4.787.872,02**	**171.383,57**

The public subsidies presented in these financial statements refer to the value of subsidies not settled as at 31 December 2011, co-financed with the European Social Fund (ESF). The training and consultancy project for PGE Group employees, co-financed at approximately 60%, is being implemented under the Operational Programme - Human Capital. The primary goal of the project is to support PGE Group consolidation processes through development of key personnel competencies in the area of finance, management, negotiation and customer service. Topics of project training courses are divided into three topical groups in the field of management, finance, negotiations, and customer service. The scope of the project covers PGE Group employees.

The agreement for co-financing of the project was signed with the PAED in May 2011. The subsidy has been disbursed in tranches since 2011. During 2011, the Company received two tranches of the subsidy, totalling PLN 1,250 thousand (less 15% of unused earmarked subsidy funds), part of which PLN 918 thousand that have been carried to the income statement with respect to costs sustained, which were financed by the subsidy. The aggregate amount of subsidy is PLN 6,684 thousand. The subsidy may be reduced or subject to refund if there is non-compliance with the requirements which are strictly prescribed by the agreement. The Agreement with the PAED is secured by a bill of exchange submitted by the Company and certified by a notary public, for an amount of PLN 6,684 thousand.

33. Investment commitments

As at 31 December 2011 Company committed to incur capital expenditures on property, plant and equipment and intangible assets in amount of PLN 1.951 thousand. This amount relate mainly to the purchase of computer equipment and upgrades of per-seat and server licenses within the Microsoft Enterprise Agreement.

34. Information on related parties

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

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

34.1. Transactions with related parties

Year ended 31 December 2011	**Subsidiaries**	**Other related parties within PGE Group**	**Other related parties**	**Third parties**	**Total**
STATEMENT OF COMPREHENSIVE INCOME					
Revenues from sales	9.502.193.685,37	103.972,26	136.771.951,25	498.823.605,61	**10.137.893.214,49**
Other operating revenues	1,02	-	3.813.607,00	1.823.718.53	**5.637.326,55**
Financial revenues	2.912.694.061,99	224.070.824,60	212.200,69	1.752.398.926,47	**4.889.376.013,75**
Operating expenses	1.287.688.122,11	389.680,22	239.178.237,39	8.396.581.164,74	**9.923.837.204,46**
Other operating expenses	2.540.747,58	-	-	38.310.798,38	**40.851.545,96**
Financial expenses	48.722.449,63	-	1.228.891,63	55.407.733,90	**105.359.075,16**

Year ended 31 December 2010	**Subsidiaries**	**Other related parties within PGE Group**	**Other related parties**	**Third parties**	**Total**
STATEMENT OF COMPREHENSIVE INCOME					
Revenues from sales	7.722.790.311,63	37.368,01	1.991.558.481,62	1.948.960.124,97	**11.663.346.286,23**
Other operating revenues	118.070,03	-	3.294,50	12.626.144,01	**12.747.508,54**
Financial revenues	2.623.274.318,23	131.508.808,64	818.397,36	118.732.247,46	**2.874.333.771,69**
Operating expenses	9.970.124.886,82	332.002,89	189.414.433,65	1.292.554.434,93	**11.452.425.758,29**
Other operating expenses	44.322,28	8.686,38	20,95	15.977.829,00	**16.030.858,61**
Financial expenses	3.631.109,03	15.913,86	4.984.146,92	83.237.941,65	**91.869.111,46**

34.2. Balances with related parties

Assets – as at 31 December 2011	Subsidiaries	Other related parties within PGE Group	Other related parties	Third parties	Total
Held-to-maturity investments	**-**	**-**	**-**	**-**	**-**
Loans and receivables, including:	**6.085.631.152,22**	**3.905,96**	**5.556.075,76**	**2.640.770.405,00**	**8.731.961.538,94**
Bonds purchased	5.487.994.019,50	-	-	313.738.966,73	**5.801.732.986,23**
Trade receivables	587.554.362,54	3.905,96	5.556.075,76	23.544.031,48	**616.658.375,74**
Other loans and financial receivables	10.082.770,18	-	-	2.303.487.406,79	**2.313.570.176,97**
Shares in subsidiaries	**22.804.968.520,01**	**-**	**-**	**-**	**22.804.968.520,01**
Available-for-sale financial assets	**-**	**39.851.526,61**	**-**	**69.178.869,52**	**109.030.396,13**
Shares in entities not quoted on active markets	-	39.851.526,61	-	66.850.100,00	**106.701.626,61**
Other financial assets	-	-	-	2.328.769,52	**2.328.769,52**
Financial assets at fair value through profit and loss	**-**	**-**	**-**	**-**	**-**
Lease receivables	**-**	**-**	**-**	**-**	**-**

Assets – as at 31 December 2010	Subsidiaries	Other related parties within PGE Group	Other related parties	Third parties	Total
Held-to-maturity investments					
Loans and receivables, including:	**5.582.628.048,72**	**3.685,39**	**144.434.662,94**	**523.542.196,43**	**6.250.608.593,48**
Bonds purchased	4.937.547.341,01	-	-	253.537.512,08	**5.191.084.853,09**
Trade receivables	638.438.464,31	**3.685,39**	138.865.682,94	90.271.053,86	**867.578.886,50**
Other loans and financial receivables	6.642.243,40	-	5.568.980,00	179.733.630,49	**191.944.853,89**
Shares in subsidiaries	**22.642.085.894,14**	**-**	**-**	**-**	**22.642.085.894,14**
Available-for-sale financial assets	**-**	**1.694.250.127,28**	**-**	**68.903.470,32**	**1.763.153.597,60**
Shares in entities not quoted on active markets	-	1.694.250.127,28	-	66.950.100,00	**1.761.200.227,28**
Other financial assets	-	-	-	1.953.370,32	**1.953.370,32**
Financial assets at fair value through profit and loss	**-**	**-**	**-**	**-**	**-**
Lease receivables	**-**	**-**	**-**	**-**	**-**

Assets – as at 1 January 2010	Subsidiaries	Other related parties within PGE Group	Other related parties	Third parties	Total
Held-to-maturity investments					
Loans and receivables, including:	**3.126.240.920,80**	**28.847,26**	**195.491.031,98**	**575.476.267,05**	**3.897.237.067,09**
Bonds purchased	2.452.473.117,38	-	-	239.682.968,51	**2.692.156.085,89**
Trade receivables	673.751.943,42	28.847,26	195.491.031,98	145.741.862,04	**1.015.013.684,70**
Other loans and financial receivables	15.860,00	-	-	190.051.436,50	**190.067.296,50**
Shares in subsidiaries	**19.334.823.011,09**	**-**	**-**	**-**	**19.334.823.011,09**
Available-for-sale financial assets	**-**	**1.721.312.796,43**	**-**	**119.476.790,50**	**1.840.789.586,93**
Shares in entities not quoted on active markets	**-**	1.721.312.796,43	-	117.623.095,14	**1.838.935.891,57**
Other financial assets	**-**	-	-	1.853.695,36	**1.853.695,36**
Financial assets at fair value through profit and loss	**-**	**-**	**-**	**-**	**-**
Lease receivables	**50.497,63**	**-**	**-**	**-**	**50.497,63**

