Management Board's report on activities of the Capital Group of PGE Polska Grupa Energetyczna S.A.

for the 6-month period ended June 30, 2012

Selected consolidated financial data of PGE Polska Grupa Energetyczna S.A. Capital Group.

	6-month period ended June 30,		6-month period ended June 30,	
	2012 (reviewed)	**2011 (reviewed) *data restated***	**2012 (reviewed)**	**2011 (reviewed) *data restated***
	PLN thousand		**EUR thousand**	
Sales revenues	14,950,933	13,915,332	3,539,017	3,507,507
Net profit from operating activities	3,103,712	2,660,755	734,676	670,671
Gross profit (before taxation)	3,229,688	2,771,269	764,496	698,528
Net profit for the reporting period	2,524,369	2,259,571	597,540	569,549
Net profit attributable to equity holders of the parent company	2,494,457	2,218,790	590,460	559,270
Total income	2,523,947	2,260,732	597,440	569,841
Net cash from operating activities	4,135,840	2,950,126	978,990	743,611
Net cash from investing activities	160,669	(2,166,328)	38,032	(546,046)
Net cash from financial activities	(313,338)	(677,899)	(74,170)	(170,872)
Net change in cash and cash equivalents	3,983,171	105,899	942,852	26,693
Net earnings per share (in PLN/EUR per share)	1.33	1.19	0.32	0.30
Diluted earnings per share (in PLN/EUR per share)	1.33	1.19	0.32	0.30
Weighted average number of shares (issued ordinary shares used for calculation of EPS)*	1,869,760,829	1,869,760,829	1,869,760,829	1,869,760,829

	As at June 30, 2012 (reviewed)	**As at December 31, 2011 (audited)**	**As at June 30, 2012 (reviewed)**	**As at December 31, 2011 (audited)**
Non-current assets	44,723,014	44,444,933	10,495,157	10,062,700
Current assets	15,265,999	14,317,698	3,582,475	3,241,645
Total assets	59,989,013	58,762,631	14,077,632	13,304,345
Equity	40,222,348	41,173,260	9,438,985	9,321,966
Equity attributable to equity holders of the parent	39,890,161	40,758,868	9,361,031	9,228,144
Share capital	18,697,608	18,697,837	4,387,771	4,233,345
Long-term liabilities	7,230,454	7,215,966	1,696,772	1,633,754
Short-term liabilities	12,536,211	10,373,405	2,941,875	2,348,625
Number of shares as at the end of the reporting period*	1,869,760,829	1,869,760,829	1,869,760,829	1,869,760,829
Book value per share (in PLN/EUR per share)	21.33	21.80	5.01	4.94
Diluted book value per share (in PLN/EUR per share)	21.33	21.80	5.01	4.94

** number of shares does not include own shares amortization*

Selected financial data for PGE Polska Grupa Energetyczna S.A.

	6-month period ended June 30,		6-month period ended June 30,	
	2012 (reviewed)	2011 (reviewed) *data restated*	2012 (reviewed)	2011 (reviewed) *data restated*
	PLN thousand		EUR thousand	
Sales revenues	5,098,943	5,025,694	1,206,965	1,266,779
Net profit from operating activities	153,287	107,408	36,284	27,073
Gross profit (before taxation)	409,720	2,444,706	96,984	616,214
Net profit for the reporting period	290,436	2,414,548	68,749	608,612
Total income	291,212	2,415,840	68,932	608,938
Net cash from operating activities	(260,916)	(330,621)	(61,761)	(83,337)
Net cash from investing activities	3,848,547	1,699,672	910,985	428,420
Net cash from financial activities	(2,714)	(1,106,631)	(642)	(278,938)
Net change in cash and cash equivalents	3,584,917	262,420	848,581	66,146
Net earnings per share (in PLN/EUR per share)	0.16	1.29	0.04	0.33
Diluted earnings per share (in PLN/EUR per share)	0.16	1.29	0.04	0.33
Weighted average number of shares (issued ordinary shares used for calculation of EPS)*	1,869,760,829	1,869,760,829	1,869,760,829	1,869,760,829

	As at June 30, 2012 (reviewed)	As at December 31, 2011 (audited)	As at June 30, 2012 (reviewed)	As at December 31, 2011 (audited)
Non-current assets	26,976,604	27,678,870	6,330,604	6,266,725
Current assets	6,096,466	5,353,188	1,430,659	1,212,006
Total assets	33,073,070	33,032,058	7,761,263	7,478,731
Equity	28,651,650	31,782,100	6,723,688	7,195,730
Share capital	18,697,608	18,697,837	4,387,771	4,233,345
Long-term liabilities	50,806	18,784	11,923	4,253
Short-term liabilities	4,370,614	1,231,174	1,025,653	278,748

** number of shares does not include own shares*

Above financial data for the 6-month period ended June 30, 2012 and June 30, 2011 were converted into EUR according to the following rules:

- particular items of the assets and liabilities – according to average exchange rate published by the National Bank of Poland as of June 30, 2012 - EUR/PLN 4.2613 and as of December 31, 2011 – EUR/PLN 4.4168,
- particular items of statement of comprehensive income and statement of cash flows – according to the exchange rate constituting an arithmetic average of average exchange rates set out by the National Bank of Poland at the end of every month of the reporting period from January 1, 2012 till June 30, 2012 - EUR/PLN 4.2246; and for the period from January 1, 2011 till June 30, 2011 - EUR/PLN 3.9673.

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1. Organisation of the Capital Group.

The description of the organisation of the PGE Capital Group (the "Capital Group", the "Group", the "PGE Group") and list of consolidated companies were presented in Note 1 and 3 to the consolidated financial statements.

1.1. Description of the activities of PGE Capital Group

The Group currently organizes its activities in five main business lines:

(i) Mining and Conventional Generation ("Conventional Generation"), including extraction of lignite and generation of electricity and heat from conventional sources and distribution of heat, (ii) Renewable Energy, including electricity generation from renewable sources and in pumped storage power plants, (iii) Wholesale Trading of electricity, related products and fuels; (iv) Distribution of electricity and (v) Retail Sales of electricity. Apart from 5 main business lines, PGE Group holds activities in other areas, including telecommunication. The Group also comprises of other companies, whose main activity are implementation of strategic activities connected with the preparation and execution of construction of nuclear power plants and providing ancillary control services to companies from the energy and mining sectors. These services comprise, inter alia: (i) building, renovation and modernization works and investments in electricity equipment, (ii) comprehensive diagnostic tests and measurements of electricity machines and equipment; (iii) managing by-products of coal combustion, developing, implementing and using technologies and rehabilitation of degraded areas, and (iv) medical and social services.

Companies comprising the main business segments of PGE Group as at June 30, 2012:

Conventional Generation	Renewable Energy	Wholesale Trading	Distribution	Retail Sales
PGE Górnictwo i Energetyka Konwencjonalna S.A. (PGE GiEK S.A.)	PGE Energia Odnawialna S.A.	PGE Polska Grupa Energetyczna S.A. (PGE S.A.)	PGE Dystrybucja S.A.	PGE Obrót S.A.
Przedsiębiorstwo Energetyki Cieplnej sp. z o.o.	Elektrownia Wiatrowa Resko sp. z o.o.	ELECTRA Deutschland GmbH*		
Elektrownia Puławy sp. z o.o.	Biogazownia Łapy sp. z o.o.			
PGE Gubin sp. z o.o.	Biogazownia Wożuczyn sp. z o.o.			
	Elektrownia Wiatrowa Turów sp. z o.o.			
	Elektrownia Wiatrowa Gniewino sp. z o.o.			
	Elektrownia Wiatrowa Baltica-1 sp. z o.o.			
	Elektrownia Wiatrowa Baltica-2 sp. z o.o.			
	Elektrownia Wiatrowa Baltica-3 sp. z o.o.			
	Bio-Energia S.A.			

** on August 1, 2012 ELECTRA Deutschland GmbH changed the name and seat of the company. Current name and seat is as follows: PGE Trading GmbH with the registered office in Berlin.*

1.2. Changes in organisation of the Capital Group

The changes which occurred in the Group's structure during the 6-month period ended June 30, 2012 are presented in Note 3 to consolidated financial statements and described below.

Shares in subsidiaries and associates

In the first half of 2012 PGE Polska Grupa Energetyczna S.A. changed its equity interest in the following entities:

- in the first quarter of 2012 PGE Polska Grupa Energetyczna S.A. acquired from the minority shareholders a total number of 3,750 inscribed shares of PGE Górnictwo i Energetyka Konwencjonalna S.A. (constituting in total 0.0005% share in the share capital of the company). The purchase of inscribed shares by PGE S.A. resulted from the Privatisation agreement, upon which the employees of PGE Zespół Elektrociepłowni Bydgoszcz S.A. (currently PGE GiEK S.A. branch Zespół Elektrociepłowni Bydgoszcz) are entitled to sell the allotted block of shares to the majority shareholder.
- on March 12, 2012 District Court for Łódź Śródmieście in Łódź, XX Commercial Division of National Registry Court issued a decision on entry of merger of PGE Górnictwo i Energetyka Konwencjonalna S.A. with PGE Elektrownia Opole S.A. In connection with the above PGE Polska Grupa Energetyczna S.A. currently holds 635,146,422 ordinary inscribed shares of PGE Górnictwo i Energetyka Konwencjonalna S.A. constituting 91.20% in the share capital of the company.
- on December 30, 2011 datio in solutum agreement was signed between PGE Polska Grupa Energetyczna S.A. and PGE Energia Odnawialna S.A., that settles the dividend liability of PGE Energia Odnawialna S.A. towards PGE Polska Grupa Energetyczna S.A. On the ground of the above agreement, after fulfillment of its provisions, the ownership right of 103,196 ordinary registered shares of PGE Górnictwo i Energetyka Konwencjonalna S.A. (representing 0.016% of the share capital) will be transferred to PGE Polska Grupa Energetyczna S.A. in order to release PGE Energia Odnawialna S.A. from the commitment to pay part of the due dividend. On March 15, 2012 the change referring to transfer of shares was registered in the stockholders' ledger of PGE Górnictwo i Energetyka Konwencjonalna S.A. From that day PGE Energia Odnawialna S.A. is no longer a shareholder in PGE Górnictwo i Energetyka Konwencjonalna S.A.
- On January 18, 2012 the Extraordinary General Meeting of PGE Obrót S.A. adopted a resolution on compulsory buy-out of company's minorities pursuant to art. 418 of the Polish Commercial Companies Code, concerning the buy-out of shares constituting 0.24% in the share capital of PGE Obrót S.A. by PGE Polska Grupa Energetyczna S.A. As a result of the execution of the above resolution, in April 2012 PGE purchased 11,716 shares of PGE Obrót S.A. In addition, on the ground of a sale agreement on May 7, 2012 PGE purchased from the State Treasury 46 shares of PGE Obrót S.A., constituting 0.00093% of the company's share capital. In connection with the above transactions, PGE Polska Grupa Energetyczna S.A. currently holds 99.55 % in the share capital of PGE Obrót S.A.
- on May 10, 2012 Ordinary General Meeting of PGE Dystrybucja S.A. adopted a resolution on compulsory buy-out of 194,839 series I bearer shares, belonging to the minority shareholders of PGE Dystrybucja S.A., representing 0.02% in the company's share capital. The buy-out will be accomplished by PGE Polska Grupa Energetyczna S.A.
- on June 13, 2012, on the ground of decision of the General Meeting of PGE Systemy S.A., the share capital of the company was raised from PLN 5,000,000 to PLN 125,000,000, i.e. by PLN 120,000,000. 12,000,000 newly issued series D shares with a par value of PLN 10 each were taken up by the sole shareholder i.e. PGE Polska Grupa Energetyczna S.A. The increase of the share capital was registered on July 16, 2012.

On February 1, 2012 PGE Polska Grupa Energetyczna S.A. established PGE Dom Maklerski S.A. with the registered office in Warsaw and is a 100% shareholder. On April 19, 2012 the company was registered in the National Court Register.

In the first half of 2012 PGE Group companies changed their capital exposure in the following entities:

- the division of Przedsiębiorstwo Transportowo Sprzętowe BETRANS sp. z o.o. and transfer of the organized part of divided company – Greenery Keeping Unit (ZCP) to Elbest sp. z o.o. were

registered on January 2, 2012. As a result of the above transfer the share capital of ELBEST sp. z o.o. was increased through issue of 1,952 shares with a nominal value of PLN 1,000 each (i.e. to PLN 121,856,000), which were granted to the shareholders of PTS BETRANS sp. z o.o. The share capital of PTS BETRANS sp. z o.o. was decreased through redemption of 2,964 share with a nominal value of PLN 500 each (i.e. to PLN 16,078,500), proportionally to the number of shares held by the particular shareholders in the company.

- on March 6, 2012 3 agreements for purchase of shares were concluded with the minority shareholders of PGE Dystrybucja S.A. As a result PGE Dystrybucja S.A. purchased 39,996 own shares. The signing of the agreements was connected with the obligations imposed on the company pursuant to art. 418^1 § 4 of the Polish Commercial Companies Code – compulsory buy-out of shares.
- on March 12, 2012 District Court for Łódź Śródmieście in Łódź, XX Commercial Division of National Registry Court issued a decision on entry of merger of PGE Górnictwo i Energetyka Konwencjonalna S.A. (acquiring company) with PGE Elektrownia Opole S.A. (acquired company). The acquiring company entered into rights and duties of the acquired company. As a result of the merger the share capital of PGE GiEK S.A. was increased by PLN 452,769,880, i.e. to PLN 6,964,382,240.
- on March 12, 2012, as a result of merger of PGE Górnictwo i Energetyka Konwencjonalna S.A. with PGE Elektrownia Opole S.A., PGE GiEK S.A. became a shareholder of: ELKOM sp. z o.o. (52.58% in the share capital) and EPO sp. z o.o. (50.00% in the share capital). In addition, the share of PGE GiEK S.A. in NZOZ MegaMed sp. z o.o. (currently MegaMed sp. z o.o.) increased from 97.40% to 100%.
- on April 19, 2012 Tetra System Polska S.A. in liquidation with its registered office in Warsaw was deleted from the entrepreneurs register. EXATEL S.A. held 14% of shares in the share capital of that company.
- on June 18, 2012 an agreement for purchase of shares in Elektrownia Puławy sp. z o.o. was signed. On the ground of the agreement PGE GiEK S.A. acquired 11,074 shares, what constitutes 50% of the share capital of Elektrownia Puławy sp. z o.o.

On January 2, 2012 the merger of PGE Energia Odnawialna S.A. (acquiring company) with Elektrownia Wiatrowa Kamieńsk sp. z o.o. and Dychowskie Przedsiębiorstwo Eksploatacji Elektrowni „Eldeks" sp. z o.o. (acquired companies) was registered.

On January 2, 2012 the Elbest sp. z o.o. Branch Wawrzkowizna II was registered by District Court for Łódź Śródmieście in Łódź, XX Commercial Division.

On January 2, 2012 Przedsiębiorstwo Usługowo-Produkcyjne „ELTUR-SERWIS" sp. z o.o. (direct subsidiary of PGE Górnictwo i Energetyka Konwencjonalna S.A.) created Branch in Brzezie near Opole. The branch was registered in the National Court Register on January 16, 2012.

On April 16, 2012, following the decision by the District Court in Zielona Góra, 8th Commercial Division of the National Court Register, the change of name of „PWE GUBIN" sp. z o.o. was accomplished. After the change, the current name and seat of the company is as follows: "PGE Gubin" sp. z o.o. with its registered office in Gubin.

On May 1, 2012 a new branch – Branch Opole - of Przedsiębiorstwo Produkcji Sorbentów i Rekultywacji "ELTUR-WAPORE" sp. z o.o., was registered in the National Court Register. Branch started its operations on May 1, 2012.

On June 20, 2012 the Management Board of Przedsiębiorstwo Produkcyjno Handlowe EKTO sp. z o.o. with its registered office in Białystok (subsidiary of PGE Dystrybucja S.A.) filed a petition in bankruptcy with the possibility of composition with the District Court in Białystok. On July 6, 2012 the District Court in Białystok remitted the above proceedings. In connection with the above, the Management Board of the company filed a statement of initiation of the recovery proceeding with the District Court in Białystok on July 9, 2012.

On June 25, 2012 Electra Slovakia s.r.o. with its registered office in Bratislava was deleted from the entrepreneurs register as a result of liquidation proceeding.

