



# Condensed interim consolidated financial statements for the 6 months period

ended 30 June 2014  
in accordance with IFRS EU (in PLN million)

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## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Note	Period ended 30 June 2014 (reviewed)	Period ended 30 June 2013 (reviewed) <i>restated*</i>
<b>STATEMENT OF PROFIT AND LOSS</b>			
<b>TOTAL SALES REVENUES</b>	11	<b>14.208</b>	<b>15.101</b>
Cost of goods sold	11	(10.482)	(11.640)
<b>GROSS PROFIT ON SALES</b>		<b>3.726</b>	<b>3.461</b>
Other operating revenues	11	1.289	367
Distribution and selling expenses	11	(744)	(491)
General and administrative expenses	11	(366)	(366)
Other operating expenses	11	(780)	(203)
<b>OPERATING PROFIT</b>		<b>3.125</b>	<b>2.768</b>
Financial revenues	11	182	180
Financial expenses	11	(189)	(231)
Share of profit of associates		-	-
<b>PROFIT BEFORE TAX</b>		<b>3.118</b>	<b>2.717</b>
Income tax	13	(608)	(515)
<b>NET PROFIT FOR THE OPERATING PERIOD</b>		<b>2.510</b>	<b>2.202</b>
<b>OTHER COMPREHENSIVE INCOME</b>			
<b>Other comprehensive income, which may be reclassified to profit or loss, including:</b>			
Foreign exchange differences from translation of foreign entities		(1)	2
Valuation of hedging instruments		(12)	-
<b>Other comprehensive income, which will not be reclassified to profit or loss, including:</b>			
Actuarial gains and losses from valuation of provisions for post-employment benefits due to change of discount rate		(42)	-
<b>OTHER NET COMPREHENSIVE INCOME FOR THE PERIOD</b>		<b>(55)</b>	<b>2</b>
<b>TOTAL COMPREHENSIVE INCOME</b>		<b>2.455</b>	<b>2.204</b>
<b>NET PROFIT ATTRIBUTABLE TO:</b>			
- equity holders of the parent company		2.497	2.193
- non-controlling interest		13	9
<b>TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO:</b>			
- equity holders of the parent company		2.442	2.195
- non-controlling interest		13	9
<b>EARNINGS PER SHARE (in PLN)</b>			
- basic earnings per share for the period		1,34	1,17
- basic earnings per share from the continuing operations		1,34	1,17

\* For information regarding comparative figures please refer to note 6 of these financial statements.

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Note	As at 30 June 2014 (reviewed)	As at 31 December 2013 (audited)	As at 30 June 2013 (reviewed) <i>restated*</i>
<b>NON-CURRENT ASSETS</b>				
Property, plant and equipment		46.285	45.626	44.248
Investment property		32	22	23
Intangible assets		732	718	836
Loans and receivables	17	414	392	370
Available-for-sale financial assets		27	25	26
Shares in associates accounted for under the equity method		9	9	41
Other non-current assets	16	1.219	644	454
Deferred tax assets	14	356	302	299
<b>TOTAL NON-CURRENT ASSETS</b>		<b>49.074</b>	<b>47.738</b>	<b>46.297</b>
<b>CURRENT ASSETS</b>				
Inventories		1.839	1.683	1.631
Emission rights	15	962	1.404	999
Income tax receivables		25	9	8
Short-term financial assets at fair value through profit or loss	17	65	104	146
Trade receivables		1.757	2.192	2.161
Other loans and financial assets	17	3.584	903	961
Available-for-sale financial assets		4	9	4
Other current assets	16	1.554	749	925
Cash and cash equivalents	17	4.577	5.952	6.039
Assets classified as held-for-sale		17	8	13
<b>TOTAL CURRENT ASSETS</b>		<b>14.384</b>	<b>13.013</b>	<b>12.887</b>
<b>TOTAL ASSETS</b>		<b>63.458</b>	<b>60.751</b>	<b>59.184</b>

\* For information regarding comparative figures please refer to note 6 of these financial statements.