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

Liabilities – as at 31 December 2010	Subsidiaries	Other related parties within PGE CG	Other related parties	Third parties	Total
Financial liabilities at fair value through profit and loss available-for-sale	**-**	**-**	**-**	**-**	**-**
Financial liabilities at amortised cost:	**2.506.537.974,53**	**46.539,35**	**170.121.391,70**	**332.537.821,61**	**3.009.243.727,19**
Bonds issued	1.781.326.444,02	-	-	-	**1.781.326.444,02**
Interest bearing credit and loans	-	-	-	229.805.220,59	**229.805.220,59**
Trade liabilities	723.534.168,01	41.936,35	170.121.391,70	79.374.079,95	**973.071.576,01**
Other financial liabilities at amortised cost	1.677.362,50	4.603,00	-	23.358.521,07	**25.040.486,57**
Lease liabilities	**-**	**-**	**-**	**-**	**-**

Liabilities – as at 1 January 2010	Subsidiaries	Other related parties within PGE CG	Other related parties	Third parties	Total
Financial liabilities at fair value through profit and loss available-for-sale					
Financial liabilities at amortised cost:	**1.365.879.888,81**	**33.164,92**	**220.454.539,48**	**86.969.060,31**	**1.673.336.653,52**
Bonds issued	503.758.544,34	-	-	-	**503.758.544,34**
Interest bearing credit and loans	-	-	-	52.783.019,55	**52.783.019,55**
Trade liabilities	861.774.139,41	33.164,92	202.099.547,48	21.645.464,42	**1.085.552.316,23**
Other financial liabilities at amortised cost	347.205,06	**-**	18.354.992,00	12.540.576,34	**31.242.773,40**
Lease liabilities	**211.650,92**	**-**	**-**	**-**	**211.650,92**

34.3. Key management personnel remuneration

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

	Year ended 31 December 2011	Year ended 31 December 2010
Short-term employee benefits (salaries and salary related costs)	2.557.891,14	4.133.786,15
Jubilee and retirement benefits	-	-
Post-employment benefits	477.438,54	239.024,16
Termination benefits	-	
Total remuneration paid to key management	**3.035.329,68**	**4.372.810,31**

The amounts relating to the Management Board for the year ended 31 December 2010 and the Supervisory Board include also the remuneration of companies that merged with PGE SA, that is PGE Górnictwo i Energetyka S.A., PGE Energia S.A. and PGE Electra S.A., for respective periods.

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

35. Employment structure

There were 372,12 and 376,71 employees (full time equivalent) employed by the Company as at 31 December 2011 and 31 December 2010, respectively. The employment structure includes 27 and 7 posts on the basis of civil law contracts for management as at 31 December 2011 and 31 December 2010, respectively.

36. Social Fund and other employee funds

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

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

As at 31 December 2011 assets assigned to the Social Fund and other employee funds amounted to PLN 4.495 thousand and as at 31 December 2010, PLN 4.850 thousand.

37. Joint ventures

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

38. Financial instruments

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

	Carrying amount								
	31 December 2011			31 December 2010			1 January 2010		
Categories and classes of financial assets:	**Long-term**	**Short-term**	**Total**	**Long-term**	**Short-term**	**Total**	**Long-term**	**Short-term**	**Total**
1. Held-to-maturity investments	-	-	-	-	-	-	-	-	-
2. Loans and receivables, including:									
(i) Trade receivables	-	616.658.375,74	616.658.375,74	-	867.578.886,50	867.578.886,50	-	1.015.013.684,70	1.015.013.684,70
(ii) Deposits and investments	-	2.101.026.575,34	2.101.026.575,34	-	-	-	-	24.343.930,10	24.343.930,10
(iii) Other financial loans and receivables	4.783.678.775,23	1.230.597.812,63	6.014.276.587,86	612.964.747,62	4.770.064.959,36	5.383.029.706,98	1.949.757.468,24	908.172.481,68	2.857.929.949,92
▪ Bonds, bill and notes receivables	4.778.714.024,29	1.023.018.961,94	5.801.732.986,23	467.937.512,08	4.723.147.341,01	5.191.084.853,09	1.809.203.957,45	882.952.128,44	2.692.156.085,89
▪ Originated loans	4.964.750,94	194.109.527,33	199.074.278,27	145.027.235,54	30.180.160,88	175.207.396,42	140.453.510,79	12.266.900,18	152.720.410,97
▪ Other financial receivables	-	13.469.323,36	13.469.323,36	-	16.737.457,47	16.737.457,47	100.000,00	12.953.453,06	13.053.453,06
Total loans and receivables:	**4.783.678.775,23**	**3.948.282.763,71**	**8.731.961.538,94**	**612.964.747,62**	**5.637.643.845,86**	**6.250.608.593,48**	**1.949.757.468,24**	**1.947.530.096,48**	**3.897.287.564,72**
3. Shares in subsidiaries	**22.587.091.272,54**	**217.877.247,47**	**22.804.968.520,01**	**22.428.008.619,64**	**214.077.274,50**	**22.642.085.894,14**	**19.334.823.011,09**	**-**	**19.334.823.011,09**
4. Available-for-sale financial assets, including:								-	
(i) Shares in entities not quoted on active markets	67.634.415,47	39.067.211,14	106.701.626,61	36.717.311,15	1.724.482.916,13	1.761.200.227,28	1.838.935.891,57	-	1.838.935.891,57
(ii) Shares quoted on active markets	2.328.769,52	-	2.328.769,52	1.953.370,32	-	1.953.370,32	1.853.695,36	-	1.853.695,36
(iii) Investment funds' units	-	-	**-**	-	-	**-**	**-**	**-**	**-**
(iv) Other financial assets available for sale	-	-	**-**	-	-	**-**	**-**	**-**	**-**
Total available-for-sale financial assets:	**69.963.184,99**	**39.067.211,14**	**109.030.396,13**	**38.670.681,47**	**1.724.482.916,13**	**1.763.153.597,60**	**1.840.789.586,93**	**-**	**1.840.789.586,93**

	Carrying amount								
	31 December 2011			31 December 2010			1 January 2010		
Categories and classes of financial assets:	**Long-term**	**Short-term**	**Total**	**Long-term**	**Short-term**	**Total**	**Long-term**	**Short-term**	**Total**
5. Cash and Cash equivalents	-	1.020.822.894,68	1.020.822.894,68	-	257.955.448,68	257.955.448,68	-	3.410.076.085,15	3.410.076.085,15
Financial assets not included in IAS 39	-	-	-	-	-	-	-	-	-

Excluding shares in related parties, the carrying amount of financial assets represents a reasonable estimate of their fair value.