On June 27, 2012 the Ordinary General Meeting of Shareholders of Ośrodek Wypoczynkowo-Szkoleniowy "Energetyk" Sp. z o.o. with its registered office in Sielpia (subsidiary of PGE Dystrybucja S.A.) decided to dissolve and liquidate the Subsidiary.

During 6-month period ended June 30, 2012 PGE Capital Group did not discontinue any significant operations. Operations, which in the reporting period met the criteria of operations intended for discontinuation, were presented in Note 25 to the consolidated financial statements.

2. Factors and events influencing financial results.

2.1. Macroeconomic situation

The PGE Group runs its activities mainly in Poland. Therefore it has been and will be dependent on macroeconomic trends existing in Poland. As a rule, there is a positive correlation between the growth of electricity demand and economic growth. Thus, the macroeconomic situation of Poland has an impact on financial results achieved by the PGE Group. Weakening economic conditions resulted in slowdown of growth of demand for electricity in the National Power System in the first half of 2012, that was by approximately 0.3% higher in comparison to the corresponding period of 2011.

Table: Key economic ratios connected with the Polish economy.

Key data	H1 2012	H1 2011
Real GDP growth (% of growth)[1]	3.3*	4.4
Annual CPI rate (% of growth)[2]	4.3	4.2
Domestic electricity consumption(% of growth)[3]	0.3	2.5
Domestic electricity consumption (TWh)[3]	79.0	78.8

** estimates by Dom Maklerski Banku Handlowego w Warszawie S.A.*

Source: [1] Polish Central Statistical Office, real growth of GDP in constant previous year's price, with corresponding period of preceding year = 100; [2] Polish Central Statistical Office, inflation rate, with corresponding period of preceding year = 100; [3] PSE Operator S.A.

2.2. Electricity prices

Wholesale electricity prices

The development of the competitive electricity market in Poland and dynamically changing macroeconomic situation in Europe have impact on the prices and thus on the financial results of PGE S.A. and PGE Capital Group.

Domestic market

In the first half of 2012 the electricity prices were at the low levels. The downward trend, which occurred in December 2011, had been continued through first weeks of 2012 and just the beginning of February showed brief growth of electricity prices. This growth resulted from increased demand for electricity and was driven by the significant drop of temperature. In the following months, the prices dropped significantly to the levels, which have not been recorded since 2009.

Since introduction of so called power exchange obligation, i.e. an obligation to sell energy through energy exchange or on regulated market, that was imposed on energy generators (art. 49a section 1 and 2 of the Energy Law) the importance of Polish Power Exchange (TGE) grew significantly, resulting in increased turnover on that power exchange. The drop of wholesale electricity prices resulting from decreasing pace of electricity demand, caused a decrease in turnover, mainly on the spot market, where TGE had dominant position in 2011 (more than 91% of total sales on SPOT market). In first half of 2012 the TGE share decreased to approximately 87% of the market. The share was affected by a decision of the President of the Energy Regulatory Office, who in October 2011 acknowledged sales on former WSE's POEE market (currently poee Energy Market of WSE – "POEE") as fulfillment of so called power exchange obligation.

SPOT market

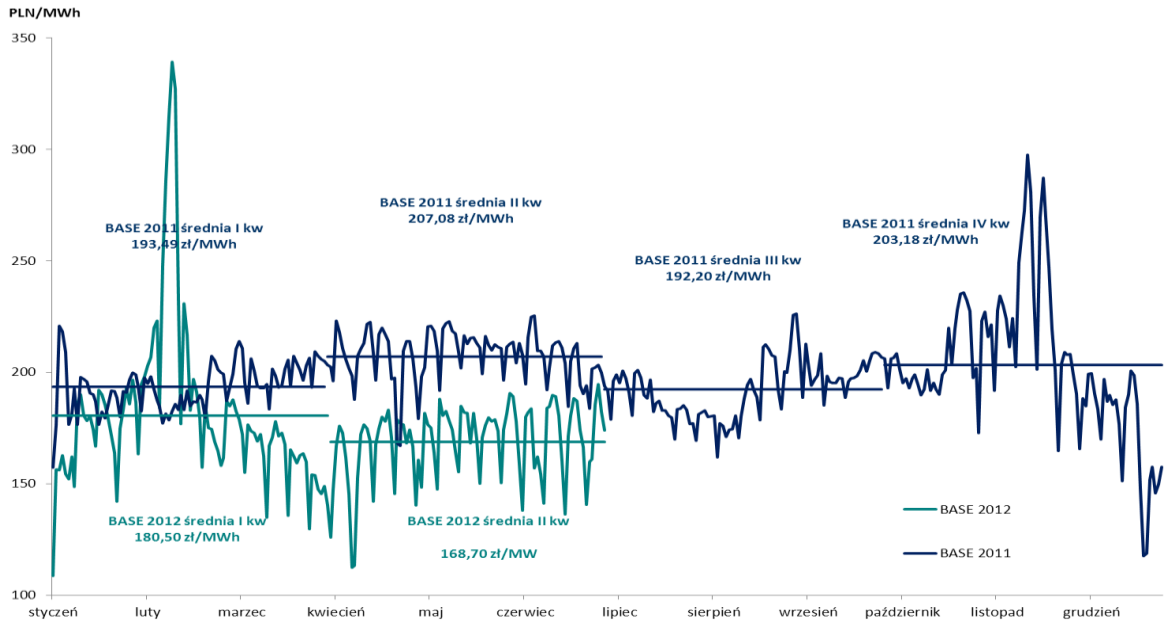
Since the beginning of 2012 the downward trend has dominated the SPOT electricity market. In second quarter of 2012 a record prices were observed. Average monthly prices were significantly lower than in previous years. Average SPOT price in Q2 2012, indicated on the base of IRDN24 index of TGE, amounted to 168.70 PLN/MWh and was lower than the average SPOT price in the second quarter of 2011 by 38.38 PLN/MWh. The deciding factor was an April price (162.22 PLN/MWh) and

the growth of prices in May and June (173.43 PLN/MWh and 170.83 PLN/MWh respectively) did not compensate such a big drop of prices at the beginning of the second quarter. The above decrease of prices in first half of 2012 is a result of increased availability of capacities in National Power System and import from Sweden, realized during the whole period. The large capacity margin in National Power System is proven by the prices on the Balancing Market, that – except for the periods of increased demand and on days when the cheapest generating units, like Bełchatów 858 MW unit, are switched off – were on low levels. The increase of the capacity margin may be also connected with the increased supply from renewable energy sources, mainly wind, which capacity in H1 2012 grew by approximately 403 MW.

Higher level of prices in Poland in 2011, in much part was a result of export, which during the period of high prices in Germany, caused the increase of prices on TGE. Currently, despite high availability of cross-border capacities and the export, the prices on EEX (European Energy Exchange) are at the similar level as on TGE and export is not anymore an element, which influences a growth of prices in Poland.

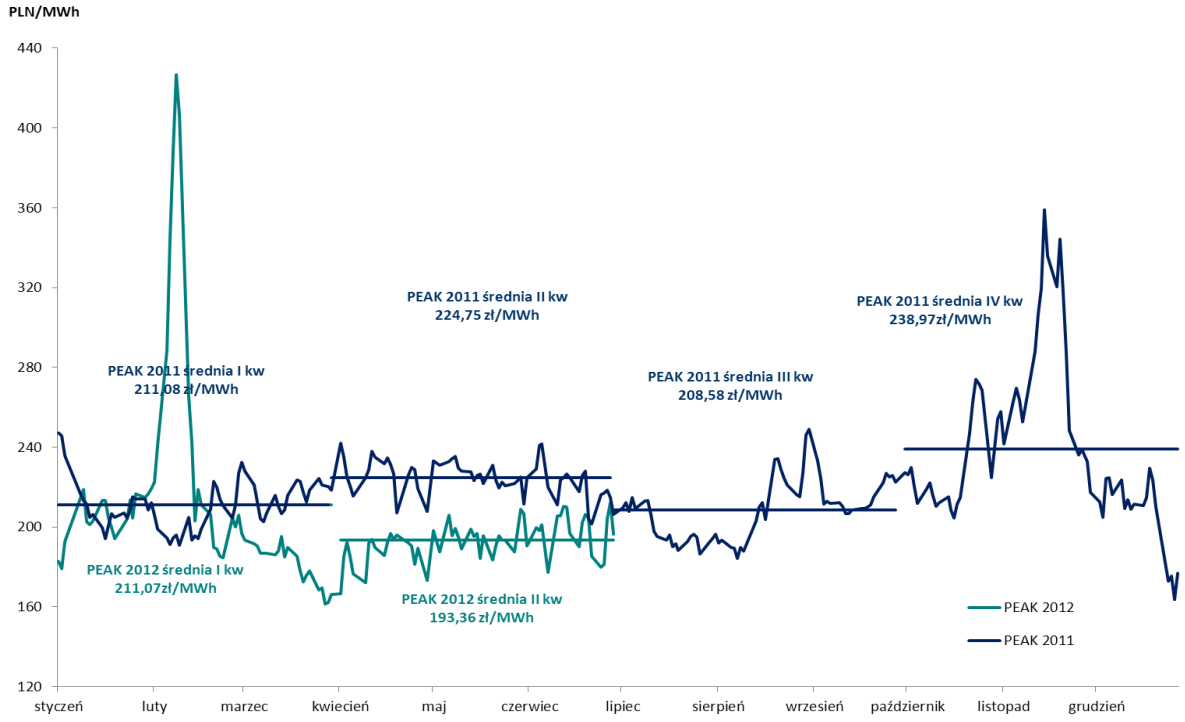
Total trading volumes in the first half of 2012 of electricity on SPOT market, both on TGE and POEE, amounted to more than 11 TWh and were slightly higher than in the first half of 2011.

Chart. Daily and quarterly base prices in SPOT transactions in 2011–2012 (TGE)*



** Arithmetic average of all power exchange transactions concluded during the session, calculated for the whole day by delivery date (index IRDN24;) (średnia – average, kw.- quarter)*

Chart. Daily and quarterly peak prices in SPOT transactions in 2011–2012 (TGE)*



* *Arithmetic average of all power exchange transactions concluded during the session, calculated for the whole day by delivery date (index IRDN24); (średnia – average, kw.- quarter)*

The balancing market, although it is assumed to be the technical market, is frequently used for commercial purposes. In the second quarter of 2012 the turnover on this market was substantially lower due to the low prices on the balancing market. The prices on the Balancing Market were at the similar levels as the ones on the main market, with the exception that in situation of reduced capacity margin in the system, the settlement price of divergence had been changing in larger range than TGE price.

Futures and forward market

Low level of SPOT prices in first half of 2012 had significant impact on the futures and forward market, where all of the quoted products were gradually losing value in this period. Despite that, the trading volumes of electricity on the organized market in futures and forwards market, regardless of the delivery date, totaled approximately 26.3 TWh in the first quarter of 2012 and reached 62.4 TWh after the first half of 2012. In 2011, TGE has become dominant electricity trading market for futures and forwards with regard to volume of the concluded transactions. The first half of 2012 differed as compared to the previous year as TGE's share constituted slightly more than 38% of the total trading volume. It resulted from the fact that the majority of the sales on the power exchange are the yearly contracts, for which the peak of trading fell up to that time for the second half of the year. In the first half of 2012 total volume of 2013 contracts on the whole organized market amounted to 30.9 TWh, including almost 3.3 GW yearly base, while in the analogical period of the previous year total volume of yearly 2012 contracts amounted to almost 4.9 GW.

The futures and forward market is constantly developing in Poland. Since commencement of trading of forward contracts with a delivery in 2012 until the end of June 2012 their volume reached almost 149.5 TWh (with the demand of 158 TWh) what confirms the increased role of that market. Domestic electricity consumption in the first half of 2012 amounted to 79 TWh, while the sales of electricity in futures and forward contracts with delivery in that period amounted to approximately 77.8 TWh. Surely much of the consumed energy derived from bilateral contracts, but the scale of trading shows the increasing importance of the organized wholesale market.

International market

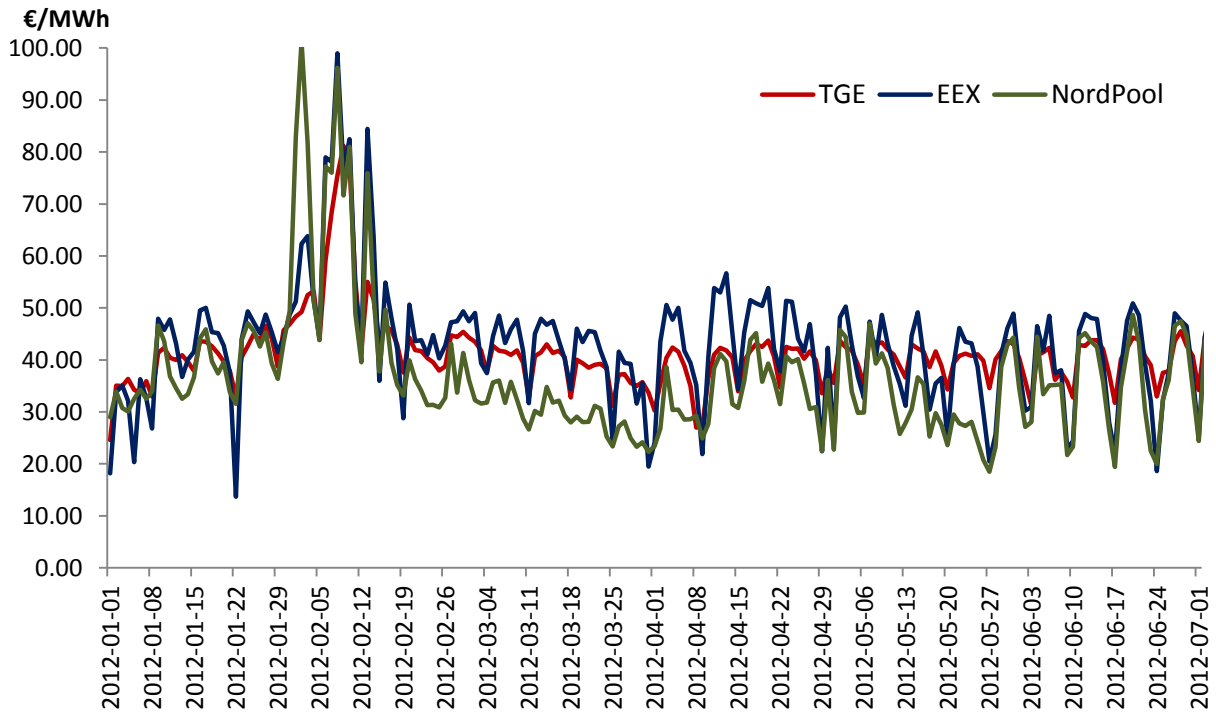
Situation on the neighbouring markets has significant impact on Polish electricity prices. Existing interconnectors significantly influence both demand and supply of energy. Limitation of nuclear capacities in Germany results in growth of prices on German market and increase the demand for the electricity from import, what was observed in 2011. Usually high level of prices abroad is reflected in increasing prices on Polish market, mainly when PSE Operator facilitates high capacities on interconnectors, i.e. up to 1,700 MW in an hour on connections with the systems of the operators of 50 HzT, CEPS and SEPS.

In the last half-year the price difference between EEX and TGE was not such high as in the previous year. Apart from that, the German prices also were in downward trend in the first quarter of 2012 (except for February) just like Polish prices. Only in second quarter of 2012 the prices bounced, but not to the level significantly than Polish prices, what could trigger an increase of prices on Polish market. One of the factors, which limited the growth of prices in the first half of 2012 was price of CO_2 emission rights, which oscillated around 7 EUR/MWh between March and June. Ultimately, average electricity SPOT price in Germany amounted to 42.74 EUR/MWh in the reporting period, while in Poland amounted to 41.15 EUR/MWh.

Total volume of energy exported from Poland in first half of 2012 amounted to approximately 3.1 TWh, including approximately 1.4 TWh on connection PSE-O HzT50 (with Germany). The remaining part of export includes 914.1 GWh to Czech Republic, 796.6 GWh to Slovakia and just 47.7 GWh to Sweden.

Low export to Sweden resulted from the lower prices than in Poland. Scandinavian market proved to be the cheapest of the markets, with which Poland has interconnectors. Its existing generation structure, based mainly on renewable energy, including hydro electrical power plants in particular, caused the drop of prices as a result of relatively high level of water reservoirs. Such price situation between NordPool and TGE, resulted in the increased import of energy to Poland in the first half of 2012. The import amounted to more than 1.7 TWh. Import from Sweden constituted almost 80% of the total import and amount to almost 1.4 TWh. Moreover, import of energy through the interconnector with Ukraine, that was commissioned in late 2011, also gained some significance in the first half of 2012 (220 MW). This energy, just like import from Sweden, affects the limitation of use of generation capacities in Poland.