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Note	As at 30 June 2014 (reviewed)	As at 31 December 2013 (audited) <i>restated*</i>	As at 30 June 2013 (reviewed) <i>restated*</i>
<b>EQUITY</b>				
Share capital	18	18.698	18.698	18.698
Revaluation reserve on financial instruments	18	(12)	-	-
Foreign exchange differences from translation of foreign entities		(1)	-	5
Reserve capital		9.231	8.941	8.941
Other capital reserves		-	50	50
Retained earnings		15.864	15.693	13.607
Non-controlling interests		134	266	313
<b>TOTAL EQUITY</b>		<b>43.914</b>	<b>43.648</b>	<b>41.614</b>
<b>NON-CURRENT LIABILITIES</b>				
Interest-bearing loans and borrowings, bonds and lease	22	3.967	1.994	2.070
Other liabilities	22	11	11	8
Provisions	20	5.180	4.462	4.841
Deferred tax liabilities	14	2.067	1.665	1.591
Deferred income and government grants		1.103	1.181	1.141
<b>TOTAL NON-CURRENT LIABILITIES</b>		<b>12.328</b>	<b>9.313</b>	<b>9.651</b>
<b>CURRENT LIABILITIES</b>				
Trade liabilities	22	834	935	776
Financial liabilities at fair value through profit or loss	22	51	24	42
Interest-bearing loans and borrowings, bonds and lease	22	693	528	636
Other current financial liabilities	22	874	1.944	1.165
Other current non-financial liabilities		3.258	1.618	3.217
Income tax liabilities		52	155	121
Deferred income and government grants		140	151	199
Current provisions	20	1.314	2.435	1.763
<b>TOTAL CURRENT LIABILITIES</b>		<b>7.216</b>	<b>7.790</b>	<b>7.919</b>
<b>TOTAL LIABILITIES</b>		<b>19.544</b>	<b>17.103</b>	<b>17.570</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>63.458</b>	<b>60.751</b>	<b>59.184</b>

\* For information regarding comparative figures please refer to note 6 of these financial statements.

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(reviewed)	Share capital	Revaluation reserve on financial instruments	Foreign exchange differences from translation	Reserve capital	Other capital reserves	Retained earnings	Total	Non-controlling interests	Total equity
<b>AS AT 1 JANUARY 2014</b>	<b>18.698</b>	-	-	<b>8.941</b>	<b>50</b>	<b>15.693</b>	<b>43.382</b>	<b>266</b>	<b>43.648</b>
<b>TOTAL COMPREHENSIVE INCOME FOR THE PERIOD</b>	-	<b>(12)</b>	<b>(1)</b>	-	-	<b>2.455</b>	<b>2.442</b>	<b>13</b>	<b>2.455</b>
Retained earnings distribution	-	-	-	290	(50)	(240)	-	-	-
Dividend	-	-	-	-	-	(2.057)	(2.057)	-	<b>(2.057)</b>
Settlement of purchase of additional stock in subsidiaries:	-	-	-	-	-	14	14	(141)	<b>(127)</b>
<i>Value of the purchased non-controlling interest</i>	-	-	-	-	-	141	141	(141)	-
<i>Cost of shares and stocks in subsidiaries</i>	-	-	-	-	-	(127)	(127)	-	<b>(127)</b>
Other changes	-	-	-	-	-	(1)	(1)	(4)	<b>(5)</b>
<b>AS AT 30 JUNE 2014</b>	<b>18.698</b>	<b>(12)</b>	<b>(1)</b>	<b>9.231</b>	-	<b>15.864</b>	<b>43.780</b>	<b>134</b>	<b>43.914</b>

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(audited)	Share capital	Foreign exchange differences from translation	Reserve capital	Other capital reserves	Retained earnings	Total	Non-controlling interests	Total equity
<b>AS AT 1 JANUARY 2013</b>	<b>18.698</b>	<b>4</b>	<b>9.688</b>	<b>50</b>	<b>12.278</b>	<b>40.718</b>	<b>294</b>	<b>41.012</b>
<b>TOTAL COMPREHENSIVE INCOME FOR THE PERIOD</b>	<b>-</b>	<b>1</b>	<b>-</b>	<b>-</b>	<b>4.370</b>	<b>4.371</b>	<b>26</b>	<b>4.397</b>
Retained earnings distribution	-	-	77	-	(77)	-	-	-
Dividend	-	-	(824)	-	(784)	(1.608)	(2)	(1.610)
Exclusion of companies from the Capital Group	-	(5)	-	-	(5)	(10)	14	4
Changes due to mergers of companies within the Capital Group	-	-	-	-	3	3	(3)	-
Settlement of purchase of additional stock in subsidiaries:	-	-	-	-	-	-	(62)	(62)
<i>Value of the purchased non-controlling interest</i>	-	-	-	-	62	62	(62)	-
<i>Cost of shares and stocks in subsidiaries</i>	-	-	-	-	(62)	(62)	-	(62)
Other changes	-	-	-	-	(92)	(92)	(1)	(93)
<b>AS AT 31 DECEMBER 2013</b>	<b>18.698</b>	<b>-</b>	<b>8.941</b>	<b>50</b>	<b>15.693</b>	<b>43.382</b>	<b>266</b>	<b>43.648</b>