As described in note 38.3.3. the Company is not able to reliably determine fair value of shares in subsidiaries.

Categories and classes of financial liabilities:	Carrying amount 31 December 2011 Long-term	 Short-term	 Total	 31 December 2010 Long-term	 Short-term	 Total	 1 January 2010 Long-term	 Short-term	 Total
1. Financial liabilities at fair value through profit and loss held for trading		-	-	-	-	-	-	-	-
2. Financial liabilities at amortized cost:									
(i) Interest bearing loans and credits		-	-	-	229.805.220,59	229.805.220,59	-	52.783.019,55	52.783.019,55
(ii) Bonds issued		-	-	-	1.781.326.444,02	1.781.326.444,02	-	503.758.544,34	503.758.544,34
(iii) Trade liabilities		423.572.941,06	423.572.941,06	-	973.071.576,01	973.071.576,01	27.473,70	1.085.524.842,53	1.085.552.316,23
(v) Other financial liabilities at amortised cost		4.480.627,10	4.480.627,10	-	25.040.486,57	25.040.486,57		31.242.773,40	31.242.773,40
Total financial liabilities at amortised cost:		**428.053.568,16**	**428.053.568,16**	**-**	**3.009.243.727,19**	**3.009.243.727,19**	**27.473,70**	**1.673.309.179,82**	**1.673.336.653,52**
3. Other financial liabilities not included in IAS 39									
(i) Liabilities from finance lease and lease agreements with option of purchase		-	-	-	-	-	-	211.650,92	211.650,92
Total other financial liabilities:		**-**	**-**	**-**	**-**	**-**	**-**	**211.650,92**	**211.650,92**

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

38.2. Statement of comprehensive income

	Assets and liabilities at fair value through profit and loss and cash	Shares in subsidiaries	Available-for-sale financial assets	Held-to-maturity financial assets	Loans and receivables	Financial liabilities at amortised cost	Total financial instruments by class
Year ended 31 December 2011					-		
Dividends	-	2.621.546.750,63	225.607.824,60	-	-	-	**2.847.154.575,23**
Gains / (losses) from interest	40.214.734,36	-	-	-	321.427.557,00	(80.721.739,12)	**280.920.552,24**
Exchange Gains / (losses)	12.472.730,46	-	-	-	41.555.963,30	(5.106.595,58)	**48.922.098,18**
Reversal of impairment allowance / increase of value	-	-	-	-	12.783,54	-	**12.783,54**
Creation of impairment allowance / decrease of value	-	-	-	-	(942,61)	-	**(942,61)**
Gains / (losses) on investment disposal	-	-	1.630.269.385,12	-	-	-	**1.630.269.385,12**
Total profit / (loss)	**52.687.464,82**	**2.621.546.750,63**	**1.855.877.209,72**		**362.995.361,23**	**(85.828.334,70)**	**4.807.278.451,70**

	Assets and liabilities at fair value through profit and loss and cash	Shares in subsidiaries	Available-for-sale financial assets	Held-to-maturity financial assets	Loans and receivables	Financial liabilities at amortised cost	Total financial instruments by class
Year ended 31 December 2010							
Dividends		2.402.298.950,56	132.168.109,36	-	-	-	**2.534.467.059,92**
Gains / (losses) from interest	68.124.952,46	-	-	-	233.694.288,78	(40.495.239,64)	**261.324.001,60**
Exchange Gains / (losses)	16.777.296,51	-	-	-	(18.201.936,24)	(8.535.898,68)	**(9.960.538,41)**
Reversal of impairment allowance / increase of value	-	328.097,37	-	-	3.084.826,53	-	**3.412.923,90**
Creation of impairment allowance / decrease of value	-	(293.361,37)	-	-	(15.948,77)	-	**(309.310,14)**
Gains / (losses) on investment disposal	-	-	-	-	31.892,02	-	**31.892,02**
Total net profit / (loss)	**84.902.248,97**	**2.402.333.686,56**	**132.168.109,36**	**-**	**218.593.122,32**	**(49.031.138,32)**	**2.788.966.028,89**

During the period ended 31 December 2011, the amount of PLN 304.073,35, net of the effect of deferred tax, related to revaluation of available-for-sale financial assets was recognised in other comprehensive income.

38.3. Fair value of financial instruments

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

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

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

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

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

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

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

Fair value of derivative transactions of an IRS type is based on the yield curve of future interest rates. Interest rates used for discounting future cash flows are calculated on the basis of quotations of IRS transactions on the inter-bank market, obtained from the Reuters information service.

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

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

As at the balance sheet date the Company does not plan to dispose of any of the significant long-term assets. The Company is not also in possession of any data that would enable a reliable assessment of the possible fair values of the above assets. The sale of Exatel shares is described in note 41 of these financial statements.

38.4. Description of significant items within particular classes of financial instruments

38.4.1 Held-to-maturity investments

As at 31 December 2011 the Company did not report held-to-maturity investments.

38.4.2 Loans and receivables

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

Bonds, notes receivable and bills acquired

As at 31 December 2011 bonds issued of PGE GIEK S.A. represent 89,79% of total value of bonds issued as at 31.12.2011 and 15,77% of total assets.

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

	31 December 2011		31 December 2010	
Issuer	**Bond balance**	**% Share**	**Bond balance**	**% Share**
PGE Górnictwo i Energetyka Konwencjonalna S.A.	5.209.448.140,34	89,79	4.937.547.341,01	95,12
PGE Energia Odnawialna S.A.	278.545.879,16	4,80	-	-
Autostrada Wielkopolska S.A.	313.738.966,73	5,41	253.537.512,08	4,88
Total	**5.801.732.986,23**	**100,00**	**5.191.084.853,09**	**100,00**

Deposits

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

Trade receivables

Trade receivables by class	Receivables balance	% Share
Receivables from retail companies	337.101.040,46	54,67
Receivables from wholesale companies	257.425.974,74	41,75
Receivables from foreign counter parties	14.639.329,04	2,37
Receivables from other counter parties	7.492.031,50	1,21
Total	**616.658.375,74**	**100%**

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

Loans granted and other receivables

Loans granted comprise loans granted to Vattenfall AB and PGE Group companies: PGE Systemy S.A. and PGE Inwest Sp. z o.o.

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

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

The Company expects that the matter of continuing cooperation will be resolved successfully within 12 months from the balance sheet date, and that the nominal values of prepayment will be cleared or returned. The assets relating to VAB are therefore presented as short-term assets. The carrying amount of these assets represents 2,16% of total amount of loans granted and receivables (including trade receivables).