Chart: Comparison of SPOT electricity prices on TGE and international markets



Electricity prices on retail market

The main factor influencing the increase of electricity prices for the end users in 2012 was the increased costs of obtaining and redemption of origin certificates in order to fulfil the requirements imposed by law on the entities dealing with the sales of electricity to the end users.

The growth of average electricity prices in 2012 results from the changes in tariff in A, B, C and R tariff groups as from December 1, 2011, change of prices for G tariff customers resulting from the tariff approved by the ERO President that has been valid from January 1, 2012 and from the level of discounts.

2.3. Termination of long-term contracts (LTC)

Due to the termination of LTCs in accordance with The Act on coverage of stranded costs resulting at generators in relation to accelerated termination of long-term contracts ("LTC Act"), the producers being earlier the parties to such contracts obtained a right to receive compensations for the coverage of so called stranded costs (capital expenditures resulting from investments in generating assets made by the generator before May 1, 2004 that a generator is not able to recoup from revenues obtained from sales of generated electricity, spare capacity and ancillary services in a competitive environment after early termination of LTC). The LTC Act limits the total amount of funds that may be paid to all generators to cover stranded costs, discounted as at January 1, 2007, to PLN 11.6 billion.

Table: Key data relating to PGE Group generators subject to the LTC Act.

Generator	LTC maturity	Maximum amount of stranded and additional costs
PGE GiEK S.A. Branch Elektrownia Opole	2012	PLN 1,966 million
PGE GiEK S.A. Branch Elektrownia Turów	2016	PLN 2,571 million
PGE GiEK S.A. Branch Zespół Elektrowni Dolna Odra	2010	PLN 633 million
PGE GiEK S.A. Branch Elektrociepłownia Gorzów	2009	PLN 108 million
PGE GiEK S.A. Branch Elektrociepłownia Lublin Wrotków	2010	PLN 617 million
PGE GiEK S.A. Branch Elektrociepłownia Rzeszów	2012	PLN 422 million
TOTAL		**PLN 6,317 million**

In the period provided for by the LTC Act, i.e. till December 31, 2007, PGE S.A. signed termination agreements with generators being parties to the then applicable LTCs. Therefore generators obtained a right to receive funds to cover their stranded costs.

The impact of LTC compensations on results achieved by the PGE Group is described in Note 26.1 to the consolidated financial statements.

2.4. Balance of energy of PGE Capital Group

Sales of electricity

Table: Sales of electricity outside the PGE Capital Group (in TWh).

	H1 2012	H1 2011	% change
Sales in TWh, including:	**47.66**	**43.60**	**9%**
Sales to end-users *	16.06	15.39	4%
Sales on the wholesale market:	30.86	27.47	12%
Sales on the domestic wholesale market – power exchange	*27.00*	*24.93*	*8%*
Other sales on the domestic wholesale market	*3.29*	*2.01*	*64%*
Sales to foreign customers	0.57	0.53	8%
Sales on the Balancing Market	0.74	0.74	0%

** after elimination of intra-group sales in PGE Group*

In the first half of 2012 and 2011 the Group sold 47.66 TWh and 43.60 TWh of electricity, respectively. In the first half of 2012 the increase of electricity sales by 9% was recorded as compared to the analogical period of the previous year. It resulted mainly from increase of sales of electricity to the end

users and from the increase of sales on the wholesale market. Within the sales on the wholesale market, the sales on power exchange and other sales on the wholesale market grew significantly.

Purchases of electricity

Table: Purchases of electricity from outside of the PGE Capital Group (in TWh).

	H1 2012	H1 2011	% change
Purchases in TWh, including:	**20.67**	**18.96**	**9%**
Purchases on the domestic wholesale market, power exchange	16.94	16.27	4%
Purchases on the domestic wholesale market, other	1.01	0.27	274%
Purchases from abroad	0.26	0.19	37%
Purchase from the Balancing Market.....	2.46	2.23	10%

In the first half of 2012 and 2011 the companies from the Group purchased respectively 20.67 TWh and 18.96 TWh of electricity from outside the PGE Group. Purchases of electricity increased by 9% in the first half of 2012 as compared to the analogical period of 2011, as a result of increased energy purchase on the power exchange and other purchase on the domestic wholesale market. Higher purchase from the Balancing Market was also recorded.

Production of electricity

Table: Generation of electricity by the Group (in TWh).

	H1 2012	H1 2011	% change
Total energy generation (in TWh), including:	**29.38**	**27.26**	**8%**
Lignite-fired power plants	20.71	18.07	15%
Coal-fired power plants.....	6.14	6.90	-11%
Coal-fired CHP plants.....	0.73	0.76	-4%
Gas-fired CHP plants.....	1.10	1.07	3%
Biomass-fired CHP plants	0.20	-	-
Pumped storage power plants.....	0.17	0.19	-11%
Hydroelectric plants.....	0.29	0.24	21%
Wind power plants.....	0.04	0.03	33%

In the first half of 2012 and 2011 the Group produced 29.38 TWh and 27.26 TWh of electric power, respectively, what means growth by 2.12 TWh i.e. by 8%.

The production in lignite-fired power plants increased by 2.64 TWh i.e. by 15% and also increased in gas-fired and biomass-fired CHP plants as well as in hydroelectric and wind power plants. Coal-fired power plants, coal-fired CHP plants and pumped storage power plants decreased their production.

The increase in electricity production in lignite-fired power plants is mainly a result of electricity production in new 858 MW unit in Bełchatów Power Plant. The decrease of production in coal-fired power plants results from lower demand from the Transmission System Operator (PSE Operator S.A.) for electricity in Dolna Odra power plant and in Opole power plant. Also decrease of production in pumped storage power plants results from the character of work of these units, which were used at lower degree by the Transmission System Operator in the first half of 2012.

The commissioning of the biomass boiler in Elektrownia Szczecin in fourth quarter of 2011 also affected the structure of production in PGE Group in the first half of 2012 as compared to the corresponding period of 2011. Biomass boiler replaced all coal boilers exploited in Elektrownia Szczecin up till that time.

2.5. Sales of heat

In the first half of 2012 heat sales in PGE Group totaled 12.25 GJ million and were lower by 1% as compared to the first half of 2011. The heat sales depend on the weather conditions in the country. Additionally, the lower consumption by one of the off-takers due to the modernisation of its process line was the significant reason for the lower sales.

2.6. Tariffs

PGE Group companies earn part of their income based on tariffs approved by the President of the Energy Regulatory Office: (i) tariffs for the sale of electricity to households (G tariff group), (ii) tariffs of distribution system operators ("DSO"), and (iii) heat tariffs.

Sales of electricity

During 6-month period ended June 30, 2012 sales of electricity to recipients from the G tariff group, connected to the distribution network of PGE Dystrybucja S.A. took place on the basis of electricity tariffs approved by the President of the Energy Regulatory Office on December 16, 2011, that came into force on January 1, 2012. During 6-month period ended June 30, 2012 sales of energy to the corporate customers (key and business) and to individuals (except for G tariff customers connected to the distribution network of PGE Dystrybucja S.A., for whom PGE Obrót S.A. is a supplier of last resort), took place on the basis of Tariff for customers from A, B, C and R tariff groups, approved by the resolution of the Management Board of PGE Obrót S.A. and effective from December 1, 2011, as well as on the basis of individually negotiated offers and promotional offers.

Distribution of electricity

Methodology of and assumptions for tariffs determination were published in the document "Tariffs for the DSO for the year 2012", which were prepared by the President of the Energy Regulatory Office and provided to distribution system operators.

Tariff of PGE Dystrybucja S.A. for 2012 was approved by the President of the Energy Regulatory Office on December 16, 2011 in the part concerning the transition fee and on December 19, 2011 in other part. Tariffs for 2012, according to resolution of the Management Board of PGE Dystrybucja S.A, dated December 20, 2011, came into force on January 3, 2012 (according to the decision of the President of the Energy Regulatory Office, the transition fee has been in force since January 1, 2012).

Distribution tariffs for 2012 approved by the President of the Energy Regulatory Office, contributed to changes in average payments for customers in particular tariff groups in comparison to year 2011:

- A tariff group – increase by 2.69 %,
- B tariff group – increase by 2.93 %,
- C+R tariff group – increase by 5.32 %,
- G tariff group – increase by 5.84 %.

An average price of energy distribution services in comparison to last tariffs binding in 2011 increased by approximately 3.87%.

During the reporting period the approved tariffs for distribution services were not subject to any changes.

Tariff for heat

Pursuant to Art. 47 sections 1 and 2 of the Energy Law energy, companies, which hold licences, set tariffs for heat and propose their duration. Submitted tariff is subject to the approval by the President of the Energy Regulatory Office, provided that it is consistent with rules and regulations referred to in Art. 44-46 of the Energy Law. Conduction of proceedings concerning heat tariffs approval lies within the competence of regional Branches of Energy Regulatory Office.

The binding tariffs for electricity, electricity distribution services and heat, which are subject to the approval by the President of the Energy Regulatory Office, do not cover all costs incurred by the Group companies. At present, costs recognized by the President of the Energy Regulatory Office as justified costs to calculate tariffs for PGE Group companies are lower than costs actually incurred by these companies.

2.7. Fuel purchase costs

Table: Volume and cost of purchase of fuels from third party suppliers in the period ended June 30, 2012 and June 30, 2011.

	6-month period ended June 30, 2012		6-month period ended June 30, 2011	
	Volume ('000 tonnes)	Cost (PLN million)	Volume ('000 tonnes)	Cost (PLN million)
Hard coal	3,351	966	3,818	1,005
Gas ('000 m^3)*	297,468	272	287,250	234
Biomass*	682	254	299	103
Fuel oil*	21	52	42	93
TOTAL		**1,544**		**1,435**

** data for 2011 – adjusted for comparability*

During 6-month period ended June 30, 2012 the costs of purchasing primary fuels from providers outside the Group amounted to PLN 1,544 million and were higher by approximately 8% as compared to the 6-month period ended June 30, 2011. It is mainly connected with increased use of biomass and increase in the average gas prices by approximately 12%.

In the period ended June 30, 2012 approximately 71% of the electricity produced was obtained from internally sourced lignite, whose price is less susceptible to fluctuations than fuel sourced externally. However, certain factors including the aggregate amount of lignite extracted, costs of overburden removal, labour costs and environmental provisioning affect mining costs incurred by the Group and thus PGE Group's generation costs.

2.8. National Allocation Plan for the years 2008-2012 ("NAP II")

The National Allocation Plan on CO_2 emission ("NAP") is subject to the notification to the European Commission, under the EU emission rights trading system. In connection with the fact that the European Commission reduced the quantity of CO_2 emission rights for Poland in both settlement periods in relation to quantities applied by Poland in the NAP, the granted limits constitute a material limitation for the electro energy sector.

As regards the second settlement period, which covers the years 2008-2012, Poland applied for emission caps of 284 million tonnes of CO_2. The European Commission reduced the average free CO_2 emission allowances per year for Poland to 208.5 million tonnes. According to the present NAP II, utility power plants would only be authorized to emit 110.8 million tonnes of CO_2, whereas Polish CO_2 emissions in normal circumstances are estimated at approximately 120 million tonnes per year.

Table: Allocation of emission rights limits (in tonnes).

Sector	Average rights - tonnes of CO_2 per year
Utility power plants	110,791,200
Utility CHP plants	25,391,008

The following table presents data concerning CO2 emission from major Group installations in the first half of 2012 (as compared to the number of rights granted under free allocations).

Table: Emission of CO_2 from major Group installations in the first half of 2012 in comparison to the yearly allocation of CO_2 emission rights for 2012.

Operator	CO_2 emissions in H1 2012	Average yearly allocation of CO_2* for 2012
PGE GiEK Branch Elektrownia Bełchatów	18,007,411	30,920,116
PGE GiEK Branch Elektrownia Turów	5,596,452	11,158,636
PGE GiEK Branch Elektrownia Opole	3,448,550	6,475,340
PGE GiEK Branch Zespół Elektrowni Dolna Odra	2,824,565	5,680,137
PGE GiEK Branch Zespół Elektrociepłowni Bydgoszcz	557,972	1,155,252
PGE GiEK Branch Elektrociepłownia Gorzów	235,587	479,305
PGE GiEK Branch Elektrociepłownia Lublin-Wrotków	291,379	570,840
PGE GiEK Branch Elektrociepłownia Rzeszów	183,868	303,155
PGE GiEK Branch Elektrociepłownia Kielce	112,603	194,547
PGE GiEK Branch Elektrociepłownia Zgierz	56,958	104,988
TOTAL	**31,315,345**	**57,042,316**

** position includes average yearly allocation of CO_2 emission rights for 2012 according to NAP II and additional emission rights received by PGE GiEK S.A. Branch Elektrownia Bełchatów and Branch Elektrociepłownia Kielce*

In connection with the commissioning of new 858 MW unit PGE GiEK S.A. Branch Elektrownia Bełchatów received, in compliance with the decision of December 20, 2011 by the Łódź Voivodship Marshal, additional CO_2 emission rights in amount of 4,812,746 tonnes until the end of the settlement period 2008-2012. Additional allowances in amount of 3,982,961 tonnes were enclosed as the allocation for 2012, the remaining 829,785 tonnes were enclosed as the allocation for 2011.

PGE GiEK S.A. Branch Elektrociepłownia Kielce received additional rights for 5,190 tonnes per annum for the years 2009-2012 from a reserve for new facilities.

3. Significant achievements and failures of the Company in the reporting period, along with list of most important events.

3.1. Financial results of the Group

Consolidated statement of comprehensive income

In the first half of 2012 total sales revenues of the Group amounted to PLN 14,950.9 million, as compared to PLN 13,915.3 million in the first half of 2011. The biggest increase of revenues was in the revenues from sales of finished goods and merchandise which grew by PLN 1,245.9 million mainly as a result of: (i) increased sales of electricity in connection with the increased generation volume and electricity sales on wholesale market and to end-users, (ii) increase in revenues from distribution services and (iii) increase in revenues from sales of certificates of origin. LTC compensations, which were lower by PLN 195.8 million, had negative impact on the sales of finished goods and merchandise.

Cost of goods sold in the first half of 2012 amounted to PLN 10,876.9 million, i.e. it grew by ca. 8% as compared to the first half of 2011. The increase of the cost of goods sold was mainly caused by: (i) increased merchandise and materials sold, (ii) increased cost of fuel for production and (iii) increase of personnel expenses.

Gross profit on sales in the first half of 2012 amounted to PLN 4,074.1 million as compared to PLN 3,836.0 million in the first half of 2011, what means growth by ca. 6%.

In the first half of 2012 total distribution and selling expenses of PGE Group amounted to PLN 836.1 million, what means approximately 4% increase in comparison to first half of 2011. The growth of selling and distribution expenses was mainly associated with higher costs of redemption of property rights incurred by PGE Obrót S.A.

In the first half of 2012 general and administrative expenses amounted to PLN 359.3 million, what means approximately 1% decrease as compared to the first half of 2011.

Net income from other operating activities in the first half of 2012 was positive and amounted to PLN 225.0 million as compared to negative result in amount of PLN (-) 6.8 million in the first half of 2011.

Other operating revenues of the Group in the first half of 2012 amounted to PLN 372.2 million, what means approximately 215% growth in relation to PLN 118.2 million achieved in the first half of 2011. The increase in other operating revenues is mainly related to: (i) recognition of adjustment of revenues from LTC compensations in amount of PLN 130.3 million in the first half of 2012, (ii) received compensations, penalties and fines higher by PLN 58.6 million and (iii) provisions reversed higher by PLN 31.9 million.

Other operating expenses in the first half of 2012 amounted to PLN 147.2 million as compared to PLN 125.0 million in the first half of 2011, what means growth by ca. 18%. The increase resulted mainly from increased impairment allowance for receivables (by PLN PLN 35.6 million) and provisions raised higher by PLN 12.2 million with the simultaneous decrease of liquidation of damages and removal of failures by PLN (-) 24.8 million.

In the first half of 2012 the net result on financial activities was positive and amounted to PLN 122.5 million as compared to negative result on financial activities in amount of PLN (-) 57.9 million in the first half of 2011.

The Group's financial revenues in the first half of 2012 amounted to PLN 301.8 million, what means growth by approximately 139% in relation to PLN 126.2 million achieved in the first half of 2011. Increase of financial revenues is mainly connected with: (i) interest from financial instruments higher by PLN 126.9 million, (ii) disposal of investments higher by PLN 37.8 million and (iii) foreign exchange gains higher by PLN 10.0 million.