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(reviewed) restated*	Share capital	Foreign exchange differences from translation	Reserve capital	Other capital reserves	Retained earnings	Total	Non-controlling interests	Total equity
<b>AS AT 1 JANUARY 2013</b>	<b>18.698</b>	<b>4</b>	<b>9.688</b>	<b>50</b>	<b>12.278</b>	<b>40.718</b>	<b>294</b>	<b>41.012</b>
<b>TOTAL COMPREHENSIVE INCOME FOR THE PERIOD</b>	-	<b>2</b>	-	-	<b>2.193</b>	<b>2.195</b>	<b>9</b>	<b>2.204</b>
Retained earnings distribution	-	-	78	-	(78)	-	-	-
Dividend	-	-	(824)	-	(784)	<b>(1.608)</b>	(2)	<b>(1.610)</b>
Change in the CG structure	-	-	-	-	(1)	<b>(1)</b>	11	<b>10</b>
Other changes	-	(1)	(1)	-	(1)	<b>(3)</b>	1	<b>(2)</b>
<b>AS AT 30 JUNE 2013</b>	<b>18.698</b>	<b>5</b>	<b>8.941</b>	<b>50</b>	<b>13.607</b>	<b>41.301</b>	<b>313</b>	<b>41.614</b>

\* For information regarding comparative figures please refer to note 6 of these financial statements.



## CONSOLIDATED STATEMENT OF CASH FLOWS

	Period ended 30 June 2014 (reviewed)	Period ended 30 June 2013 (reviewed) <i>restated*</i>
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>		
Profit before tax	3.118	2.717
Adjustments for:		
Depreciation and amortization	1.536	1.529
Interest and dividend, net	9	8
Profit / loss on investment activities	51	(169)
Change in receivables	(236)	(415)
Change in inventories	(151)	578
Change in liabilities, excluding loans and bank credits	(1.493)	(400)
Change in other non-financial assets, prepayments and emission rights	(458)	(305)
Change in provisions	(465)	145
Income tax paid	(344)	(505)
Other	17	81
<b>NET CASH FROM OPERATING ACTIVITIES</b>	<b>1.584</b>	<b>3.264</b>
<b>CASH FLOW FROM INVESTING ACTIVITIES</b>		
Disposal of property, plant and equipment and intangible assets	28	34
Purchase of property, plant and equipment and intangible assets	(2.988)	(2.091)
Purchase of investment property	-	(37)
Disposal of financial assets	85	15
Purchase of financial assets and increase in shareholding in Group companies	(105)	(2)
Deposits with a maturity over 3 months	(2.091)	-
Purchase/ disposal of subsidiaries after deduction of acquired/disposed cash	-	(700)
Interest received	1	1
Proceeds from loans granted	-	(3)
Other	20	11
<b>NET CASH FROM INVESTING ACTIVITIES</b>	<b>(5.050)</b>	<b>(2.772)</b>
<b>CASH FLOW FROM FINANCING ACTIVITIES</b>		
Proceeds from loans, bank credits and issue of bonds	2.587	1.466
Repayment of loans, bank credits, bonds and finance lease	(452)	(717)
Dividends paid	(1)	(1)
Interest paid	(30)	(17)
Other	(11)	17
<b>NET CASH FROM FINANCING ACTIVITIES</b>	<b>2.093</b>	<b>(748)</b>
<b>NET CHANGE IN CASH AND CASH EQUIVALENTS</b>	<b>(1.373)</b>	<b>1.240</b>
Effect of foreign exchange rate changes, net	1	-
<b>CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD</b>	<b>5.948</b>	<b>4.790</b>
<b>CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD</b>	<b>4.575</b>	<b>6.030</b>
Restricted cash	115	479

\* For information regarding comparative figures please refer to note 6 of these financial statements.

The difference between cash and cash equivalents presented in the statement of financial position and statement of cash flows results from interest accrued but not received as at the reporting date.