The loan granted to PGE Systemy S.A. was originated in order to finance the ongoing IT projects of the PGE Group, and to PGE Inwest Sp. z o. o. – to finance the purchase of financial assets. As at 31 December 2011 the carrying amount of these loans amounted to PLN 7.732 thousand and PLN 2.351 thousand, respectively.

Other financial receivables mainly represent a deposit paid to the Guarantee Fund of the Warsaw Commodity Clearing House (WCCH) in the amount of PLN 13.308 thousand. In accordance with WCCH regulations the Company is obliged to maintain a deposit of a defined amount. The receivables with respect to the deposit represent 0,15% of the total carrying value of loans and receivables (including trade receivables).

38.4.3 Available-for-sale financial assets

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

The name of the entity	Seat	Value	% Share in the share capital of the entity	Core operations
Associates		**39.851.526,61**		
Energopomiar Sp. z. o. o.	Gliwice	3.134.315,47	22,73	services of research and measurement of power equipment
Swe-Pol Link AB	Stockholm/Sweden	36.717.211,14	49,00	transmission of electric energy
Other entities		**69.178.869,52**		
AWSA Holland II	Utrecht/Netherlands	64.500.000,00	19,99	management of shares in AWSA I
Towarowa Giełda Energii S.A.	Warsaw	2.350.000,00	10,00	sale of electric energy
Pracownicze Towarzystwo Emerytalne „Nowy Świat" S.A.	Warsaw	100,00	0,002	management of Employment Pension Programs
Sygnity S.A.	Warsaw	2.328.769,52	1,089	information and telecommunications
Total shares		**109.030.396,13**		

During year ended 31 December 2011 following significant changes relating to available-for-sale assets took place:

- on 3 November 2011 PGE S.A. purchased shares in Zakłady Pomiarowo-Badawcze Energetyki „Energopomiar" Sp. z o.o. from the State Treasury of a nominal value of PLN 482 thousand, representing 8,95% of the share capital of the company.
- on 9 November 2011 PGE S.A. sold 4.479.191 common registered shares of Polkomtel S.A., representing 21,85% of the votes during the Shareholders' Meeting. The transaction is described in note 41 of these financial statements.

Furthermore the Company hold shares of Sygnity S.A.. Sygnity S.A. is a company listed on the Warsaw Stock Exchange, operating in the information technology sector. The fair value of shares amounted to PLN 2.329 thousand.

Due to the planned disposal of shares in Swe-Pol Link AB until the end of 2012, the shares are classified as short-term. The matter is described in more detail in note 39 of these financial statements.

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

As at 31 December Company did not recognize financial assets and liabilities at fair value through profit and loss.

The Company does not apply hedge accounting.

38.4.5 Financial liabilities measured at amortized cost

38.4.5.1 Interest bearing loans and credits

As at 31 December 2011 the Company did not report liabilities arising from credits and loans drawn.

Loans and credits drawn by the Company as at 31 December 2010.

Currency	Reference rate	Carrying value of credit / loan as at reporting date		Contractual maturity:					
		In currency	In PLN	within 1 year	From 1 to 2 years	From 2 to 3 years	From 2 to 3 years	From 2 to 3 years	Above 5 years
PLN	Variable	-	229.805.220,59	229.805.220,59	-	-	-	-	-
	Fixed	-	-	-	-	-	-	-	-
Total loans and credits			**229.805.220,59**	**229.805.220,59**	**-**	**-**	**-**	**-**	**-**

As at 31 December 2010 the total amount of credits drawn by the Company comprised only of credits in current account.

As at 31 December 2011 the value of available overdraft facilities in current account amounted to PLN 800 million.

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

38.4.5.2 Liabilities from bonds issued

As at 31 December 2011 the Company had no liabilities in relation to bonds issued.

Bonds issued as at 31 December 2010.

Currency	Reference rate	Value of issue as at reporting date	Due in the period: Until 1 year	From 1 to 2 years	From 2 to 3 years	From 2 to 3 years	From 2 to 3 years	Above 5 years
PLN	Variable	1.781.326.444,02	1.781.326.444,02	-	-	-	-	-
	Fixed			-	-	-	-	-
Total in PLN		**1.781.326.444,02**	**1.781.326.444,02**	**-**	-	-	-	-

Cash flow from bond issue:

	Year 2011	Year 2010
Cash in-flow	5.053.001.300,00	1.780.242.900,00
Cash out-flow	6.887.650.300,00	506.000.000,00

During 2011 PGE S.A. was party to 3 bond issue programmes: programme addressed to external investors for the maximum amount of PLN 10 billion, programme addressed to Polish capital markets investors for the maximum amount of PLN 5 billion and a programme addressed to PGE Group companies for the maximum amount of PLN 5 billion.

Bond issue programme of PLN 10 billion

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

38.4.5.3 Trade liabilities

Trade liabilities	Liabilities balance	% Share
Liabilities for the purchase of coal	204.181.941,68	48,20
Liabilities for the purchase of electric energy	121.885.833,64	28,78
Liabilities for the purchase of certificates of origin of energy	59.712.996,52	14,10
Liabilities for the purchase of CO_2 emission rights	3.255.034,08	0,77
Liabilities for the purchase of other services	34.537.135,14	8,15
Total	**423.572.941,06**	**100%**

38.4.5.4 Other financial liabilities measured at amortised cost

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

38.5. Compliance with covenants of credit agreements

The Company complies with covenants of credit agreements.

38.6. Collaterals for repayment of liabilities

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

As at 31 December 2011 Company's assets are not encumbered as collateral for the repayment of the Company's liabilities and contingent liabilities.

According to the Rules of Warsaw Commodity Clearing House (WCCH) PGE S.A. is obliged to maintain a specified cash balance on its account held with Bank Ochrony Środowiska S.A.. The amount of the deposit depends on the quantity and value of open positions on the electricity forward market. The cash balance maintained as a security deposit on the above mentioned account as at 31 December 2011 was PLN 134.895 thousand.

In addition, the Company maintains a cash balance at Nordea S.A. bank as a deposit securing payments of liabilities due to purchases of electric energy on poee Warsaw Stock Exchange Energy Market (poee WSE Energy Market) and the Company's open position on the market. As at 31 December 2011 the above mentioned cash balance amounted to PLN 51.506 thousand.

38.7. Matters related to financial instruments not applicable for the Company

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

- until the balance sheet date, the Company 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 Company on any class of assets, which might have improved credit terms (IFRS 7, item 15), nor has the Company taken over any assets resulting from vindications of collaterals it held as security (IFRS 7, item 38),
- the Company has not issued any instruments that contain both a liability and an equity component (IFRS 7, item 17),
- the Company did not breach any provisions of credit agreements (IFRS 7, item 18),
- the Company does not apply hedge accounting,
- there were no financial assets acquired at a price significantly different from their fair value (IFRS 7, item 28).