The decrease of financial expenses by PLN 4.9 million in the first half of 2012 as compared to the first half of 2011 mainly results from decrease of interest expenses from financial instruments by PLN 21.1 million and lower costs of created provisions for interest. The decrease was partly compensated by the growth of foreign exchange by PLN 13.4 million.

The share in profit of associates amounted to PLN 3.4 million in the first half of 2012 and was lower by PLN 165.0 million in comparison to the first half of 2011. The decrease is connected with the sale of Polkomtel S.A.

As a result of the factors discussed above, the gross profit of the Group amounted to PLN 3,229.7 million in the first half of 2012 as compared to PLN 2,771.3 million in the first half of 2011.

In the first half of 2012 gross profit margin of the Group (gross profit to total sales revenues) increased to 22% from 20% in the first half of 2011.

As a result of the factors discussed above the net profit in the first half of 2012 amounted to PLN 2,524.4 million as compared to PLN 2,259.6 million in the first half of 2011. Net profit attributable to the equity holders of the parent company increased by PLN 275.7 million in the first half of 2012 in comparison with the first half of 2011 and amounted to PLN 2,494.5 million.

Total comprehensive income of the Group in the first half of 2012 amounted to PLN 2,523.9 million as compared to PLN 2,260.7 million in the first half of 2011.

Consolidated statement of financial position

As at June 30, 2012 and as at December 31, 2011, non-current assets of the Group amounted respectively to PLN 44,723.0 million and PLN 44,444.9 million and accounted for 75% and 76% of total assets, respectively.

The biggest change was in other long-term assets, which as at June 30, 2012 and as at December 31, 2011 amounted to respectively PLN 614.4 million and PLN 440.2 million. The change is a result of recording of prepayments for purchase of property, plant and equipment.

Current assets of the Group as at June 30, 2012 and as at December 31, 2011 amounted to PLN 15,266.0 million and PLN 14,317.7 million respectively.

The increase in the value of the Group's current assets by PLN 948.3 million in the period ended June 30, 2012 in relation to the year ended December 31, 2011 was mainly caused by increase in cash and cash equivalents by PLN 3,986.9 million, from which approximately PLN 2,100.2 million was

caused by shift from other loans and financial assets (termination of deposits longer than 3 months). Decrease in CO_2 emission rights by PLN 988.5 million had negative effect on the non-current assets.

CO_2 emission rights decreased from PLN 3,367.0 million as at the end of 2011 to PLN 2,378.5 million as at June 30, 2012 as a result of redemption of free allowances for 2011, that took place in April 2012.

Cash and cash equivalents were described in the part relating to cash flow statement.

As at June 30, 2012 and as at December 31, 2011 total equity of the Group amounted respectively to PLN 40,222.3 million and PLN 41,173.3 million, i.e. it represented respectively 67% and 70% of total equity and liabilities. Non-controlling interest as at June 30, 2012 and as at December 31, 2011 amounted to PLN 332.2 million and PLN 414.4 million, respectively.

The decrease in total equity by PLN 950.9 million mainly results from recognition of the profit for 2011 and allocation of part of the net profit, i.e. PLN 3,421.7 million for the dividend payment.

The long-term liabilities as at June 30, 2012 amounted to PLN 7,230.5 million and were lower by PLN 14.5 million than as at December 31, 2011. The change in long-term liabilities mainly reflected debt due to bank loans, borrowings, bonds and lease lower by PLN 127.1 million, provisions higher by PLN 74.2 million (in particular growth of provision for recultivation by PLN 49.2 million) and provision for deferred income tax higher by PLN 62.0 million.

Short-term liabilities increased from PLN 10,373.4 million as at December 31, 2011 to PLN 12,536.2 million as at June 30, 2012 mainly due to other non-financial liabilities higher by PLN 3,398.7 million, deferred income and government grants higher by PLN 851.3 million and other financial liabilities higher by PLN 315.2 million.

The growth of other non-financial liabilities results from recognition of liabilities connected with the dividend payment.

The growth of deferred income and government grants results from recognition of free CO_2 emission rights granted within the NAP for 2012.

The growth in short-term liabilities was also affected by change of value of other financial liabilities from PLN 1,826.6 million as at December 31, 2011 to PLN 2,141.8 million as at June 30, 2012 as a result of increased of increased liabilities related to LTC, increased deposits and bails and decrease in liabilities for purchase of property, plant and equipment.

Short-term provisions had negative impact on the level of short-term liabilities – there was a decrease from PLN 4,634.5 million as at December 31, 2011 to PLN 2,798.1 million as at June 30, 2012, mainly as a result of utilization of provision for CO_2 emission rights. In addition, lower value is disclosed in current part of interest bearing bank loans, borrowings, bonds and lease (by PLN 280.0 million) and in trade liabilities (by PLN 265.2 million) as at June 30, 2012.

Consolidated statement of cash flows

Cash and cash equivalents amounted to PLN 8,024.1 million as at June 30, 2012.

The total net cash flow from operating activities for the 6-month period ended June 30, 2012 amounted to PLN 4,135.8 million as compared to PLN 2,950.1 million for the 6-month period ended June 30, 2011.

Net cash flow from investing activities for the 6-month period ended June 30, 2012 amounted to PLN 160.7 million, while for the 6-month period ended June 30, 2011 were negative and amounted to PLN 2,166.3 million. The net cash flow from investing activities for the 6-month period ended June 30, 2012 was mainly affected by sale of financial assets in amount of PLN 2,151.4 million (mainly termination of deposits longer than 3 months) and expenses for the purchase of property, plant and equipment and intangible assets in amount of PLN (-) 2,045.2 million.

Negative net cash flow from financial activities for the 6-month period ended June 30, 2012 amounted to PLN 313.3 million as compared to negative net cash flow in amount of PLN 677.9 million for the 6-month period ended June 30, 2011. Cash flow from financial activities for the 6-month period ended June 30, 2012 was mainly affected by repayment of bank loans, borrowings, bonds and lease in amount of PLN (-) 389.6 million.

3.2. Business segments

Table: Key operational figures.

Key figures	Unit	H1 2012	H1 2011	% change
Lignite extraction	tonnes m	25.90	22.81	*14%*
Net electricity production*, including:	TWh	29.38	27.26	8%
Power plants - lignite	*TWh*	*20.71*	*18.07*	*15%*
Power plants – hard coal	*TWh*	*6.14*	*6.90*	*-11%*
CHPs – hard coal	*TWh*	*0.73*	*0.76*	*-4%*
CHPs – gas	*TWh*	*1.10*	*1.07*	*3%*
CHPs - biomass	*TWh*	*0.20*	*-*	*-*
Pumped storage power plants	*TWh*	*0.17*	*0.19*	*-11%*
Hydro power plants	*TWh*	*0.29*	*0.24*	*21%*
Wind power plants	*TWh*	*0.04*	*0.03*	*33%*
Heat sales	GJ m	12.25	12.37	*-1%*
Sales to Final Customers **	TWh	16.19	15.85	2%
Sales to Final Customers outside PGE Group ***, including:	TWh	16.01	15.34	4%
Tariff G	*TWh*	*4.62*	*4.61*	*0%*
Distribution of electricity ****	TWh	15.62	15.37	*2%*

** including production from biomass in period January-June 2012 – 0.72 TWh, in period January-June 2011 – 0.42 TWh*
*** sales by PGE Obrót S.A. with additional estimation and with taking into account the sales within PGE Group*
**** sales by PGE Obrót S.A. with additional estimation*
***** with additional estimation*

Table: Breakdown of the Group's income (including flows between segments), by business segments for H1 2012 and 2011.

in PLN million	**Total income**				
	H1 2012	*(%) share*	**H1 2011**	*(%) share*	**% change**
Conventional Generation	7,206.2	*32%*	6,714.8	*31%*	*7%*
Renewable Energy	287.5	*1%*	272.8	*1%*	*5%*
Wholesale Trading	5,138.5	*23%*	5,073.5	*23%*	*1%*
Distribution	2,763.5	*12%*	2,612.1	*12%*	*6%*
Retail Sale	6,398.9	*28%*	6,227.3	*29%*	*3%*
Other activity	815.4	*4%*	850.2	*4%*	*-4%*
Total	**22,610.0**	*100%*	**21,750.7**	*100%*	*4%*
Consolidation adjustments	**(7,659.1)**		**(7,835.4)**		*-2%*
Net income	**14,950.9**		**13,915.3**		*7%*

Table: Key financial indicators for each business segment for the first half of 2012.

in PLN million	EBITDA	EBIT	Capital expenditures	Assets of the segment*
		H1 2012		
Conventional Generation	3,072.6	2,227.4	1,026.4	31,201.1
Renewable Energy	146.2	78.9	23.4	1,930.1
Wholesale Trading	163.5	153.6	1.5	514.4
Distribution	1,069.7	604.9	504.5	14,220.6
Retail Sale	62.6	58.3	2.2	733.5
Other activity	52.0	-2.5	55.6	1,145.0
Total	**4,566.6**	**3,120.6**	**1,613.6**	**49,744.7**
Consolidation adjustments	**(32.1)**	**(16.9)**	**(59.6)**	**(858.3)**
Total after adjustments	**4,534.5**	**3,103.7**	**1,554.0**	**48,886.4**

Table: Key financial indicators for each business segment for the first half of 2011.

in PLN million	EBITDA	EBIT	Capital expenditures	Assets of the segment*
		H1 2011**		
Conventional Generation	2,765.1	2,019.0	1,160.1	30,299.8
Renewable Energy	106.6	42.0	68.8	1,803.1
Wholesale Trading	120.5	108.4	3.7	2,809.4
Distribution	865.6	416.1	392.8	13,682.6
Retail Sale	90.1	85.7	1.9	1,143.8
Other activity	76.8	20.3	46.1	1,069.0
Total	**4,024.7**	**2,691.5**	**1,673.4**	**50,807.7**
Consolidation adjustments	**(38.5)**	**(30.7)**	**(62.7)**	**(3,098.3)**
Total after adjustments	**3,986.2**	**2,660.8**	**1,610.7**	**47,709.4**

** see Note 9 to the consolidated financial statements*

*** data restated*

3.2.1 Conventional Generation

In the first half of 2012 sales revenues for Conventional Generation amounted to PLN 7,206.2 million, which means approximately 7% growth as compared to the first half of 2011. EBIT of the segment in the first half of 2012 amounted to PLN 2,227.4 million, and EBITDA amounted to PLN 3,072.6 million. In the corresponding period of the previous year EBIT amounted to PLN 2,019.0 million, while EBITDA amounted to PLN 2,765.1 million. Growth of EBIT in the first half of 2012 as compared to the first half of 2011 mainly resulted from higher revenues from sales of electricity. Higher revenues from sales of electricity were mainly due to higher volume of energy sold (commissioning of the 858 MW unit) and increase in electricity prices. Higher revenues from the sale of certificates of origin and higher result on other operating activities (mainly as a result of reversal of adjustment of LTC revenues) also had positive effect on the growth of EBIT.

In the first half of 2012 capital expenditures in Conventional Generation amounted to PLN 1,026.4 million as compared to PLN 1,160.1 million in the first half of 2011.

Table: Capital expenditures incurred in Conventional Generation segment in the first half of 2012 and 2011, by particular investment tasks.

in PLN million	Capital expenditures		
	H1 2012	**H1 2011**	**% change**
Investments in generating capacities, including:	868.4	1,032.4	*-16%*
Development	*580.8*	*837.9*	*-31%*
Modernization and replacement	*287.6*	*194.5*	*48%*
Purchases of finished capital goods	45.7	10.9	*319%*
IT	5.5	5.7	*-4%*
Vehicles	5.1	2.5	*104%*
Other	101.7	108.6	*-6%*
TOTAL	**1,026.4**	**1,160.1**	***-12%***

In the first half of 2012 highest capital expenditures were incurred for the following projects: (i) modernization of units 7-12 in Bełchatów power plant (PLN 405.3 million), (ii) construction of desulphurization installation on units 1-2 in Bełchatów power plant (PLN 31.0 million), (iii) construction of desulphurization installation on units 5-6 in Dolna Odra power plant (PLN 58.0 million), (iv) construction of a 858 MW power unit in Bełchatów power plant (PLN 17.3 million) and (v) modernization of combustion installation (boilers 6 and 7) in Dolna Odra power plant in order to reduce NOx emissions (PLN 13.2 million).

3.2.2 Renewable energy

In the first half of 2012 total sales revenues in the Renewable Energy segment amounted to PLN 287.5 million as compared to PLN 272.8 million in the first half of 2011. EBIT of the segment in the first half of 2012 amounted to PLN 78.9 million and EBITDA amounted to PLN 146.2 million. In the analogical period of the previous year EBIT amounted to PLN 42.0 million, while EBITDA amounted to PLN 106.6 million. The growth of EBIT mainly related to: (i) higher revenues from sale of renewable energy and property rights, (ii) higher revenues from the ancillary control services, (iii) higher result on the other operating activities, mainly due to lower expenses related to the liquidation of damages and (iv) lower operating expenses.

In the first half of 2012 capital expenditures in Renewable Energy amounted to PLN 23.4 million as compared to PLN 68.8 million in the first half of 2011.

Table: Capital expenditures incurred in Renewable Energy segment in the first half of 2012 and 2011.

in PLN million	Capital expenditures		
	H1 2012	**H1 2011**	**% change**
Investments in generating capacities, including:	21.7	65.5	*-67%*
Development	*4.9*	*2.4*	*104%*
Modernization and replacement	*16.8*	*63.1*	*-73%*
Purchases of finished capital goods	0.1	0.1	*0%*
IT	0.5	0.6	*-17%*
Vehicles	0.0	0.1	*-100%*
Other	1.1	2.5	*-56%*
TOTAL	**23.4**	**68.8**	***-66%***

3.2.3 Wholesale trading

In the first half of 2012 total sales revenues in the Wholesale Trading amounted to PLN 5,138.5 million, which means an approximately 1% increase in comparison to the first half of 2011. EBIT of the segment in the first half of 2012 amounted to PLN 153.6 million and EBITDA amounted to PLN 163.5 million. In the corresponding period of the previous year EBIT amounted to PLN 108.4 million, while EBITDA amounted to PLN 120.5 million. Growth of EBIT in the first half of 2012 in comparison to the first half of 2011 was mainly caused by achieving better result in rendering services for the generators from PGE GiEK connected with the commercial management

of the generation capacities and better result on other operating activities (mainly as a result of revaluation of the provision for claim by Alpiq Holding AG).

In the first half of 2012 capital expenditures in the Wholesale Trading amounted to PLN 1.5 million.

3.2.4 Distribution

In the first half of 2012 total sales revenues in the Distribution segment amounted to PLN 2,763.5 million, as compared to PLN 2,612.1 million in the first half of 2011. EBIT of the segment in the first half of 2012 amounted to PLN 604.9 million, and EBITDA amounted to PLN 1,069.7 million. In the corresponding period of the previous year EBIT amounted to PLN 416.1 million, while EBITDA amounted to PLN 865.6 million. Growth of EBIT by approximately 45% mainly resulted from higher revenues from sale of distribution services, what is connected with the realisation of higher prices (according to the approved tariff for 2012) and higher volume of energy distributed.

In the first half of 2012 capital expenditures in the Distribution segment amounted to PLN 504.5 million and were higher by PLN 111.7 million than in the analogical period of the previous year. Capital expenditures mainly related to connection of new customers to the distribution network (47% of total capex) and construction and expansion of the HV, MV and LV electro energy lines (31% of total capex).

Table: Capital expenditures incurred in Distribution segment in the first half of 2012 and 2011.

in PLN million	**Capital expenditures**		
	H1 2012	**H1 2011**	**% change**
HV, MV and LV power networks	158.8	127.0	*25%*
Communication, telemechanics and metering equipment	46.8	39.9	*17%*
IT	3.3	5.2	*-37%*
Land buyout	5.7	5.0	*14%*
Connection of off-takers	235.9	193.6	*22%*
Purchases of finished capital goods	47.0	8.0	*488%*
Vehicles	1.9	6.9	*-72%*
Other	5.1	7.2	*-29%*
TOTAL	**504.5**	**392.8**	***28%***

3.2.5 Retail Sales

In the first half of 2012 total sales revenues in the retail Sales amounted to PLN 6,398.9 million, while in the first half of 2011 amounted to PLN 6,227.3 million. EBIT of the segment in the first half of 2012 amounted to PLN 58.3 million and EBITDA amounted to PLN 62.6 million. In the corresponding period of the previous year EBIT amounted to PLN 85.7 million, while EBITDA amounted to PLN 90.1 million. Lower EBIT is connected with lower margin on sales to the end-users, resulting mainly from the higher cost of redemption of the property rights (what is connected with the increases volume of the energy sold to the end-users and increase of the unit price of the redemption obligation).