## 1 General Information

PGE Polska Grupa Energetyczna S.A. Group ("PGE Capital Group", "PGE Group") comprises the parent company PGE Polska Grupa Energetyczna S.A. and subsidiaries (described in note 3).

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

The parent company is seated in Warsaw, 2 Mysia Street.

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

Core operations of the Group companies are as follows:

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

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

These condensed interim consolidated financial statements of the Capital Group comprise financial data for the period from 1 January 2014 to 30 June 2014 ("financial statements", "consolidated financial statements").

## 2 The composition of the Management Board of the parent company

As at 1 January 2014 the composition of the Management Board was as follows:

- **Mr. Marek Woszczyk** – the President of the Management Board,
- **Mr. Jacek Drozd** – the Vice-President of the Management Board,
- **Mr. Grzegorz Krystek** – the Vice-President of the Management Board,
- **Mr. Dariusz Marzec** – the Vice-President of the Management Board.

During the reporting period and as at the date of preparation of these financial statements, there have been no changes in the composition of the Management Board.

### 3 Structure of the Group

During the reporting period, PGE Capital Group consisted of the enumerated below companies, consolidated directly and indirectly:

Entity	Share of Group entities as at 30 June 2014	Entity holding shares as at 30 June 2014	Share of Group entities as at 31 December 2013	Entity holding shares as at 31 December 2013	Entity holding shares as at 31 December 2013
<b>SEGMENT: WHOLESALE</b>					
1.	PGE Polska Grupa Energetyczna S.A. Warsaw		The Parent Company of the Capital Group		
2.	PGE Dom Maklerski S.A. Warsaw	100,00%	PGE Polska Grupa Energetyczna S.A.	100,00%	PGE Polska Grupa Energetyczna S.A.
3.	PGE Trading GmbH Germany	100,00%	PGE Polska Grupa Energetyczna S.A.	100,00%	PGE Polska Grupa Energetyczna S.A.
<b>SEGMENT: MINING AND CONVENTIONAL ENERGY ("CONVENTIONAL ENERGY")</b>					
4.	PGE Górnictwo i Energetyka Konwencjonalna S.A.* Bełchatów	94,60%	PGE Polska Grupa Energetyczna S.A.	93,91%	PGE Polska Grupa Energetyczna S.A.
		4,97%	PGE Obrót S.A.	4,97%	PGE Obrót S.A.
5.	Przedsiębiorstwo Energetyki Ciepłej sp. z o.o. Zgierz	50,98%	PGE Górnictwo i Energetyka Konwencjonalna S.A.	50,98%	PGE Górnictwo i Energetyka Konwencjonalna S.A.
<b>SEGMENT: RENEWABLE ENERGY</b>					
6.	PGE Energia Odnawialna S.A. Warsaw	100,00%	PGE Polska Grupa Energetyczna S.A.	100,00%	PGE Polska Grupa Energetyczna S.A.
7.	Bio-Energia S.A. Warsaw	100,00%	PGE Energia Odnawialna S.A.	100,00%	PGE Energia Odnawialna S.A.
8.	Elektrownia Wiatrowa Baltica-1 sp. z o.o. Warsaw	100,00%	PGE Energia Odnawialna S.A.	100,00%	PGE Energia Odnawialna S.A.
9.	Elektrownia Wiatrowa Baltica-2 sp. z o.o. Warsaw	100,00%	PGE Energia Odnawialna S.A.	100,00%	PGE Energia Odnawialna S.A.
10.	Elektrownia Wiatrowa Baltica-3 sp. z o.o. Warsaw	100,00%	PGE Energia Odnawialna S.A.	100,00%	PGE Energia Odnawialna S.A.
11.	Pelplin sp. z o.o. Warsaw	100,00%	PGE Energia Odnawialna S.A.	100,00%	PGE Energia Odnawialna S.A.
12.	Żuromin sp. z o.o. Warsaw	100,00%	PGE Energia Odnawialna S.A.	100,00%	PGE Energia Odnawialna S.A.
13.	Eolica Wojciechowo sp. z o.o. Gniewino	100,00%	PGE Energia Odnawialna S.A.	100,00%	PGE Energia Odnawialna S.A.
14.	PGE Energia Natury S.A. Warsaw	100,00%	PGE Polska Grupa Energetyczna S.A.	100,00%	PGE Polska Grupa Energetyczna S.A.
15.	PGE Energia Natury sp. z o.o. Warsaw	100,00%	PGE Polska Grupa Energetyczna S.A.	100,00%	PGE Polska Grupa Energetyczna S.A.
16.	PGE Energia Natury Karnice sp. z o.o. Warsaw	100,00%	PGE Polska Grupa Energetyczna S.A.	100,00%	PGE Polska Grupa Energetyczna S.A.
17.	PGE Energia Natury Bukowo sp. z o.o. Warsaw	100,00%	PGE Polska Grupa Energetyczna S.A.	100,00%	PGE Polska Grupa Energetyczna S.A.
18.	PGE Energia Natury Olecko sp. z o.o. (formerly EPW Energia Olecko sp. z o.o.) Warsaw	100,00%	PGE Polska Grupa Energetyczna S.A.	81,00%	PGE Polska Grupa Energetyczna S.A.
19.	PGE Energia Natury Omikron sp. z o.o. Warsaw	100,00%	PGE Energia Natury S.A.	100,00%	PGE Energia Natury S.A.
20.	PGE Energia Natury Kappa sp. z o.o. Warsaw	100,00%	PGE Energia Natury S.A.	100,00%	PGE Energia Natury S.A.
21.	PGE Energia Natury PEW sp. z o.o. Warsaw	100,00%	PGE Energia Natury S.A.	100,00%	PGE Energia Natury S.A.
	EPW Energia sp. z o.o. ** Warsaw	-	-	32,70%	PGE Polska Grupa Energetyczna S.A.