39. Objectives and principles of financial risk management

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

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

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

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

The Company does not conclude derivative transactions for purposes other than to secure an identified exposure to market risk. Therefore the Company does not conclude speculative transactions, i.e. such transactions that increase the exposure to interest rate risk, currency risk 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.

39.1. Liquidity risk

The Company runs an active policy on investment of cash surpluses. It means that the Company is monitoring the state of monetary surplus and is forecasting future cash flows, and on such a basis the investment strategy is realized towards cash aimed at realization of the investment strategy objectives.

In case of monetary shortage, the Company uses available financing sources in the order presented below:

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

As at 31 December 2011 the Company did not report liabilities due to bank credits and the value of available overdraft facilities in current account amounted PLN 800 million. As at 31 December 2010 the liabilities due to bank credits amounted to PLN 230 million and the value of available overdraft facilities in current account amounted PLN 720 million.

39.2. Interest rate risk

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

The Company is exposed to interest rate risk related to deposits placed, cash, investment in bonds issued and liabilities from credits granted and bonds issued.

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

Interest on financial instruments of a variable interest rate is updated in periods shorter than one year.

		Type of interest rate	**Nominal value as at 31 December 2011**	**Nominal value as at 31 December 2010**
Financial assets exposed to interest rate risk	PLN	Fixed	2.111.109.345,52	6.642.243,41
		Variable	6.492.646.604,58	5.123.869.424,45
	Other currencies	Fixed	188.991.508,09	168.565.153,01
		Variable	329.908.276,33	325.170.877,32
Financial liabilities exposed to interest rate risk	PLN	Fixed	-	-
		Variable	-	(2.011.131.664,61)
	Other currencies	Fixed	-	-
		Variable	-	-
Net exposure	PLN	Fixed	2.111.109.345,52	6.642.243,41
		Variable	6.492.646.604,58	3.112.737.759,84
	Other currencies	Fixed	188.991.508,09	168.565.153,01
		Variable	329.908.276,33	325.170.877,32

Interest on financial instruments of a fixed interest rate is flat throughout the whole period until maturity of these instruments.

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

39.3. Currency risk

In the Company two types of exposure to currency risk can be identified:

Exposure to transaction risk

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

Exposure to translation risk

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

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

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

	Total carrying amount in PLN	Currency position as at 31 December 2011							
		EUR		USD		CHF		SEK	
		in currency	in PLN	in currency	in PLN	in currency	in PLN	in currency	in PLN
Financial assets									
Deposits	2.101.026.575,34	-	-	-	-	-	-	-	-
Bonds, bills and notes receivable acquired	5.801.732.986,23	71.033.093,36	313.738.966,73		-	-	-	-	-
Trade receivables	616.658.375,74	1.045.732,79	4.618.792,59	-	-	-	-	-	-
Cash and cash equivalents	1.020.822.894,68	3.598.036,19	15.891.803,81	36.383,51	124.337,01	32.069,94	116.519,71	74.038,51	36.649,07
Originated loans	199.074.278,27	-	-	-	-	-	-	381.801.027,39	188.991.508,09
Other financial receivables	13.469.323,36	-	-	-	-	-	-	-	
Shares in related entities	22.804.968.520,01	-	-	-	-	-	-	-	
Shares in entities not quoted on active markets	106.701.626,61	-	-	-	-	-	-	-	
Shares in entities quoted on active markets	2.328.769,52	-	-	-	-	-	-	-	
Other financial liabilities									
Financial liabilities	-	-	-	-	-	-	-	-	
Interest bearing loans and credits	-	-	-	-	-	-	-	-	
Bonds and debt instruments issued	-	-	-	-	-	-	-	-	
Trade and other financial liabilities at amortized cost	(428.053.568,16)	(868.110,01)	(3.834.268,29)	(170.853,62)	(583.875,16)	-	-	(36.685.525,25)	(18.159.335,00)
Liabilities from finance lease and lease agreements with option of purchase	-	-	-	-	-	-	-	-	-
Net currency position		74.808.752,33	330.415.294,84	(134.470,11)	(459.538,15)	32.069,94	116.519,71	345.189.540,65	170.868.822,16

	Total carrying amount in PLN	Currency position as at 31 December 2010							
		EUR		USD		CHF		SEK	
		in currency	in PLN	in currency	in PLN	in currency	in PLN	in currency	in PLN
Financial assets									
Deposits									
Bonds, bills and notes receivable acquired	5.191.084.853,09	64.019.774,28	253.537.512,08	-	-	-	-	-	-
Trade receivables	867.578.886,50	5.329.606,94	21.106.842,36						
Cash and cash equivalents	257.955.448,68	18.033.516,20	71.418.134,21	32.522,55	96.400,09	27.226,82	86.142,94	74.038,51	32.688,00
Originated loans	175.207.396,42	-	-	-	-	-	-	381.801.026,11	168.565.153,01
Other financial receivables	16.737.457,47	-	-	-	-	-	-	-	-
Shares in related entities	22.642.085.894,14	-	-	-	-	-	-	-	-
Shares not quoted on active markets	1.761.200.227,28	-	-	-	-	-	-	-	-
Shares quoted on active markets	1.953.370,32	-	-	-	-	-	-	-	-
Other financial assets	-	-	-	-	-	-	-	-	-
Lease receivables									
Financial liabilities	-	-	-	-	-	-	-	-	-
Interest bearing loans and credits	(229.805.220,59)	-	-	-	-	-	-	-	-
Bonds and debt instruments issued	(1.781.326.444,02)	-	-			-	-	-	-
Bonds and debt instruments issued	(998.112.062,58)	(3.704.592,88)	(14.671.299,18)	(170.511,62)	(505.413,49)	(50.280,00)	(159.080,89)	(36.685.525,25)	(16.196.659,40)
Trade and other financial liabilities at amortized cost	-	-	-	-	-	-	-	-	-
Net currency position		83.678.304,54	331.391.189,47	(137.989,07)	(409.013,40)	(23.053,18)	(72.937,95)	345.189.539,37	152.401.181,61

39.4. Goods' price risk

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

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

39.5. Credit risk

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

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

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

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

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

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

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

- Trade receivables from key customers, as at 31 December 2011 the three most significant customers accounted for 91,83%of the trade receivables balance.
- Bonds acquired.
- Deposits described in the Note 38.4.2 of these financial statements.

Maximum credit risk exposure resulting from Company's financial assets is equal to the carrying value of these items. As at 31 December 2011 the total maximum credit risk exposure resulting from the Company's financial assets and guarantees and sureties granted amounted to PLN 9.861.815 thousand and PLN 16.616 thousand, respectively.

39.5.1 Bonds, bills and notes receivable acquired

As at 31 December 2011 bonds issued by PGE Group companies amounted to PLN 5.488 million and bonds issued by Autostrada Wielkopolska S.A. amounted to PLN 313,7 million.