In the first half of 2012 capital expenditures in the Retail Sales amounted to PLN 2.2 million, were higher by PLN 0.3 million than in the analogical period of the previous year and were mainly related to expenditures for Customer Service Offices and IT.

3.2.6 Other Operations

In the first half of 2012 total sales revenues for Other Operations amounted to PLN 815.4 million, as compared to PLN 850.2 million in the first half of 2011. EBIT of the segment in the first half of 2012 amounted to PLN (-) 2.5 million and EBITDA amounted to PLN 52.0 million. In the corresponding period of the previous year EBIT amounted to PLN 20.3 million, while EBITDA amounted to PLN 76.8 million. Decrease of EBIT as compared to the previous year mainly resulted from lower results of Exatel S.A. due to lower margin on the lease of lines and data transmission. Additionally, other companies from Other Operations segment achieved lower result.

In the first half of 2012 capital expenditures in Other Operations amounted to PLN 55.6 million. Within the above amount PLN 33.9 million were spent by PGE Systemy S.A. for IT development

and PLN 8.0 million were spent by Exatel S.A. The rest of the capital expenditures were mostly related to expenses for development and modernization of fixed assets required to render services under ancillary activities.

In the reporting period PGE did not record any significant failures in its activities which would have effect on achieved results.

3.3. Publication of financial forecasts

PGE Polska Grupa Energetyczna S.A. did not publish forecasts of the Company's financial results.

4. Financial and market risk management

In their business activity, Group companies become parties to various types of agreements and financial contracts subject to non-financial risks.

In ordinary business activity, Group's activities, financial results and cash flows are exposed to various types of financial and market risks, including interest rate risk, foreign currency risk, price risk, credit risk, and liquidity risk. Each risk could have a negative impact on business activities, financial standing and performance of operations.

Interest rate risk - PGE Group companies finance their operating and investing activities inter alia by debt bearing floating interest rates. Interest rate risk also results from investments in financial assets bearing floating or fixed interest rates. The companies are exposed to interest rate risk connected with deposits, cash, investments in bonds issued by Autostrada Wielkopolska S.A., and liabilities resulting from loans received and bonds issued

The Group identifies interest rate risk connected with reference rates of WIBOR, EURIBOR and LIBOR.

Foreign currency risk – foreign currency risk is connected with the sale of finished products and the purchase of materials and incurring financial liabilities in foreign currencies.

The PGE Group is mainly exposed to currency risk connected with foreign exchange rates of EUR/PLN, USD/PLN, CHF/PLN and SEK/PLN. Major sources of exposure to currency risks are as follows: capital expenditures denominated or indexed in foreign currencies, loans and advances of Group companies denominated in foreign currencies, the purchase or sale of electricity under export contracts expressed in foreign currencies, purchase of electricity denominated in foreign currencies and electricity purchase for which part of the price is indexed to the exchange rates, fees on the purchase of transmission services expressed or indexed in foreign currencies, the purchase or sale of CO_2 emission allowances denominated or indexed to the exchange rates, expenses connected with the current exploitation of production assets denominated or indexed to the exchange rates, , capital investments (deposits) denominated in foreign currencies.

Price risk - because of their business activity, PGE Group companies are exposed to the volatility of cash flows and financial results in the domestic currency due to changes in prices of electricity, heat, hard coal, natural gas, CO_2 emission allowances, and energy certificates of origin.

Managing price-related risks on the Polish market is quite difficult with no long-term price indices and no instruments suitable for hedging transactions, which is particularly important in a long-time perspective.

Credit risk – risk related to potential credit defaults such as client's insolvency, incomplete repayment, and significant delay in the repayment of debt or other departures from the contract terms (including, in particular, lack of supply and collection of goods according to the agreement and possible lack of payments of indemnities and penalties).

Transactions that may involve credit risk for the Group include also short term investments (deposits, participation units in investment funds and bonds) connected with locating of free funds in financial assets, whose issuers are exposed to credit risk. As a rule it as assumed, issuers other than the State Treasury are exposed to the credit risk.

A superior goal of credit risk management is to accept and control credit risk at a defined level which directly results from major business goals for trading of electricity and related products.

The Group has Credit Risk Management Policy, which is used in management of credit risk mainly by using the following mechanisms: the evaluation of customers' financial standing and the setting up of

internal ratings and credit limits; requiring credit collaterals from customers with lower financial standing; covenants for credit risk and standardisation of credit collaterals; system of current monitoring of payments and early debt collection system; cooperation with business intelligence agencies and debt collection companies.

Liquidity risk – PGE Group companies run active cash investment policy. This means that they monitor their financial surplus, forecast future cash flows and carry out their investment strategy on the basis thereof.

PGE Group companies are individually responsible for their current liquidity, which is mainly based on current account credits. The Group has implemented a central financing process. PGE S.A. issues bonds, which are acquired, without limitation, by entities with financial surplus. Funds from the issue are then used to acquire bonds issued by those of PGE Group companies that indicate need for external sources of financing.

PGE Group companies monitor its liquidity periodically by analysing cash flows from operating activities and maturities of both investments and financial assets.

5. Risks and threats of the PGE Capital Group

The activity of major PGE Capital Group companies, as well as other entities operating in the electrical and power sector, is exposed to a number of both external risk and threats connected with market, regulatory and legal environment, as well as internal risks and threats accompanying their operations.

Key risks and threats, to which the PGE Capital Group's activity is exposed, are described below.

5.1. Risk factors connected with market environment and general macroeconomic situation in Poland and in the world

5.1.1 Risk connected with macroeconomic situation in Poland and in the world

The operations of PGE Group are affected mainly by macroeconomic factors related to Polish economy, such as interest rates, PLN exchange rate, inflation rate, unemployment rate, Polish GDP, changes in directions of the economic and tax policy of the state, and also volatility of prices of electricity, fuel, CO_2 emission rights, and availability of materials used for production of electric power and heat. Other than factors associated with Polish economy, our operations are also affected by macroeconomic conditions in other countries, particularly other Member States of the European Union. Any deterioration of the general economic conditions in Poland or in the world may considerably and negatively impact the operations, performance or financial standing of the Group.

5.1.2 Risk relating to an increase in competition (right to choose an energy supplier)

Given the on-going development of the retail market, increasing activity of energy sellers and growing number of customers that change the energy supplier, the PGE Group is exposed to the risk of losing its existing customers in the retail market and the risk of decreasing margin on sale to the existing customers. It is, however, necessary to point out that market development is also an opportunity for the retail sales segment of the PGE Group to acquire new customers from outside the historic operating area of the Retail Sales companies of the PGE Group and increase both sales volume and profit.

5.1.3 Risk of a decrease in demand for electricity and heat

The PGE Capital Group's income is substantially dependant on the consumption of power and heat by the end users. In a long run, power consumption is expected to grow. However, there is no guarantee that such a growth will occur and that the rate of growth will achieve an assumed level. Demand for electricity may decline, in particular, as a result of: (i) economic slowdown, (ii) possible reduction of power consumption level by recipients of low economic standing, (iii) development of new energy saving technologies, (iv) weather conditions. Decreasing growth rate of demand for electricity and limited access to interconnectors limiting opportunities for exporting electricity produced by the Group may have a significant adverse impact on the activity and financial results of Group companies.

Uncertainty regarding future economic situation in the world's economy, intensified by the financial crisis in Southern European countries, may negatively affect the domestic consumption and investments, subsequently leading to decreased demand for electricity. Decrease in demand for electricity resulting from economic slowdown may also result in delayed payments for electricity, heat

and distribution services, what may cause increase in overdue receivables and consequently growth of financing costs of the operating activities.

5.2. Risk factors connected with regulatory and legal environment

5.2.1 Political risk

The activity of the PGE Group in key operating areas, i.e. lignite mining, generation, distribution and sale of electricity and heat, is subject to legislation, government regulation and government policy adopted by Polish authorities and agencies, authorities of the European Communities and the European Union, and other states. Changes in such legislation, regulations and/or policies may be influenced by political factors, which in turn may affect business activity of the Group including, inter alia, the regulation of electricity prices, heat prices and distribution services for off takers, in particular households.

5.2.2 Risk of changes in law and other regulations relating to our activity, as well as changes in interpretation or application thereof

The Group's activity is subject to numerous Polish and European laws and regulations (including treaties, orders, directives, decisions of the European Commission, and decisions of the European Tribunal of Justice) and international law (treaties, other international agreements).

The provisions of the laws, regulations, decisions, positions, opinions and actions of relevant authorities important for the Group's activity are subject to changes. In particular, the Energy Law was repeatedly amended, and some of the amendments introduced significant changes with respect to core business areas. Types, directions and scopes of such amendments may have an unpredictable impact on the Group's activity.

Moreover, environment protection regulations become more strict, and adjustment to these changes may be connected with the additional significant expenditures. Non-compliance with regard to environment protection requirements may lead to PGE Group responsibility, including financial sanctions or periodical or even permanent suspension of exploitation of particular installations.

The Group's activity is also significantly dependant on decisions, positions, opinions and other actions of Polish authorities, authorities of the European Communities and the European Union, and authorities of other states, and although certain decisions, positions, opinions and other actions of such authorities may not take the form of laws, but must be, in practice, applied by the Group companies. In particular, in the energy sector, an authority regulating the Polish fuel and energy market is the President of the Energy Regulatory Office, who is competent, for example, to grant and withdraw concessions based on which we run our activity, and approve (to a defined extent) and control the application of electricity and heat tariffs in terms of their compliance with the provisions of the Energy Law, including the analysis and verification of costs applied by power companies as reasonable to calculate prices and rates under tariffs. Therefore there is a risk that the tariffs subject to approval by the President of the Energy Regulatory Office, are not approved or are approved with delay or are approved in different form than applied for. The President of the Energy Regulatory Office is also authorised to issue and redeem the certificates of origin of energy. Whereas the redemption, related to the entities selling the electricity to the end users, comes down to presentation of sufficient number of certificates or payment of the substitute fee, the issuance of certificates creates a risk for the generators that the number and methods of certified energy (including the matters of qualification of biomass combusted) may be questioned and as a result the ERO President may suspend the decision on issue of part or all certificates, which are requested by the generators. Additionally, for the violation of obligations set forth in the Energy Law, the President of the Energy Regulatory Office may impose pecuniary fines of up to 15% of income earned by the entity subject to the fine (PGE S.A. or a Group company) in a previous tax year and, and if the fine is related to the licensed activity, the fine may amount up to 15% of income earned on the licensed activity by the fined entity in the previous fiscal year.

5.2.3 Risk of changes in the support system for renewable energy sources

In December 2011, the Ministry of Economy sent the draft Law on renewable energy sources for public consultation. During the public consultation and intra-ministerial settlements a number of comment were submitted and part of them were taken into account. As a result of further works by the Ministry of Economy, a new draft was prepared. New draft Law on renewable energy sources was presented by the Ministry of Economy on July 27, 2012. It is intended to implement the provisions of

the Directive 2009/28/EC of the European Parliament and European Council on promotion of use of energy from renewable energy sources.

If the proposed document will come into force in current shape (initial date is set for January 1, 2013), it will have a significant impact on the profitability of planned, as well as existing, renewable installations in PGE Group.

The said draft Law sustains the obligatory purchase (by suppliers of last resort) of energy produced from renewable energy sources in installation connected to the distribution or transmission grid, offered by the generator who holds licence for generation thereof or is entered into the proper register (in case of micro-installations and small installations). This purchase will be accomplished at the price of 198.90 PLN/MWh, which will be subject to annual valorisation by average yearly CPI from the preceding year, beside that the price cannot be higher than average sale price of electricity on the competitive market. At the same time, the draft Law introduces new rules of support for the energy from renewable energy sources, that are diverse depending on type of renewable energy, installed capacity of generation units and commissioning or modernisation date. According to the draft Law, the support system for renewable energy sources will be valid for 15 years from the commissioning date of the installation, except for co-combustion, where the support period will be limited to only 5 years.

The draft Law modifies the current support system particularly within mechanism of certificates of origin in such way that it fixes different minimal guaranteed financial support for each technology. The draft assumes introduction of so called support adjustment ratios, which will adjust level of support given for the particular generation source (so far each 1 MWh of renewable energy generated 1 green certificate). They show that lower support is projected for the technologies which are currently generating the most renewable energy (wind farms, co-combustion). According to the new provisions, in years 2013-2014 the adjustment ratio will amount to: 0.9 for the energy from the onshore wind farms with capacity exceeding 500 kW; 1.8 for the offshore wind farms; 2.3 for the hydroelectric power plants with capacity exceeding 20 MW; 1.15 for biomass power plants in highly-efficient co-generation with capacity exceeding 10 MW; 0.3 for power plants/ CHPs with co-combustion of biomass. In next years most of the ratios for the particular type of renewable energy sources will be gradually decreased.

At the same time, this document establishes adjustment ratio of 1.0 for renewable installations, commissioned before the Law comes into force, for 15 years, counting from the commissioning date of the installation, with the exception of co-combustion installations, which are entitled to the certificate of origin with the given constant adjustment ratio of 1.0 for 5 successive years, counting from the first generation date of the electricity entitled to certificate of origin. As a result renewable installations older than 15 years and co-combustion installations older than 5 years will lose the rights to receive certificates of origin.

In light of the projected changes, in case of PGE Group the biggest decline in income/profit will appear as a result of loss of support (green certificates) for the hydroelectric power plants older than 15 years and installations with co-combustion of biomass older than 5 years. Material negative impact is also expected as a result of introduction of adjustment ratios for wind farms and power plants with biomass co-combustion, that will be commissioned after the Law on renewable energy sources comes into force.

5.2.4 Risk of changes in the co-generation support

Implementation of system of certificates of origin supporting the development of co-generation in Poland, started in 2007 in connection with the necessary implementation of so called CHP Directive (no. 2004/8/EC) promoting the production of electricity in co-generation with heat. Initially it was based on so called yellow certificates (for co-generation units fired with gas fuels or with the total installed capacity below 1 MW) and red certificates (for co-generation units fired with fuels other than gas with the total installed capacity above 1 MW) and in 2010 was expanded by so called violet certificates (for co-generation units fired with mine-methane or biogas).

Effectiveness of yellow and red certificates is guaranteed till the end of 2012 by the provisions of the Energy Law, then the co-generation support system, based on these certificates, expires. The works on amendments to the Energy Law, that are currently carried out by the Ministry of Economy, assume the extension of the support period for energy produced in cogeneration, however only until 2020. Such solution should be included in the new draft Energy Law, which is being prepared by the Ministry of Economy. New regulations, which prolong the effectiveness of the co-generation support system

are to come into force by the end of 2012. The change of regulations which affect the obtaining of certificates of origin, usually is connected with the necessary adaptation of technical infrastructure or activities related to receiving certificates to the requirements determined in new regulations. Delays in implementation or lack of such adaptations by the generators from the Group may cause significant financial losses (for example due to formal and procedural reasons) in relation with further rejection of issuance of certificates of origin by the ERO President. In light of the projected changes there is a threat that the support system for the co-generation units will not be prolonged or will be prolonged on the conditions unfavourably differing from current conditions, what will have an adverse effect on the revenues generated by the co-generation units from PGE Group that benefit from the support system.

Additionally, prices of certificates of origin are determined by current regulations, decisions of regulatory or other authorities, including in particular those relating to the determination of relevant substitute fees. Therefore, income earned by PGE Group companies from the sale of certificates of origin of energy produced thereby depends on administrative decision and legal regulations.

5.2.5 Risk connected with regulations obligating the Company to ensure the sufficient number of certificates of origin

PGE Group companies active in electricity trading must obtain and present for redemption to the President of the Energy Regulatory Office with certificates of origin for electricity coming from renewable sources (green certificates) and for energy produced in the cogeneration (yellow, red and violet certificates). Alternatively, such companies may pay a substitute fee determined by the President of the Energy Regulatory Office for the given calendar year. In the case an obligation to obtain and present for redemption to the President of the Energy Regulatory Office with certificates of origin of energy from renewable sources is not fulfilled or a substitute fee is not paid, a company may be charged with a financial penalty.