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS FOR THE 6 MONTHS PERIOD ENDED 30 JUNE 2014 IN ACCORDANCE WITH IFRS EU (IN PLN MILLION)

	Entity	Share of Group entities as at 30 June 2014	Entity holding shares as at 30 June 2014	Share of Group entities as at 31 December 2013	Entity holding shares as at 31 December 2013
<b>SEGMENT: DISTRIBUTION</b>					
22.	PGE Dystrybucja S.A. Lublin	89,92%	PGE Obrót S.A.	89,92%	PGE Obrót S.A.
		10,08%	PGE Polska Grupa Energetyczna S.A.	10,08%	PGE Polska Grupa Energetyczna S.A.
<b>SEGMENT: RETAIL SALE</b>					
23.	PGE Obrót S.A. Rzeszów	100,00%	PGE Polska Grupa Energetyczna S.A.	100,00%	PGE Polska Grupa Energetyczna S.A.
<b>SEGMENT: OTHER</b>					
24.	PGE EJ 1 sp. z o.o. Warsaw	100,00%	PGE Polska Grupa Energetyczna S.A.	100,00%	PGE Polska Grupa Energetyczna S.A.
25.	PGE Systemy S.A. Warsaw	100,00%	PGE Polska Grupa Energetyczna S.A.	100,00%	PGE Polska Grupa Energetyczna S.A.
26.	EXATEL S.A. Warsaw	99,98%	PGE Polska Grupa Energetyczna S.A.	99,98%	PGE Polska Grupa Energetyczna S.A.
27.	PGE Sweden AB (publ) Sweden	100,00%	PGE Polska Grupa Energetyczna S.A.	-	-
28.	PGE Inwest sp. z o.o. Warsaw	100,00%	PGE Polska Grupa Energetyczna S.A.	100,00%	PGE Polska Grupa Energetyczna S.A.
29.	NOM sp. z o.o. Warsaw	100,00%	EXATEL S.A.	100,00%	EXATEL S.A.
30.	ENERGO-TEL S.A. Warsaw	100,00%	EXATEL S.A.	100,00%	EXATEL S.A.
31.	ELBIS sp. z o.o. Rogowiec	100,00%	PGE Górnictwo i Energetyka Konwencjonalna S.A.	100,00%	PGE Górnictwo i Energetyka Konwencjonalna S.A.
32.	MEGAZEC sp. z o.o. Bydgoszcz	100,00%	PGE Górnictwo i Energetyka Konwencjonalna S.A.	100,00%	PGE Górnictwo i Energetyka Konwencjonalna S.A.
33.	„ELBEST” sp. z o.o. Bełchatów	91,30%	PGE Górnictwo i Energetyka Konwencjonalna S.A.	91,30%	PGE Górnictwo i Energetyka Konwencjonalna S.A.
		7,50%	PGE Dystrybucja S.A.	7,50%	PGE Dystrybucja S.A.
		1,11%	PGE Obrót S.A.	1,11%	PGE Obrót S.A.
		0,09%	PGE Energia Odnawialna S.A.	0,09%	PGE Energia Odnawialna S.A.
34.	MegaSerwis sp. z o.o. Bogatynia	100,00%	PGE Górnictwo i Energetyka Konwencjonalna S.A.	100,00%	PGE Górnictwo i Energetyka Konwencjonalna S.A.
35.	PGE Gubin sp. z o.o. Gubin	100,00%	PGE Górnictwo i Energetyka Konwencjonalna S.A.	100,00%	PGE Polska Grupa Energetyczna S.A.
36.	Elektrownia Puławy sp. z o.o. Puławy	50,00%	PGE Górnictwo i Energetyka Konwencjonalna S.A.	50,00%	PGE Górnictwo i Energetyka Konwencjonalna S.A.
37.	„Energoserwis – Kleszczów” sp. z o.o. Kleszczów	51,00%	PGE Górnictwo i Energetyka Konwencjonalna S.A.	51,00%	PGE Górnictwo i Energetyka Konwencjonalna S.A.
38.	„ELMEN” sp. z o.o. Rogowiec	100,00%	PGE Górnictwo i Energetyka Konwencjonalna S.A.	100,00%	PGE Górnictwo i Energetyka Konwencjonalna S.A.
39.	Przedsiębiorstwo Usługowo-Produkcyjne „ELTUR-SERWIS” sp. z o.o. Bogatynia	100,00%	PGE Górnictwo i Energetyka Konwencjonalna S.A.	100,00%	PGE Górnictwo i Energetyka Konwencjonalna S.A.
40.	EPORE sp. z o.o. Bogatynia	85,38%	PGE Górnictwo i Energetyka Konwencjonalna S.A.	85,38%	PGE Górnictwo i Energetyka Konwencjonalna S.A.