39.5.2 Trade receivables

The terms of payments for trade receivables are usually 2-3 weeks. In year 2011 the Company received payments for receivables after 18-19 days on average. Trade receivables relate mainly to receivables for energy sold. According to the management, due to current control over trade receivables, there is no additional credit risk that would exceed the level reflected by allowances for receivables.

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

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

	31 December 2011		31 December 2010	
Geographical region/ country	**Receivables balance**	**% Share**	**Receivables balance**	**% Share**
Poland	602.019.046,70	97,63	851.594.073,08	98,16
Great Britain	5.195.250,79	0,84	10.708.090,80	1,24
Germany	8.986.483,74	1,46	3.762.505,81	0,43
Czech Republic	375.230,00	0,06	382.006,06	0,04
Other	82.364,51	0,01	1.132.210,75	0,13
Total	**616.658.375,74**	**100,00**	**867.578.886,50**	**100,00**

Receivables in foreign currencies amounted to PLN 4.619 thousand and PLN 21.107 thousand as at 31 December 2011 and 31 December 2010, respectively.

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

39.5.3 Loans granted, other receivables

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

39.5.5 Deposits, cash and Cash equivalents

The Company manages credit risk related to cash by diversification of banks in which surpluses of cash are allocated. All entities, that the Company concludes deposit transactions with, operate in the financial sector. These can only be banks registered in Poland or divisions of foreign banks with high ratings, adequate equity and strong, stable market position.

39.5.6 Derivatives

During year 2011 the Company entered into a one-day FX Swap transaction in order to match payment terms of invoices denominated in EUR.

39.5.7 Guarantees granted

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

39.5.8 Ageing of receivables and impairment allowance for receivables

As at 31 December 2011, trade receivables, loans granted, bonds and shares in entities not quoted on active markets were subject to impairment allowances. The change in allowances accounts for these classes of financial instruments are presented in the table below:

	Trade receivables	Loans granted	Bonds	Deposits	Other financial receivables	Shared in entities not quoted on active markets	Shares in related parties
					Year 2011		
Impairment allowance as at 1 January	**(3.396.042,95)**	**-**	**(29.089.719,94)**	**-**	**(100.967.705,85)**	**(77.164.553,39)**	**(188.853.883,24)**
Impairment allowance used	-	-	-	-	669.202,40	-	-
Impairment allowance reversed	63.593,08	-	-	-	-	-	-
Impairment allowance raised	(623.413,30)	-	-	-	-	-	-
Impairment allowance as at 31 December	**(3.955.863,17)**	**-**	**(29.089.719,94)**	**-**	**(100.298.503,45)**	**(77.164.553,39)**	**(188.853.883,24)**
Value before the impairment allowance	620.614.238,91	199.074.278,27	5.830.822.706,17	2.101.026.575,34	113.767.826,81	183.866.180,00	22.993.822.403,25
Net value (carrying amount)	616.658.375,74	199.074.278,27	5.801.732.986,23	2.101.026.575,34	13.469.323,36	106.701.626,61	22.804.968.520,01
					Year 2010		
Impairment allowance as at 1 January	**(3.458.883,36)**	**-**	**(32.149.000,00)**	**-**	**(100.941.300,58)**	**(77.164.553,39)**	**(188.826.280,74)**
Impairment allowance used	468,00	-	-	-	-	-	-
Impairment allowance reversed	78.321,18	-	3.059.280,06	-	-	-	265.758,87
Impairment allowance raised	(15.948,77)	-	-	-	(26.405,27)	-	(293.361,37)
Impairment allowance as at 31 December	**(3.396.042,95)**	**-**	**(29.089.719,94)**	**-**	**(100.967.705,85)**	**(77.164.553,39)**	**(188.853.883,24)**
Value before the impairment allowance	870.974.929,45	175.207.396,42	5.220.174.573,03	-	117.705.163,32	1.838.364.780,67	22.830.939.777,38
Net value (carrying amount)	867.578.886,50	175.207.396,42	5.191.084.853,09	-	16.737.457,47	1.761.200.227,28	22.642.085.894,14

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

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

Trade receivables	Before due date	Past due < 30 days	30 – 90 days	90 – 180 days	180 – 360 days	>360 days
31 December 2010						
Before the impairment allowance	835.836.243,38	34.637.492,95	1.322,91	344,03	10.291,67	489.234,51
Impairment allowance	(2.908.086,00)	-	-	(312,98)	(1.450,92)	(486.193,05)
After impairment allowance	**832.928.157,38**	**34.637.492,95**	**1.322,91**	**31,05**	**8.840,75**	**3.041,46**

Trade receivables	Before due date	Past due < 30 days	30 – 90 days	90 – 180 days	180 – 360 days	>360 days
1 January 2010						
Before the impairment allowance	1.017.266.887,48	616.585,36	9.128,25	32.200,00	447.034,61	100.732,36
Impairment allowance	(2.918.277,21)	-	-	-	(440.762,21)	(99.843,94)
After impairment allowance	**1.014.348.610,27**	**616.585,36**	**9.128,25**	**32.200,00**	**6.272,40**	**888,42**

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

Loans and financial receivables that are past due date but not covered by an impairment allowance relate mainly to prepayments made to the company Vattenfall Aktiebolag. The matter of reimbursement of the prepayments is described in note 38.4.2 of these financial statements.

Other loans and financial receivables	Before due date	Past due < 30 days	30 – 90 days	90 – 180 days	180 – 360 days	>360 days
31 December 2010						
Before the impairment allowance	5.369.426.467,04	1.132.608,72	3.396.010,51	3.395.497,34	5.659.103,90	130.077.445,26
Impairment allowance	-	-	-	-	-	(130.057.425,79)
After impairment allowance	**5.369.426.467,04**	**1.132.608,72**	**3.396.010,51**	**3.395.497,34**	**5.659.103,90**	**20.019,47**

Other loans and financial receivables	Before due date	Past due < 30 days	30 – 90 days	90 – 180 days	180 – 360 days	>360 days
31 January 2010						
Before the impairment allowance	2.882.196.480,07	3.618,54	4.758,49	-	33.141,89	133.126.181,61
Impairment allowance	-	-	-	-	(15.860,00)	(133.074.440,58)
After impairment allowance	**2.882.196.480,07**	**3.618,54**	**4.758,49**	**-**	**17.281,89**	**51.741,03**

39.6. Liquidity risk

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

Company is exposed to liquidity risk in the following areas:

- Core operations of the Company – liquidity risks results from maladjustment of structure of dates of operating activities cash flows and execution of assets and liabilities,
- Market risk management – liquidity risk results from possible necessity of settlement of 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 the Company– 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 ageing of the Company's financial liabilities as at the balance sheet dates on the basis of the maturity date based on contractual non-discounted payments.