The obligation shall be deemed to have been fulfilled if for the given year, the share by volume of electricity backed by certificates of origin which the power company submitted for redemption, or substitute fee paid by the power company, in the aggregate annual sale of electricity by this power company to off-takers, is not less than the limits determined in the proper decrees of the Minister of Economy.

Currently binding regulations determine the levels of the obligation for few years ahead in case of green and violet certificates, however in case of yellow and red certificates the redemption levels are not known beyond 2012. Lack of information on the future shape of this obligation creates an uncertainty for the Group companies, which sell electricity to the end users, with regard to future expenses related to the purchase of certificates of origin in order to fulfill the obligation.

5.2.6 Risk relating to the requirement for licenses

The Group's core activity is subject to a number of licenses, including licenses for the electricity and heat generation, the distribution of electricity and heat, the electricity trading, the heat trading, the fuel gas trading, as well as for the lignite mining. In order to continue business activity, the Group needs to maintain and extend existing licenses. Any withdrawal or limitation of licenses or the imposition of additional conditions under the license may cause that Group companies will not be able to run their activities, their activities will be significantly limited or substantially influenced otherwise.

5.2.7 Risk connected with the connection of the renewable energy sources to the distribution grid

Energy distribution company is obliged to sign an agreement for connection to the grid with the generator applying for connection of its renewable energy source, on the equal rights, if there are technical and economic conditions for the connection to the grid and supply of energy and the entity requesting for concluding of the contract fulfills the conditions for connection. If the distribution system operator (DSO) refuses to sign the agreement for the connection to the grid, DSO must immediately inform in writing the ERO President and the concerned entity, enclosing the reasons for the rejection. There is a threat that in case the ERO President finds the rejection unreasonable, they may issue a decision unfavourable for the DSO. Moreover the entities requesting for connection of their energy sources to the grid may question the fee for connection, that is set by the distribution company, and appeal to the ERO President. If the verdicts are unfavourable there is a risk that the distribution company has to incur increased capital expenditures necessary for the connection of the generation source.

5.2.8 Risk resulting from the potential violation of antitrust regulations

Distribution company of the PGE Group is a natural monopolist in the area of electricity distribution services. In addition the PGE Group is the main electricity producer in Poland (approximately 40% share in the electricity generation market) and is one of the biggest electricity sellers in Poland. Given its monopolist or dominant position in relevant markets, the PGE Group is subject to limitations in the form of a ban on overusing its dominant position based on antitrust regulations of the Polish law and the law of the European Union. In the case of any violation thereof, antitrust authorities (the President of the Office for Consumer and Competition Protection, European Commission) may order to take up defined actions or enforce sanctions in the form of financial penalties.

5.2.9 Risk connected with the programme of CO_2 emissions reduction

The electricity and heat generation at power plants and CHP plants fuelled with fossil fuels is connected with relatively high CO_2 emissions. Therefore, any regulations on the reduction of emission of CO_2 to the environment, including regulations coming within the so called power and climate package of the European Union, will have a significant impact on the Group's activity.

In Poland CO_2 emission rights are granted for the particular branches and enterprises by way of decree of the Council of Ministers through National Allocation Plan ("NAP") from the pool granted by the European Commission ("EC"). The allocation system assumes that the enterprises which used up their limits must acquire emission rights (EUA, CER or ERU) on the market or take steps in order to improve the CO_2 emission rate. Threat of too low limits of allowances in relation to needs mainly concerns the energy generators, because they are responsible for the emission of majority of pollution to the natural environment. If the allowances granted to them are not sufficient to accomplish the planned generation level, they will be forced to reduce the production (to adjust emissions to the granted limits), incur additional costs related to purchase of missing allowances or modernize their installations in order to effectively reduce the CO_2 emissions.

Systematic reduction by the EC of free pool of CO_2 emission rights forces the generators to take above mentioned actions, what translates into the costs of energy production. For the third NAP (NAP III 2013-2020) Poland received conditionally a total of 404.65 million tonnes. It is a significant decrease in comparison to the past years (NAP I 2005-2007 – yearly average of 239.1 million tonnes, NAP II 2008-2012 – yearly average of 208.5 million tonnes). In addition, the EC did not take into consideration all the derogation requests for the newly-built generation units.

From the point of view of the effectiveness of the EU CO_2 reduction system, adequately high emission right prices enhance a guarantee of achieving its general assumptions, i.e. promoting pro-ecologic actions (investments) – low prices would encourage energy generators to buy higher amount of allowances at the expense of investments limitation. In order to sustain the emission right prices at the high level, EC may introduce solutions stimulating their growth, like reduction of pool of free allowances (decrease of supply).

In addition, on the European forum there's a strong lobby which postulates the raising of EU CO_2 reduction goal after 2020. Poland, as the sole country, does not support the EC proposal of reaching an almost emission-free energy production in 2050 (Energy Roadmap 2050) and in March 2012 Poland for the second time vetoed a path of CO_2 reduction by 80% in EU economy till 2050. However it does not seem that this voting closes a discussion on that matter and in light of current tendencies, new EC proposals, which will be directed at raising of CO_2 reduction goals, and influence on growth of prices of allowances should be expected.

Moreover, according to the assumptions of the third settlement period, allocation of free CO_2 emission allowances will gradually decrease until their ultimate cessation in 2020. The above issues may lead to significant growth of electricity prices, what could result in decline of volume of electricity sales and negatively affect the future financial situation of the Group.

5.2.10 Risk of restrictions on emissions of substances other than CO_2 to the environment and the enforcement of more restrictive BAT standards

The activity of Group companies, including in particular the electricity and heat generation, is connected with the emission of not only CO2, but NOx, SO2, dusts and other substances, to the environment. The systems that require an integrated permit, i.e. systems that, due to their type and scale of operation, may materially pollute some component parts or the environment as a whole, must

comply with the best available techniques requirements (Best Available Techniques, "BAT"), and that involves making significant investment expenditures.

Directive of European Parliament and Council of Europe no 2010/75/EU of November 24, 2010 on industrial emissions (integrated prevention of pollution and its control), called IED, introduces more strict requirements with regard to limits of pollution emissions with reference to previously binding (inter alia, LCP directive). IED Directive must be implemented to the domestic laws by January 7, 2013. IED Directive introduces increased role of the BAT reference documents (so called BREFs). More restrictive emission standards may force PGE Group to make substantial expenses to adapt to new requirements. Therefore, there is a risk that certain of our equipment or installations will not be adjusted to applicable requirements by the imposed deadline, which may reduce electricity output.

5.3. Risk factors connected with the operating activity of the PGE Capital Group

5.3.1 Risk of disruption of fuel supplies to our power plants, CHP plants and heat plants

The generation of electricity and heat by Group power plants, CHP plants and heat plants depends on fuel supplies, including lignite (in particular to PGE GiEK S.A. Branch Elektrownia Bełchatów and PGE GiEK S.A. Branch Elektrownia Turów), hard coal (in particular to PGE GiEK S.A. Branch Elektrownia Opole and PGE GiEK S.A. Branch Zespół Elektrowni Dolna Odra), and gas. There is a risk of disruptions in fuel supplies to Group's generating units, mainly for technical reasons (breakdown), natural reasons (calamities, difficult weather conditions), social reasons (strikes), economic and political reasons (limited supply of fuel or transport services and imposing unfavourable conditions of supply and transport) and other reasons. Any break or limitation in fuel supplies may cause a break or significant limitation in electricity or heat generation.

5.3.2 Risk of insufficient stocks of fuel

The Energy Law obliges every electricity or heat generating enterprise to maintain a stock of fuel in an amount that can guarantee the continuity of electric power and heat supply. The ERO President imposes fines (of up to 15% of income) for the failure to maintain the required level of fuel stocks. The shortage of required level of fuel stocks may also result in the suspension or reduction of electricity or heat generation.

5.3.3 Risk connected with mining site rehabilitation expenses

Mining companies representing the Conventional Generation segment must rehabilitate sites where they carry out their mining works. The Geological and Mining Act, as well as implementing regulations thereto, obligate mining companies to make contributions to the mine liquidation fund constituting 10% of a maintenance fee. Such funds may be used only to cover costs of mine liquidation, including rehabilitation costs. It may happen that funds and reserves of mining companies allocated to such a purpose will not cover actual rehabilitation expenses that the companies will have to bear in future. This may result in a need to increase amounts payable to the rehabilitation fund, create other reserves, and finance site rehabilitation from external sources.

5.3.4 Risk connected with weather conditions

Weather conditions influence technical and economic conditions of energy and heat generation and distribution and create seasonable demand for energy and heat. Such factors may cause limitations to energy generation, mainly as a result of water in natural and artificial basins that is used for cooling the generating units getting too hot or too low, as well as limitations to transmission capacities of the electrical and power system. In addition, bad weather conditions, including in particular the force of wind in the case of wind farms and water surface in the case of water power plants, have a significant impact on electricity production from renewable sources. While, large rains cause problems with the dehydration of opencast lignite mines. Extreme weather conditions break lines or damage electrical and power devices very often, which results in breaks of or limitations to power supply. It must be added that all the above phenomena are mostly unpredictable and in consequence may cause lowering of PGE Group income and claims by the electricity and heat off-takers for compensations or for discounts. Removal of damages in the electro energy grid is also connected with additional expenses relating to reconstruction of the damaged elements.

5.3.5 Risk relating to maintenance, repairs, modernisations and investments

PGE Group companies' business activity consisting in lignite mining and energy generation and distribution requires regular maintenance, repairs and modernization of assets. Such actions should ensure that equipment's life is optimum and guarantee necessary availability of key assets, including cost minimisation. Untimely or inadequate maintenance or repair and operation services shorten the life and worsen parameters of assets. This may contribute to breakdowns and outages or limitations to coal mining, energy generation and power supply, which may consequently result in the reduction of the companies' income. While assets recovery and modernisation investments, as well as investments in new generation and power grid assets, are subject to substantial expenditure and, at the same time, particular stages of modernisation works or of new investments may be delayed, for example, by uncertainty relating to the acquisition of sufficient financial resources, difficulties in the acquisition of necessary permits, obstructions in acquirement of land for new investments, protests of environmental organisations, strikes of employees and labour disputes, growth of projected investment costs, limited supply of investment goods and machinery, delays caused by contractors, bankruptcy of contractors or sub-contractors, accidents, unfavourable weather conditions or other unexpected difficulties. Above mentioned circumstances may have significant adverse effect on activity, results or financial standing of the Group.

5.3.6 Risk of unsettled legal status of the real estates

In the case of many properties (land and buildings) owned by the PGE Group (in particular those used by distribution company), there are doubts as to the legal title of such company to use the properties. Very frequently, investments, mainly ones related to lines, were carried out in third party properties without express consent of owners. Corresponding national legal regulations are not clear and judicature on cases relating to such situations has been changed in recent years. This situation is connected with a risk of claims to be filed against PGE Group companies, like in the case of distribution system operators. We may not exclude further cases of this type and related additional costs or even a need to stop using certain properties.

5.3.7 Risk relating to obtaining debt financing

A part of the Group's activities is financed from external sources (bank loans, bonds, etc.). PGE S.A. and Group companies are parties to many financial agreements of the complex legal structure. It is possible that in future it will be difficult to obtain new finance at an amount and terms desired by the Group. This may be caused by still unstable situation in the financial and capital markets in Poland and abroad, poor general economic situation in Poland and abroad, or other reasons that are unpredictable now. Such circumstances may negatively affect the terms of financing, in particular may lead to the growth of costs of such financing (higher interest rates, commissions, etc.). Higher costs of financing may affect the Group's results.

5.3.8 Risk associated with a downgrade or withdrawal of the rating of PGE

PGE S.A. has received positive evaluations from rating agencies confirming its high reliability connected with investment in its debt securities. Nonetheless, rating agencies may at any time downgrade or inform PGE S.A. of their intention to downgrade the rating. The rating agencies may also completely withdraw their ratings which may have the same consequences as a downgrade in PGE's ratings. Any decrease in PGE's rating may increase the costs of external financing, limit access to capital markets and adversely affect the capacity of PGE Group companies to sell their products or contract economic transaction, especially long-term ones. This may in turn decrease the liquidity of PGE S.A. and adversely affect the operating results and financial condition of PGE Group.

5.3.9 Risk associated with the decisions of the President of the Energy Regulatory Office regarding the implementation of LTC Act

The Act of June 29, 2007 on coverage of stranded costs resulting at generators in relation to accelerated termination of long-term contracts (LTC Act) was approved by the decision of the European Commission as a state aid program consistent with the common market. State aid program aims at compensating the generators, who terminated their long-term contracts (LTC), for so called stranded costs and costs of use of fuel gas collected and costs of fuel gas not collected. This is a precedent case in Poland.

The provisions of the LTC Act defining, in particular, terms for the calculation, payment and adjustments of funds to cover stranded costs, calculation and payment of such funds to generators

coming within capital groups (including PGE Capital Group), tax consequences of LTC termination and fund payment, as well as other issues, are complicated and there is no defined practice for their application in Poland. Producers that terminated LTC and are authorised to receive funds to cover stranded costs, including PGE Group generation companies, are exposed to an obligation to return funds received in the case of the negative (annual or final) correction of stranded costs.

The compensations system coveres some of the generators from the current PGE Group, i.e. PGE GiEK S.A. Branch Elektrownia Opole, PGE GiEK S.A. Branch Elektrownia Turów, PGE GiEK S.A. Branch Zespół Elektrowni Dolna Odra, PGE GiEK S.A. Branch Elektrociepłownia Rzeszów, PGE GiEK S.A. Branch Elektrociepłownia Lublin-Wrotków and PGE GiEK S.A. Branch Elektrociepłownia Gorzów. The first decisions were issued on July 31, 2009 and were related to the settlement of year 2008, which was the first, not full year of execution of LTC Act. The decisions regarding the annual adjustments for the following years were issued in dates determined by the LTC Act.

5.3.10 Risk of transfer prices

The Company and its subsidiaries have concluded, and continue to conclude, many transactions with the other PGE Group members. These transactions specifically relate to the sale of fuels, electricity, emission allowances, certificates of origin and certain services. Even though the Company and the Group companies carefully follow the arm's length principle in dealings with related parties, and even though they are now implementing unified standards regarding the compiling of documentation and procedures in this regard, we cannot preclude potential disputes with the tax authorities in this regard.

5.3.11 Risk of insufficient insurance protection

The activity of the PGE Capital Group is exposed to a number of risks connected with natural calamities, breakdowns and damages. The Group's business activity is also connected with third party liability towards third persons for personal injuries, property damages or so called pure financial loss. The Group maintains insurance policies covering only certain types of damages and there is a risk of insufficient insurance coverage. In addition, there are risks that are not subject to any insurance protection or in the case of which compensations, if any, are not likely to fulfil claims or loss. Consequences of such events will be charged to costs of particular Group companies, what may have a negative impact on their results.

5.3.12 Risk relating to court, arbitration and administrative proceedings

PGE S.A. and other PGE Group companies are parties to court, arbitration or administrative proceedings that are important for the Group's activity. The Group takes up actions aiming at the settlement of such cases in favour of PGE Group companies, but there is a risk that they will be resolved unfavourably for Group companies. There is also a risk that in future other proceedings will be initiated against PGE S.A. and other PGE Group companies, which will be resolved unfavourably for us, which may have an adverse impact on the Group's activity and financial results.

Risks connected with court, arbitration and administrative proceedings that are essential for the Group's activity are described in Note 19 to the consolidated financial statement.

Over 100 company and inter-company trade unions are present in the PGE S.A. and PGE Group companies and approximately 25 thousand employees of the Group are members. Pursuant to the current provisions of law, trade unions influence the legislative process. They are also able to exert pressure on employers in a number of ways, including in the form of collective labour disputes. PGE Group companies are parties to a number of corporate and sectoral collective bargaining agreements. Furthermore, management boards of many Group companies have entered into social agreements with trade unions which confer considerable power upon employees and trade unions. The necessity to consult or co-ordinate certain actions with the trade unions may delay, or even render impossible, such actions and may lead to collective disputes, involving strikes or other labour protests. Furthermore, should any significant redundancy program be required in the PGE Group in the future, the obligation to make high severance payments to employees may delay or limit our ability to carry out such redundancy program or may increase its cost.

6. Other significant events of the reporting period and subsequent events

6.1. Consolidation Programme

On January 2, 2012 the merger of Dychowskie Przedsiębiorstwo Eksploatacji Elektrowni „Eldeks" sp. z o.o. and Elektrownia Wiatrowa Kamieńsk sp. z o.o. with PGE Energia Odnawialna S.A. was registered.