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS FOR THE 6 MONTHS PERIOD ENDED 30 JUNE 2014 IN ACCORDANCE WITH IFRS EU (IN PLN MILLION)

Entity	Share of Group entities as at 30 June 2014	Entity holding shares as at 30 June 2014	Share of Group entities as at 31 December 2013	Entity holding shares as at 31 December 2013
41. Przedsiębiorstwo Usługowo-Produkcyjne „TOP SERWIS” sp. z o.o. Bogatynia	100,00%	Przedsiębiorstwo Usługowo-Produkcyjne ELTUR-SERWIS sp. z o.o.	100,00%	Przedsiębiorstwo Usługowo-Produkcyjne ELTUR-SERWIS sp. z o.o.
42. RAMB sp. z o.o. Piaski	100,00%	PGE Górnictwo i Energetyka Konwencjonalna S.A.	100,00%	PGE Górnictwo i Energetyka Konwencjonalna S.A.
43. Przedsiębiorstwo Transportowo Sprzętowe „BETRANS” sp. z o.o. Bełchatów	100,00%	PGE Górnictwo i Energetyka Konwencjonalna S.A.	100,00%	PGE Górnictwo i Energetyka Konwencjonalna S.A.
44. Przedsiębiorstwo Wulkanizacji Taśm i Produkcji Wyróbów Gumowych BESTGUM POLSKA sp. z o.o. Rogowiec	100,00%	PGE Górnictwo i Energetyka Konwencjonalna S.A.	100,00%	PGE Górnictwo i Energetyka Konwencjonalna S.A.
45. ENESTA sp. z o.o. Stalowa Wola	84,85%	PGE Dystrybucja S.A.	84,85%	PGE Dystrybucja S.A.
	2,48%	PGE Górnictwo i Energetyka Konwencjonalna S.A.	2,48%	PGE Górnictwo i Energetyka Konwencjonalna S.A.
46. Przedsiębiorstwo Transportowo-Usługowe „ETRA” sp. z o.o. Białystok	100,00%	PGE Dystrybucja S.A.	100,00%	PGE Dystrybucja S.A.
47. Przedsiębiorstwo Produkcyjno-Handlowe EKTO sp. z o.o. Białystok	100,00%	PGE Dystrybucja S.A.	100,00%	PGE Dystrybucja S.A.
48. Energetyczne Systemy Pomiarowe sp. z o.o. Białystok	100,00%	PGE Dystrybucja S.A.	100,00%	PGE Dystrybucja S.A.
49. Zakład Obsługi Energetyki sp. z o.o. Zgierz	100,00%	PGE Dystrybucja S.A.	100,00%	PGE Dystrybucja S.A.