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

31 December 2010	Less than 3 months	Between 3 and 12 months	Between 1 and 5 years	More than 5 years	Total
Bonds issued	12.829.500,00	1.768.496.944,02	-	-	1.781.326.444,02
Interest bearing loans and credits	229.805.220,59	-	-	-	229.805.220,59
Trade and other financial liabilities at amortized cost	998.112.062,58	-	-	-	998.112.062,58
Liabilities from finance lease and lease agreements with an option of purchase	-	-	-	-	-
Derivatives	-	-	-	-	-
Total	**1.240.746.783,17**	**1.768.496.944,02**	**-**	**-**	**3.009.243.727,19**

31 January 2010	Less than 3 months	Between 3 and 12 months	Between 1 and 5 years	More than 5 years	Total
Bonds issued	3.511.076,65	500.247.467,69	-	-	503.758.544,34
Interest bearing loans and credits	52.783.019,55	-	-	-	52.783.019,55
Trade and other financial liabilities at amortized cost	1.116.661.027,43	106.588,50	27.473,70	-	1.116.795.089,63
Liabilities from finance lease and lease agreements with an option of purchase	41.461,40	170.189,52	-	-	211.650,92
Derivatives	-	-	-	-	-
Total	**1.172.996.585,03**	**500.524.245,71**	**27.473,70**	**-**	**1.673.548.304,44**

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

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

Potential foreign exchange rates' changes were calculated on ±13,60% for EUR/PLN, ±23,35% for USD/PLN, ±18,50% for CHF/PLN i ±13,20% for SEK/PLN.

In sensitivity analysis related to interest rate risk, the Company applies parallel shift of interest rate curve related to a potential possible change of referential interest rates during the following year. For the purpose of sensitivity analysis on the interest rate risk for currencies, for which the Company is exposed to as at the balance sheet date, potential interest rates' changes was estimated on ±113 bp for WIBOR, ±83 bp for EURIBOR, ±25 bp for LIBOR USD i ±77 bp for LIBOR CHF.

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

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

39.7.1 Sensitivity analysis for currency risk

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

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

Financial instruments by class	31 December 2010 Carrying amount PLN	Amount exposed to risk PLN	Sensitivity analysis for currency risk as at 31 December 2011 EUR/PLN gross financial result Exchange rate EUR/PLN + 13,60%	EUR/PLN Exchange rate EUR/PLN 13,60%	USD/PLN gross financial result Exchange rate USD/PLN + 23,35%	USD/PLN Exchange rate USD/PLN -23,35%	CHF/PLN gross financial result Exchange rate CHF/PLN + 18,50%	CHF/PLN Exchange rate CHF/PLN -18,50%	SEK/PLN gross financial result Exchange rate SEK/PLN + 13,20%	SEK/PLN Exchange rate SEK/PLN - 13,20%
Trade receivables	616.658.375,74	4.618.792,59	628.155,79	(628.155,79)	-	-	-	-	-	-
Loans granted	199.074.278,27	188.991.508,09	-	-	-	-	-	-	24.946.879,07	(24.946.879,07)
Bonds, bills, notes receivable acquired	5.801.732.986,23	313.738.966,73	42.668.499,48	(42.668.499,48)	-	-	-	-	-	-
Cash and cash equivalents	1.020.822.894,68	16.169.309,60	2.161.285,32	(2.161.285,32)	29.032,69	(29.032,69)	21.556,15	(21.556,15)	4.837,68	(4.837,68)
Deposits	2.101.026.575,34	-	-	-	-	-	-	-	-	-
Trade liabilities and other financial liabilities at amortized cost	(428.053.568,16)	(22.577.478,45)	(521.460,49)	521.460,49	(136.334,85)	136.334,85	-	-	(2.397.032,22)	2.397.032,22
Gross profit change			**44.936.480,10**	**(44.936.480,10)**	**(107.302,16)**	**107.302,16**	**21.556,15**	**(21.556,15)**	**22.554.684,53**	**(22.554.684,53)**

Financial instruments by class	31 December 2010 Carrying amount	Amount exposed to risk	Sensitivity analysis for currency risk as at 31 December 2010 EUR/PLN gross financial result		USD/PLN gross financial result		CHF/PLN gross financial result		SEK/PLN gross financial result	
	PLN	PLN	Exchange rate EUR/PLN + 12,30%	Exchange rate EUR/PLN - 12.30%	Exchange rate USD/PLN + 20,30%	Exchange rate USD/PLN - 20,30%	Exchange rate CHF/PLN + 19,21%	Exchange rate CHF/PLN -19,21%	Exchange rate SEK/PLN + 11,37%	Exchange rate SEK/PLN - 11,37%
Trade receivables	867.578.886,50	21.106.842,36	2.596.141,61	(2.596.141,61)	-	-	-	-	-	-
Loans granted	175.207.396,42	168.565.153,01	-	-	-	-	-	-	19.165.857,90	(19.165.857,90)
Bonds, bills, notes receivable acquired	5.191.084.853,09	253.537.512,08	31.185.113,99	(31.185.113,99)	-	-	-	-	-	-
Cash and cash equivalents	257.955.448,68	71.633.365,24	8.784.430,51	(8.784.430,51)	19.569,22	(19.569,22)	16.548,06	(16.548,06)	3.716,63	(3.716,63)
Interest bearing loans, credits and bonds issued	(2.011.131.664,61)	-	-	-	-	-	-	-	-	-
Trade liabilities and other financial liabilities at amortized cost	(998.112.062,58)	(31.532.452,96)	(1.804.569,80)	1.804.569,80	(102.598,94)	102.598,94	(30.559,44)	30.559,44	(1.841.560,17)	1.841.560,17
Gross profit change			**40.761.116,31**	**(40.761.116,31)**	**(83.029,72)**	**83.029,72**	**(14.011,38)**	**14.011,38**	**17.328.014,36**	**(17.328.014,36)**

39.7.2 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:

	31 December 2011		Sensitivity analysis for interest rate risk as at 31December 2011									
			WIBOR		EURIBOR		LIBOR USD		LIBOR CHF		LIBOR SEK	
Financial assets and liabilities	Carrying amount	Amount exposed to risk	gross financial result		gross financial result		gross financial result		gross financial result		gross financial result	
	PLN	PLN	WIBOR + 113 bp	WIBOR - 113 bp	EURIBOR +83 bp	EURIBOR -83 bp	LIBOR USD + 63 bp	LIBOR USD – 63 bp	LIBOR CHF + 25bp	LIBOR CHF - 25 bp	LIBOR SEK + 77 bp	LIBOR SEK - 77 bp
Bonds acquired	5.801.732.986,23	5.801.732.986,23	58.643.670,15	(58.643.670,15)	2.355.131,98	(2.355.131,98)	-	-	-	-	-	-
Cash and cash equivalents	1.020.822.894,68	1.020.822.894,68	6.699.238.14	(6.699.238.14)	362.480,09	(362.480,09)	692,45	(692,45)	258,06	(258,06)	265,29	(265,29)
Interest bearing loans and credits	-	-	-	-	-	-	-	-	-	-	-	-
Bonds issued	-	-	-	-	-	-	-	-	-	-	-	-
Gross profit change			**65.342.908,29**	**(65.342.908,29)**	**2.717.612,07**	**(2.717.612,07)**	**692,45**	**(692,45)**	**258,06**	**(258,06)**	**265,29**	**(265,29)**