On March 12, 2012 District Court for Łódź Śródmieście in Łódź, XX Commercial Division of National Registry Court issued a decision on entry of merger of PGE Górnictwo i Energetyka Konwencjonalna S.A. with PGE Elektrownia Opole S.A.

The above mentioned changes are a continuation of the Consolidation Programme, which was carried out in PGE Capital Group. As a result of the execution of the Consolidation Programme in 2010, the following formal and legal mergers took place in the given segments: (i) mining and conventional generation; (ii) renewables; (iii) distribution of the electric energy; (iv) retail sale of electric energy; as well as the merger of PGE Górnictwo i Energetyka S.A., PGE Energia S.A. and PGE Electra S.A. with PGE Polska Grupa Energetyczna S.A.

6.2. Non-core asset management concept within the PGE Capital Group

In 2012, the PGE Capital Group continued its activities under "Non-core asset management concept within the PGE Capital Group". The aim of the programme is to transparently separate core activity from other activities as well as disposal and reorganisation of the assets.

In 2009-2011, under the programme, shares/stocks of 29 companies were sold, liquidation of 7 companies and bankruptcy proceedings in 5 companies were completed, shares in 1 company were redeemed, 9 holiday resorts and 4 other assets were sold.

In the first half of 2012 shares/stocks in 4 companies were sold and 6 other non-core assets were sold (flats and real estates) and liquidation proceedings of a holiday resort was accomplished.

The package of shares in Sygnity S.A. was also sold in 2012.

<u>Sale agreements concluded/completed in 2012</u>

On November 8, 2011 PGE Polska Grupa Energetyczna S.A., PGE Elektrownia Opole S.A. and PGE Górnictwo i Energetyka Konwencjonalna S.A. concluded the conditional agreement with Giełda Papierów Wartościowych S.A. for the sale of 304,750 ordinary registered shares of Towarowa Giełda Energii S.A. with a nominal value of PLN 10 PLN each, representing 21.0172 % of the share capital of Towarowa Giełda Energii S.A. for PLN 46.9 million. The agreement was completed on February 24, 2012 after fulfilment of conditions precedent.

The agreement for sale of 28,000 shares of „WIRBET" S.A. held by PGE Obrót S.A. was signed on February 16, 2012. The value of the agreement is PLN 1.3 million and the shares were purchased by Cypriot fund Tag Heer Capital Fund Management Ltd. The transfer of shares took place on March 13, 2012.

In second half of 2012 the sales of next shares/stocks of non-core companies, qualified to particular portfolios assigned for sale, will be continued. Plans include a sale of consolidated companies MegaMed sp. z o.o. and concept of future running of Elbest sp. z o.o. shall be elaborated. The works on preparation for sale of the other non-core assets will be carried out. The liquidation and bankruptcy proceedings of the non-core companies will also be monitored.

6.3. Other changes in the organisation of the Capital Group

The liquidation process of ELECTRA Bohemia s.r.o. with its registered office in Czech Republic has started on July 6, 2012. PGE Polska Grupa Energetyczna S.A. holds 100% in the share capital of the company.

On July 10, 2012, following the decision by the District Court in Łódź-Śródmieście, 20th Commercial Division of the National Court Register, the change of name of Niepubliczny Zakład Opieki Zdrowotnej "MegaMed" sp. z o.o. was accomplished. After the change, the current name of the company is as follows: MegaMed sp. z o.o.

On July 25, 2012, on the ground of decisions of Assemblies of Partners of Elektrownia Wiatrowa Baltica-1 sp. z o.o., Elektrownia Wiatrowa Baltica-2 sp. z o.o. and Elektrownia Wiatrowa Baltica-3 sp. z

o.o., the share capitals of these companies were raised respectively from PLN 800,000 to PLN 15,800,000, i.e. by PLN 15,000,000; from PLN 800,000 to PLN 21,800,000, i.e. by PLN 21,000,000; and from PLN 800,000 to PLN 15,800,000 i.e. by PLN 15,000,000. All newly issue shares with a par value of PLN 500 each were taken up by PGE Energia Odnawialna S.A. The increase of the capital shares was registered in the National Court Register on August 9, 2012. Currently the ownership structure is as follows: Elektrownia Wiatrowa Baltica-1 sp. z o.o. (PGE Energia Odnawialna S.A. – 94.94%, Elektrownia Wiatrowa Gniewino sp. z o.o. – 4.81% and Elektrownia Wiatrowa Resko sp. z o.o. – 0.25%), Elektrownia Wiatrowa Baltica-2 sp. z o.o. (PGE Energia Odnawialna S.A. – 96.33%, Elektrownia Wiatrowa Gniewino sp. z o.o. – 3.49% and Elektrownia Wiatrowa Resko sp. z o.o. – 0.18%) and Elektrownia Wiatrowa Baltica-3 sp. z o.o. (PGE Energia Odnawialna S.A. – 94.94%, Elektrownia Wiatrowa Gniewino sp. z o.o. – 4.81% and Elektrownia Wiatrowa Resko sp. z o.o. – 0.25%).

On August 1, 2012 ELECTRA Deutschland GmbH changed the name and seat of the company. Current name and seat is as follows: PGE Trading GmbH with the registered office in Berlin.

On August 2, 2012, in accordance with to the provisions of conditional agreement of purchase of shares of May 25, 2011, PGE Energia Odnawialna S.A. acquired from Gamesa Energia S.A.U. with its registered office in Zamudio (Spain) 100% shares in Pelplin sp. z o.o. (see p. 6.16. Commissioning of Pelplin wind farm).

6.4. Activities related to nuclear energy

Determination of site localization for the nuclear power plant

After selection of three potential localizations for the nuclear power plant in 2011, the requests for issue of decisions on indication of localization were filed with the proper voivodship marshals. The requests were filed in accordance with the regulations of the investment act. Decisions for Choczewo and Żarnowiec were issued in January 23, 2012, and for Gąski on February 8, 2012. The preparatory activities for localization and environmental research are carried out, including inter alia analyses and negotiations of the co-operation conditions with the administrators of the land covered by the research, that will enable the access to the localization when the research begins.

Tender for performer of environmental and site characterisation

Conducting a site characterisation of area intended for a nuclear power plant requires a specialist knowledge, experience, equipment and keeping strict requirements with regard to safety, quality and auditability of conducted works and their results.

Within the tender proceedings for performer of environmental and site characterisation the works on tender documentation were carried out as well as negotiations with the qualified contractors. Currently, the preparation of the final version of the Terms of Reference and template of the agreement has been completed. After the approval of the Manager, the invitations for submission of final offers will be sent to the bidders.

On June 16, 2012 the Assembly of Partners of PGE EJ 1 sp. z o.o. issued a consent for incurring a liability through concluding of an agreement with the performer of environmental and site characterisation.

Selection of Owner's Engineer

Owner's Engineer will be an integrated part of the Investor's (PGE EJ1) organisation, providing support on every stage of project's realization. Owner's Engineer is to act as an entity supporting PGE EJ1 in realization of Investor's duties towards the technology provider, EPC general contractor and other contractors of key works.

Within the contract awards conducted in course of negotiations with announcement (according to the Public Procurement Law) for Owner's Engineer, the contractors, which qualified for the next stage of the proceeding, submitted initial bids, which were analysed. Two rounds of negotiations with 4 qualified contractors were completed (April-May 2012 and June-July 2012). The negotiations covered inter alia provisions of the agreement, as well as commercial, organisational and technical aspects of the agreement.

Selection of technology

In the first half of 2012 further works on tender documentation concerning selection of the technology provider and general contractor were conducted. The investment application for the strategic project "Preparation and construction of the first nuclear power plant in Poland with capacity of approximately 3,000 MW" was presented to PGE's Investment Committee and positively assessed.

In light of analyses carried out in the field of financing and partnership, the additional analyses have been carried out with regard to optimal attitude to selection and possibility of linking the key aspects of the project, like selection of technology, selection of EPC general contractor, selection of business and strategic partner or obtaining of financing. The analyses comprise many scenarios of financing structure, from the perspective of financial markets as well as legal regulations, and concern from entities interested in participation in the project of construction of the first nuclear power plant in Poland. Tender for the technology provider for the first Polish nuclear power plant will commence after the above analyses are completed.

Participation in legislative works

In the first half of 2012 PGE EJ S.A. and PGE EJ 1 sp. z o.o. participated in public and inter-ministerial consultations of drafts of implementing decrees to the Nuclear Act.

Project financing

In the first half of 2012 a number of analyses were carried out with regard to, inter alia, financing schedule and selection of a strategic partner as well as possibilities of financing of investment solely by PGE (including variants assuming governmental guarantees and lack of such guarantees, confirmation of PGE's ratings and change of the ratings). Taking these analyses into consideration, the potential project financing structures were elaborated. A number of meetings with the representatives of banks concerning the financing of nuclear plant construction also took place.

Information campaign

In the first half of 2012 the companies realised the research monitoring the public attitude towards the nuclear energy and to the nuclear project. The research was done on the local communities' level, included quantitative and quality studies, as well as deepened interviews with the local leaders of public opinion.

In potential localisations in Pomorskie Voivodship and Zachodniopomorskie Voivodship the meetings were held with the local communities, local municipality authorities and representatives of public administration concerning the project of nuclear power plant construction.

Two study visits in few European countries, where nuclear power plants are being operated, were organized for the representatives of Pomeranian local communities and local governments.

In the third quarter of 2012 PGE EJ plan launching of three local information points, presenting information about nuclear energy and about the project of power plant construction. Companies constantly co-operate with the municipalities with potential localisations of nuclear power plant with regard to development of cultural and social activities.

6.5. Decisions of the President of the Energy Regulatory Office related to realisation of LTC Act

Until the date of this report the decisions on determining the annual adjustment of stranded costs and the annual adjustment of costs generated in gas-fuelled units were issued the President of the Energy Regulatory Office four times. The first decisions were issued on July 31, 2009 and were related to the settlement of year 2008, which was the first, not full year of execution of LTC Act. The further decisions were issued in dates determined by the LTC Act.

The aggregate value of stranded costs and the annual adjustment of costs generated in gas-fuelled units for years 2008-2011 for the entitled generators from PGE Group, resulting from the decisions of the President of the Energy Regulatory Office, amounts to PLN (-) 1,477.6 million. The Management Board of PGE, as well as the Management Board of PGE GiEK S.A., disagree with the decisions of the ERO President and the appeals were filed to the District Court in Warsaw, Court of Competition and Consumer Protection ("CCCP"). Legal proceedings are on a different stage of advancement. In previous years CCCP announced judgments with an allowance of the appeal by generators. Judgements were not valid and the ERO President appealed against these decisions.

In period February-April March 2012 Court of Appeal announced verdicts regarding the annual adjustment for the year 2008 for Branch Elektrociepłownia Rzeszów, Branch Elektrociepłownia Lublin – Wrotków, Branch ZEDO, Branch Elektrociepłownia Gorzów and Branch Elektrownia Turów.

On February 2, 2012 the Court of Appeal in Warsaw announced a judgments regarding the settlement of value of annual adjustment of the stranded costs for 2008 for PGE GiEK S.A. Branch Elektrociepłownia Rzeszów and dismissed the appeal of the President of the Energy Regulatory Office against a judgement as a groundless and changed the ERO's decisions in accordance with the company's request. The claim value was PLN 14.6 million. The ERO President filed a cassation appeal with the Supreme Court.

On March 7, 2012, in a similar case, the Court of Appeal in Warsaw allowed the appeal of the ERO President against a judgement of the CCCP regarding the settlement of value of annual adjustment of the stranded costs for 2008 for Lublin-Wrotków CHP and changed the CCCP judgement by dismissing the appeal of the generator. The claim value was PLN 26.7 million. PGE GiEK S.A. filed a cassation appeal with the Supreme Court.

On March 12, 2012, in a similar case, the Court of Appeal in Warsaw repealed the verdict of the CCCP in the case regarding the settlement of value of annual adjustment of the LTC compensations for 2008 for ZEDO and remitted the case for re-examination by the CCCP. The claim value in the ZEDO case for 2008 is PLN 42.4 million.

On March 27, 2012 and on April 24, 2012 in analogical cases concerning the annual adjustment of stranded costs for 2008 settled by the President of the Energy Regulatory Office for PGE GiEK Branch Elektrociepłownia Gorzów and Branch Elektrownia Turów, the Court of Appeal issued verdicts, in which it dismissed the appeals of the President of the Energy Regulatory Office as groundless and changed the decisions of the President of the Energy Regulatory Office in accordance with the company's request. The claim value in the Elektrociepłownia Gorzów case was PLN 7.7 million and the Elektrownia Turów case was PLN 164.5 million. The judgements are final and binding. However the ERO President is entitled to file a cassation appeal with the Supreme Court. In case of Branch Elektrociepłownia Gorzów the ERO President filed a cassation appeal with the Supreme Court.

On June 4 and 19, 2012 CCCP issued two verdicts, which allowed the appeals of PGE GiEK S.A. Branch ZEDO and PGE GiEK S.A. Branch Elektrociepłownia Gorzów and changed the decisions of the President of Energy Regulatory Office from July 30, 2010 regarding the settlement value of annual adjustment of the stranded costs for 2009 for PGE GiEK S.A. Branch ZEDO and Branch Elektrociepłownia Gorzów. The claim value in ZEDO case was PLN 92.9 million and in Elektrociepłownia Gorzów case – PLN (-) 7.7 million. The judgements are not final and binding. The ERO President is entitled to appeal against the verdicts.

On July 31, 2012 the ERO President issued decisions on the annual adjustment of the stranded costs and annual adjustment of the costs generated in gas-fired units for the year 2011, which are due to certain generators from PGE Capital Group according to the Act of June 29, 2007 on coverage of stranded costs resulting at generators in relation to accelerated termination of long-term contracts. According to the decision of the ERO President, the total value of the annual adjustment of the stranded costs and annual adjustment of the costs generated in gas-fired units for the year 2011 amount to PLN (-) 536.5 million.

The details of the LTC compensations and their impact on the results achieved by the Group are presented in Note 26.1 to the consolidated financial statements

6.6. Adoption of the PGE Group Efficiency Improvement Programme for 2012-2016

On January 10, 2012 PGE Group Efficiency Improvement Programme for 2012-2016 (the "Programme") was approved by the Supervisory Board of PGE.

Total expected sustainable result of the Programme on consolidated EBIT of the PGE Capital Group is to amount approximately PLN 1.53 billion p.a. starting from 2016, as compared to 2010 (a base year for the Programme).

The Programme will be implemented in period 2012-2016 and will consist of two elements: cost reduction programme in PGE Group and increase of revenues from existing activities. Initiatives will be implemented gradually, starting from 2012, to reach the ultimate effect in 2016.

As compared to 2010, the cost-related initiatives will provide for approximately PLN 987 million of savings in 2016 and in subsequent years. The main initiatives related to cost reduction include:

- increase of organizational structure effectiveness
- optimization of repair and maintenance costs
- increase of effectiveness of power consumption and reduced network losses
- purchases centralization

Revenues-related initiatives, as compared to 2010, will provide for additional revenues of approximately PLN 541 million in 2016 and in subsequent years. The main initiatives related to increase of revenues include:

- increase of power generation from biomass
- increase of sales effectiveness and improvement of customer care services

The costs of the Programme will be carried mostly in 2012-2013. As of 2014, the Programme will have a positive impact on financial results, reaching its full potential in 2016.

6.7. Adoption of the PGE Capital Group strategy for 2012-2035

On February 9, 2012 the Supervisory Board of PGE approved "PGE Group Strategy 2012-2035" ("Strategy"). According to the adopted document, PGE will be consequently creating economic value for shareholders within the modern and fuel-diversified generation portfolio, focused on customers, increasing efficiency and implementing innovations, having a strong financial position and also utilizing its potential and market opportunities, both domestic and international.

The strategy includes, first of all, increasing demand for electricity in the long term connected with the economic growth, progressing market liberalisation and significant potential benefits resulting from the efficiency improvement in PGE Group's assets management.

The development trends and strategic goals of the Group will be periodically updated due to dynamically changing market of the PGE Capital Group, changes in domestic and EU legislation.

6.8. Project of construction of units in PGE GiEK S.A. Branch Elektrownia Opole. Signing of a material agreement.

On February 15, 2012 PGE Elektrownia Opole S.A. (currently PGE GiEK S.A. Branch Elektrownia Opole), concluded an agreement with Rafako S.A., Polimex-Mostostal S.A. and Mostostal Warszawa S.A. (the „Agreement"), forming a syndicate: Rafako S.A., Polimex-Mostostal S.A. and Mostostal Warszawa S.A. (later referred to as the „General Contractor"). The net value of the Agreement amounts to PLN 9.4 billion, while gross value of the Agreement amounts to PLN 11.6 billion. Subject matter of the agreement is construction of two hard coal-fired 900 MW supercritical power units no 5&6 at PGE Elektrownia Opole S.A. by the General Contractor. The project will be executed in EPC formula (Engineering, Procurement, Construction). According to the Agreement, the General Contractor is obliged to execute the order within 54 months from the date of the Notice To Proceed ("NTP") with reference to unit no 5 and within 62 months from the date of the NTP with reference to unit no 6. In order to issue the NTP, PGE GiEK S.A. is obliged i.a. to deliver the construction permit. The obtaining of the construction permit depends inter alia on positive decision on environmental conditionings for the project. On February 2 and 14, 2012 the consents for the construction of units 5&6, issued respectively by Voivod of Opole and Foreman of Opole, validated. However on January 12, 2012 the Provincial Administrative Court in Warsaw, after examination of the complaint by ClientEarth Poland Foundation to the decision of General Director of Environment Protection of August 16, 2011 on setting up the environmental conditionings for the realization of the project, overruled decisions of first and second instance (Regional Director of Environment Protection in Opole and General Director of Environment Protection in Warsaw) with regard to environmental permit for units 5&6. In connection with the above, on March 14, 2012 PGE GiEK S.A. filed a cassation appeal with the Supreme Administrative Court against the decision of the Provincial Administrative Court in Warsaw of January 12, 2012. The Company assumes that the examination of the above issue by the Supreme Administrative Court will take place in the third quarter of 2012.

6.9. Changes in the composition of the Management Board of PGE S.A.

On March 1, 2012 the Supervisory Board adopted a resolution on appointment of:

- Mr. Krzysztof Kilian to the Management Board of the eighth term as from March 5, 2012 and entrusting him the duties of President of the Management Board/Chief Executive Officer;
- Ms. Bogusława Matuszewska to the Management Board of the eighth term as from March 5, 2012 and entrusting her the duties of Vice-President of the Management Board.

On July 3, 2012 the Supervisory Board adopted a resolution to recall Mr. Paweł Skowroński, the Vice-President of the Management Board for Operations.

On August 14, 2012 the Supervisory Board adopted a resolution on appointment of Mr. Paweł Smoleń to the Management Board as from October 1, 2012 and entrusting him the duties of Vice-President of the Management Board for Operations.

6.10. Project of construction of off-shore wind farms

On April 16, 2012 Minister of Transport, Construction and Maritime Economy issued decisions on consents for construction and exploitation of artificial islands, constructions and installations in Polish naval areas for three localisations for construction of off-shore wind farms, which were requested by SPVs from PGE Group: EW Baltica-1 sp. z o.o., EW Baltica-2 sp. z o.o. and EW Baltica-3 sp. z o.o. In July and August 2012 the companies made payments of first instalments of the additional fees for pursuit of exclusive economic zone in total amount of PLN 49.7 million.

6.11. Puławy power plant project

On May 9, 2012 PGE GiEK S.A., Zakłady Azotowe „Puławy" S.A. and Melamina III sp. z o.o. (currently Elektrownia Puławy sp. z o.o.) signed an agreement with regard to the supplies of heat from the planned Puławy power plant. The subject matter of the agreement was the defining of the terms, on which ZA „Puławy" S.A. commits itself to conclude the contract for heat supplies from the Puławy power plant, which will be constructed and operated by Elektrownia Puławy sp. z o.o.

The next step of the project was the conclusion of the agreement on June 18, 2012 for sale of shares in SPV Elektrownia Puławy sp. z o.o. between Zakłady Azotowe Puławy S.A. and PGE GiEK S.A. On the ground of the agreement PGE GiEK S.A. purchased 50% of shares in Elektrownia Puławy sp. z o.o.

6.12. Commencement of incorporation of companies into PGE Energia Odnawialna S.A.

On May 15, 2012 the Management Board of PGE Energia Odnawialna S.A. adopted a resolution, in which decided about the commencement of incorporation of Elektrownia Wiatrowa Gniewino sp. z o.o., Elektrownia Wiatrowa Turów sp. z o.o. and Elektrownia Wiatrowa Resko sp. z o.o. (acquired companies) into PGE Energia Odnawialna S.A. (acquiring company) by course of art. 492 § 1 p. 1 of Code of Commercial Companies in connection with art. 515 and art. 516 of Code of Commercial Companies, i.e. through transfer of all assets of the acquired companies to the acquiring company without issue of shares in exchange for shares of acquired companies and within the simplified procedure regulated by art. 516 of Code of Commercial Companies. PGE Energia Odnawialna S.A. assumes that the incorporation process will be completed in the third quarter of 2012.

6.13. Termination of the privatisation agreement of Energa S.A.

On September 29, 2010 Management Board of PGE Polska Grupa Energetyczna S.A. executed with the State Treasury represented by the Minister of Treasury the agreement for the sale of shares of Energa S.A., a company with its registered office in Gdańsk. The agreement concerned the purchase of 4,183,285,468 shares of Energa S.A. constituting 84.19% of its share capital. The purchase price amounted to PLN 7,529.9 million. Effectiveness of the transaction was subject to obtaining consent of the President of the Antimonopoly Office for the concentration (condition precedent).

On January 13, 2011 the President of Office of Competition and Consumer Protection ("UOKiK") issued decision, prohibiting the purchase of Energa S.A. shares by PGE Polska Grupa Energetyczna S.A. In connection with the above, on January 18, 2011 PGE S.A. executed with the State Treasury represented by the Minister of Treasury an annex to the agreement. In the annex, termination date of the agreement has been set for 12 months since the date of the agreement, while PGE S.A. and the

State Treasury decided to suspend the course of termination date of the agreement until the date of the legally valid conclusion of the appeal proceeding against the decision of the President of the UOKiK.

On January 28, 2011 the appeal was submitted to the District Court in Warsaw, Court of Competition and Consumer Protection ("CCCP"), by the agency of President of UOKiK. PGE S.A. submitted the appeal against the decision of President of UOKiK. PGE S.A. appealed for the change of the decision in whole and verdict allowing for the concentration of PGE S.A. and Energa S.A., or alternatively for abolition of the decision

On May 14, 2012 the Regional Court in Warsaw – the Court of Competition and Consumer Protection, passed a judgement that dismissed the appeal made by PGE Polska Grupa Energetyczna S.A. against the decision of the President of UOKiK of January 13, 2011, prohibiting the execution of the concentration involving the taking control over Energa S.A. by PGE Polska Grupa Energetyczna S.A. claiming that there are no grounds to acknowledge the said appeal.

On June 5, 2012 the Management Board of the PGE S.A. decided not to appeal. Lack of PGE's appeal validated CCCP verdict. Therefore, decision of the President of UOKiK prohibiting concentration of Energa S.A. and PGE became final and valid and due to circumstances beyond parties control the agreement was terminated as at June 12, 2012 (see Note 26.6 to the consolidated financial statements).

6.14. Registration of the redemption of treasury shares and change in PGE's share capital value and structure

On June 23, 2012 the District Court of the City of Warsaw, XII Commercial Division of the National Court Register registered the reduction of Company's share capital from PLN 18,697,837,270 to PLN 18,697,608,290 i.e. by PLN 228,980, by the redemption of the 22,898 treasury shares with a par value of PLN 10 each (12,594 series C shares and 10,304 series D shares), representing 22,898 votes in the total votes of the Company. The redemption took place without any payments made.

After the redemption of shares and registration of change in share capital value and structure, total number of shares and votes resulting from all issued shares amount to 1,869,760,829 and the share capital of the Company amounts to PLN 18,697,608,290.

After the registration of the share capital reduction, the structure of the share capital is as follows:

- 1,470,576,500 series A bearer shares with a par value of PLN 10 each;
- 259,513,500 series B bearer shares with a par value of PLN 10 each;
- 73,228,888 series C bearer shares with a par value of PLN 10 each;
- 66,441,941 series A bearer shares with a par value of PLN 10 each.

6.15. Signing of a framework agreement on the exploration for and extraction of shale gas

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

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

Estimated expenditures on exploration, evaluation and extraction with respect to the first three zones (the Kochanowo, Częstkowo and Tępcz pads) within the Area of Cooperation are projected to be in the amount of PLN 1.72 billion. Details regarding the terms of cooperation, including a detailed project

budget and timeline, the shares of the Parties in financing the expenditures arising from the agreed-on budget, shares in the project's profits and the principles of responsibility, including contractual penalties in the case of the failure, in particular by PGNiG, to fulfill certain obligations resulting from the Agreement, will be determined by the Parties within four months from the date the Agreement is signed. Should such specific arrangements not be forthcoming, the Agreement may be terminated by each of the Parties. If within three months after reaching such arrangements the Parties have not received all of the required corporate approvals, or if by December 30, 2012 the required antimonopoly clearances have not been received, the Agreement will expire.

6.16. Commissioning of Pelplin wind farm

According to the provisions of conditional agreement of purchase of 100% shares in the Company Pelplin Sp. z o.o. from Spanish company Gamesa Energia S.A.U. of May 25, 2011, PGE Energia Odnawialna S.A. became a 100% shareholder in Pelplin Sp. z o.o. as from August 2, 2012 i.e. after fulfillment of all contract terms and conditions. This company accomplished an investment project of constructing a 48 MW wind farm, consisting of 24 wind turbines G90-2MW type produced by Gamesa. Pelplin sp. z o.o. was granted a license for electrical power generation and the wind farm was officially put into service.

6.17. Fire in PGE GiEK S.A. Branch Elektrownia Turów

On July 24, 2012, according to the current knowledge, an ignition of coal dust and biomass occurred in Turów power plant, one of branches of PGE Górnictwo i Energetyka Konwencjonalna S.A. As a result a fire broke out and damaged few lignite conveyor belts. Moreover, the shock wave damaged light walls of the boiler house and partly damaged the roof and casing of inclined coal conveyors. A high number of control cables, check metering and automatics of the coal handling installations and part of de-dusting installations of units 1-4 were also damaged. Main generation installations were not damaged (see Note 26.5 to the consolidated financial statements).

7. Factors, which in Company's opinion, will affect the results within at least the next quarter.

In the opinion of the Company Management Board, the following factors will influence the Company and the Group's performance within at least next quarter of 2012:

- demand for electricity and heat;
- electricity prices on wholesale and retail market;
- prices of property rights;
- availability and prices of fuels used in generation of electricity and heat, in particular prices of hard coal, fuel gas and biomass;
- availability of cross-border transmission capacities;
- growth of generating capacity in national electro-energy system, including renewable energy;
- availability and costs of CO_2 emission rights;
- changes in Group macroeconomic factors, including in particular interest rates and exchange rates, values of which affect evaluation of assets and liabilities shown by the Group;
- completion of the granting the free allowances for 2013-2020 for the generators from PGE Group;
- decisions of the European Commission with regard to financing of construction of CCS installation in Bełchatów power plant within the NER 300 program;
- the tariff process for 2013, including in particular costs recognised by the President of the Energy Regulatory Office as reasonable and the amount of justified return on equity, as well as tariff approval date;
- results of explanatory proceedings before the ERO President in case of issue of certificates of origin of energy produced from biomass for some of the braches of PGE GiEK S.A. (see Note 26.4 to the consolidated financial statements);

- decisions of the ERO President related to realisation of LTC Act and court's ruling on the disputes between the President of the Energy Regulatory Office and generators from the PGE Group entitled to receive compensations under LTC Act with regard to the annual adjustments of the stranded costs for 2008 and annual adjustments of the stranded costs and annual adjustments of costs generated in gas-fuelled units for 2009, 2010 and 2011 (see Note nr 26.1 to the consolidated financial statements);
- result of proceedings before the President of the Energy Regulatory Office in case of fulfilment of so called power exchange obligation for 2010 (see Note nr 19.2 to the consolidated financial statements);
- rozstrzygnięcie w zakresie decyzji środowiskowej dla bloków energetycznych nr 5 i 6 w PGE GiEK S.A. Oddział Elektrownia Opole;
- amendments to the Energy Law and others acts;
- seasonality and weather conditions;
- possible different decision in law, tax and other contingent liabilities disputes, from which most relevant were presented in Note 19 to the consolidated financial statements.

8. Shareholders holding directly or indirectly by subsidiaries at least 5% of the total votes at Company's General Meeting as at the date of the quarterly report.

According to the statement of the State Treasury, about which the Company informed in current report no 7/2012 of March 1, 2012, the only shareholder holding a substantial block of shares is the State Treasury, which holds 1,157,124,546 shares of the Company with a par value of PLN 10 each, representing 61.89% of the share capital and entitling to exercise 1,157,124,546 of the votes at the General Meeting of the Company, constituting 61.89% of total votes.

Table: Shareholders holding directly or indirectly by subsidiaries at least 5% of the total votes at the General Meeting of PGE Polska Grupa Energetyczna S.A.

Shareholder	Number of shares	Number of votes	% in total votes on General Meeting
State Treasury	1,157,124,546	1,157,124,546	61.89%
Others	712,636,283	712,636,283	38.11%
Total	**1,869,760,829**	**1,869,760,829**	**100.00%**

9. Number of shares or rights to shares of the Company held by Company's managers and supervisors, as of the date of submission of the half-year report.

According to the best knowledge of the Management Board of PGE S.A., as of the date of submission of this report and as of the date of publishing of the consolidated quarterly report for first quarter of 2011 Company's managers and supervisors had following number of shares:

Shareholder	Number of shares as of submission date of Q1 2012 report (i.e. May 14, 2012) (pieces)	Change in number of owned shares (pieces)	Number of shares as of submission date of H1 2012 report (pieces)
The Management Board	**0**	**no change**	**0**
The Supervisory Board	**623**	**no change**	**623**
Grzegorz Krystek	350	no change	350
Katarzyna Prus	273	no change	273

Management Board members and other Supervisory Board members did not own PGE shares.

10. Information on issue, redemption and repayment of debt securities and other securities.

Information on issue, redemption and repayment of debt securities and other securities were described in Note 20 to the consolidated financial statements and p. 1.2. of the foregoing report.

11. Information on granting by the Company or its subsidiary of loan securities or guarantees – jointly to a single entity or its subsidiary, if the total value of the existing securities or guarantees is equivalent to at least 10% of Company's equity.

Within the Group, in the period from January 1 till June 30, 2012 PGE S.A. and its subsidiaries did not grant any loan securities or guarantees to another entity or its subsidiary, where the value of securities and guarantees constituted at least 10% of the Company's equity.

12. Transactions with related entities.

Information about transactions with related entities is presented in Note 23 to the consolidated financial statements.

13. Information concerning proceedings in front of court, body appropriate for arbitration proceedings or in front of public administration authorities.

As at June 30, 2012 PGE S.A. and its subsidiaries were not a party in proceedings concerning liabilities or claims, in which the total value of a dispute constitutes at least 10% of Company equity except for applying by generators from PGE Group with application of statement of the overpaid excise tax and tax return with provisions for years 2006-2008 and first two months of 2009. The total overpaid tax to be returned to the PGE Group may amount to approximately PLN 3.4 billion, excluding interest (the generators are entitled to interest on the overpaid tax accrued from the date of payment of the overstated tax). This proceeding was described in Note 24.1 to the consolidated financial statements

Significant proceedings pending in front of the court, competent arbitration authority or public administration authority were described in Note 19 to the consolidated financial statements.

14. Statements of the Management Board

14.1. Statement on the reliable preparation of the financial statements

To the best knowledge of the Management Board of PGE Polska Grupa Energetyczna S.A., half-year consolidated and stand-alone financial statements and comparable data were prepared in accordance with the governing accounting principles, present a fair, true and reliable view of the material and financial situation of PGE and PGE Capital Group and its financial result.

The report of the Management Board on the activities of PGE Capital Group presents a true view of the development, achievements and situation of the Capital Group, and provides a description of the basic risks and threats.

14.2. Statement on the entity authorised to audit the financial statements

The Management Board of PGE Polska Grupa Energetyczna S.A. declares that the entity authorised to audit the financial statements, that reviews the interim consolidated financial statements, has been appointed in accordance with provisions of the law. The entity and the statutory auditors fulfilled all the requirements for issuing an unbiased and independent opinion on the review, in accordance with the governing provisions and professional standards.

Warsaw, August 28, 2012

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

Krzysztof Kilian

President of the Management Board

Bogusława Matuszewska

Vice-president of the Management Board

Wojciech Ostrowski

Vice-president of the Management Board

Piotr Szymanek

Vice-president of the Management Board