31 December 2010			Sensitivity analysis for interest rate risk as at 31December 2010									
Financial assets and liabilities	**Carrying amount**	**Amount exposed to risk**	**WIBOR gross financial result**		**EURIBOR gross financial result**		**LIBOR USD gross financial result**		**LIBOR CHF gross financial result**		**LIBOR SEK gross financial result**	
	PLN	**PLN**	**WIBOR +94 bp**	**WIBOR -94 bp**	**EURIBOR +50 bp**	**EURIBOR – 50 bp**	**LIBOR USD + 48 bp**	**LIBOR USD – 48 bp**	**LIBOR CHF + 49 bp**	**LIBOR CHF – 49 bp**	**LIBOR SEK + 50 bp**	**LIBOR SEK – 50 bp**
Bonds acquired	5.191.084.853,09	5.191.084.853,09	34.592.217,52	(34.592.217,52)	1.219.705,95	(1.219.705,95)	-	-	-	-	-	-
Cash and cash equivalents	257.955.448,68	257.955.448,68	16.495.421,16	(16.495.421,16)	354.902,06	(354.902,06)	267,58	(267,58)	344,63	(344,63)	165,31	(165,31)
Interest bearing loans and credits	(229.805.220,59)	(229.805.220,59)	(1.322.512,96)	1.322.512,96	-	-	-	-	-	-	-	-
Bonds issued	(1.781.326.444,02)	(1.781.326.444,02)	(10.694.197,75)	10.694.197,75	-	-	-	-	-	-	-	-
Gross profit change			**39.070.927,97**	**(39.070.927,97)**	**1.574.608,01**	**(1.574.608,01)**	**267,58**	**(267,58)**	**344,63**	**(344,63)**	**165,31**	**(165,31)**

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

40. Tax settlements

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

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

Basic tax rates in 2011 were as follows: corporate income tax – 19%, basic value added tax rate – 23%, lowered: 8%, 5%, 0%, furthermore some goods and products are subject to tax exemption.

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

40.1. Excise tax

In 2009, the Company filed a motion related to an excess payment of the excise tax on imports and Intra-Community purchase of electric energy in the period from January 2006 to February 2009. The Company states that the excess payment results from discrepancies between the Polish and Community law. In February 2010, the Company received decisions for the period from January – December 2006, denying the excess payment of excise tax paid in relation to imports of electric energy. In May 2010, the Company received a part of decisions refusing to grant a request to determine overpayment, and decisions determining the excise tax obligation for intra-Community purchases of electricity, against which the Company had lodged appeals. In December 2010, the Company received decisions from the Director of Customs Chamber, which fully supported the decisions of the first instance authority concerning excise tax on energy import in 2006. The Company filed complaints against these decisions to the Provincial Administrative Court in Warsaw. In October and November 2011 the Provincial Administrative Court in Warsaw decided that no overpayment can be identified here, as the whole amount of excise tax was reimbursed to the Company earlier on account of import. Taking into consideration the resolution of the Chamber of Commerce of the Supreme Administrative Court, it cannot be considered that company incurred the economic tax burden, as the Company recovered the total amount of tax. Sentences are illegitimate and the Company lodged cassation appeals to the Supreme Administrative Court. The total amount of the claims amounts to PLN 54 million plus interest due.

Due to the reduced risk of termination of the right to lodge civil claims relating to the losses resulting from discrepancies between the Polish and Community law, the Company lodged a proposal to summon to compromise to the Provincial Administrative Court.

41. Significant events during the reporting period and subsequent events

41.1. Sale of shares of Polkomtel S.A.

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

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

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

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

The transfer of shares and payment occurred on 9 November 2011. Company realized net profit in amount of PLN 1.320 million on the above mentioned transaction. Net profit was recognized by the Company in November 2011.

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

41.2. Agreement to acquire Shares of Energa S.A.

On 29 September 2010, the Management Board of PGE Polska Grupa Energetyczna S.A. concluded with the State Treasury, represented by the Minister of the State Treasury, agreement on sales of shares of Energa S.A., seated in Gdańsk ("Agreement"). The subject of the agreement is to acquire 4.183.285.486 shares of the Company, representing 84,19% of its share capital. The purchase price of all shares representing 84,19% of share capital of the Company is PLN 7.529.913 thousand.

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

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

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

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

On 28 January 2011, the Regional Court in Warsaw, Competition and Consumer Protection Court, received an appeal filed through intermediation of the President of the Office by PGE S.A. against the Decision of the President of the Office for Competition and Consumer Protection, preventing amalgamation of PGE S.A.

with Energa S.A. In its appeal, the Company requests that the said decision be replaced in its entirety by another Decision to the effect of permitting amalgamation of PGE S.A. with Energa S.A., or that the former decision be revoked.

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

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

41.3. Sale of shares of Exatel S.A.

As at 31 December 2011, the Company presents its investment in Exatel S.A. under current assets. As the anticipated sale of shares in the company derives from the strategy implemented by PGE S.A., with the assumption of focusing on the primary activity and selling unrelated assets.

As at the date of preparation of these financial statements, PGE S.A. is preparing documentation concerning optimal method of disposal of shares of Exatel S.A. The transaction is planned for second half of the year 2012.

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

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

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

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

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

41.5. The establishment of PGE Dom Maklerski S.A.

On 1 February the PGE Dom Maklerski S.A. was established. Until the date of preparation of these financial statements the company has not yet been registered in the National Court Register.

41.6. The establishment of tax Group

On 7 November 2011 the Head of Mazowiecki Tax Office in Warsaw, at the request of PGE Group, registered the contract referring to establishment of a tax Group PGK PGE on 26 September 2011 between PGE Polska Grupa Energetyczna S.A. seated in Warsaw (the Company representing the tax Group PGK PGE), PGE Obrót S.A. seated in Rzeszów, PGE Energia Jądrowa S.A. seated in Warsaw and PGE Systemy S.A. seated in Warsaw. The agreement was concluded for a period of three years: 2012, 2013, 2014.

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

…………………………..

Mr. Krzysztof Kilian

President of the

Management Board

……………………...

Mr. Paweł Skowroński

Vice-President of the

Management Board

…………………………..

Mr. Piotr Szymanek

Vice-President of the

Management Board

……………………...

Mrs. Bogusława Matuszewska

Vice-President of the

Management Board

…………………………..

Mr. Wojciech Ostrowski

Vice-President of the

Management Board