\* Share excluding entity's own shares

\*\* During the reporting period PGE S.A. consolidated controlled branches of EPW Energia Sp. z o.o. using full method

Changes in the structure of the PGE Group companies which are subject to full consolidation are mentioned in the table above and include inter alia following transformations which took place during the period ended 30 June 2014:

- On 7 February 2014, the division of the company EPW Energia Olecko sp. z o.o. was completed. As a result, PGE S.A. share in the entity's equity is currently 100%. The division had no effect on these consolidated financial statements.
- On 28 February 2014, the division of the company EPW Energia sp. z o.o. was completed. The branches belonging to PGE S.A. were merged with PGE Energia Natury sp. z o.o. The division had no effect on these consolidated financial statements.
- On 8 April 2014, PGE S.A. purchased the company Goldcup 5812 AB based in Sweden. After the purchase, the company's name was changed and is now known as PGE Sweden AB (publ). The purchase of the company is related to the organization of financing for the PGE Capital Group as described in note 26 of these financial statements.
- During the reporting period, acquisition of shares of PGE Górnictwo i Energetyka Konwencjonalna S.A. from non-controlling interest took place. The shares were purchased by PGE S.A. and by the company itself for redemption purposes.

On 1 July 2014, the company PGE Dom Maklerski S.A. began its operations.

After the reporting date, 14 new limited liability subsidiaries of PGE Polska Grupa Energetyczna S.A. were established. The total equity of these subsidiaries amounts to PLN 140 thousand. The establishment of these companies is related with ongoing efforts on organizing Tax Capital Group.

## 4 The basis for the preparation of the financial statements

### 4.1 Statement of compliance

These Condensed Interim Consolidated Financial Statements of PGE Polska Grupa Energetyczna S.A. Group were prepared in accordance with International Accounting Standard 34 Interim Financial Reporting, in accordance with International Accounting Standards, which regard interim financial reporting as adopted by the European Union, published and effective during the period of preparation of these financial statements and in the scope required under the Minister of Finance Regulation of 19 February 2009 on current and periodic information provided by issuers of securities and conditions of recognition as equivalent information required by the law of a Non-Member State (Official Journal no. 33, item 259) ("Regulation").

International Financial Reporting Standards ("IFRS") include standards and interpretations accepted by the International Accounting Standards Board ("IASB") and the International Financial Reporting Standards Interpretations Committee (IFRIC).

Except for of the implementation of hedge accounting, the foregoing consolidated financial statements are prepared based on the same accounting policy and methods of computation as compared with the most recent annual financial statements. Financial statements are to be read together with the audited consolidated financial statements of PGE Polska Grupa Energetyczna S.A. Group prepared in accordance with IFRS for the year ended 31 December 2013. Amended accounting policy is described in note 6 of these financial statements.

### 4.2 General rules of preparation

These financial statements were prepared under the assumption that the Group companies will continue to operate as a going concern in the foreseeable future. As at the date of preparation of these financial statements, there is no evidence indicating that the parent company or its subsidiaries will not be able to continue its operations as a going concern.

## 5 Presentation currency

The financial statements are presented in Polish Zloty („PLN”) and all amounts are in PLN million, unless indicated otherwise.

The following exchange rates were applied to valuation of positions of the statement of financial position:

	30 June 2014	31 December 2013	30 June 2013
USD	3,0473	3,0120	3,1375
EUR	4,1609	4,1472	4,3292

## 6 Changes of accounting principles and data presentation

### Implementation of hedge accounting

The Capital Group has revised the accounting policy and has considered the applied principles of hedge accounting. The Group permits the use of cash flow hedge accounting, fair value hedge accounting and hedge of a net investments in foreign operations. Accordingly, the Group may decide to designate selected derivatives as hedging instruments in the identified hedging relationship. The Capital Group permits the application of hedge accounting only if they fulfil the defined criteria in IAS 39.

#### *Applied accounting policies of cash flow hedge*

Changes in the fair value of derivative financial instruments designated as cash flow hedges are recognized in revaluation reserve in the portion determined to be an effective hedge, while the ineffective portion of the hedge is recognized in the profit or loss.

The amount of accumulated changes in fair value of hedging instrument, previously recognized in revaluation reserve are transferred to profit or loss in the period or periods in which the hedged item affects profit or loss. Alternatively, if the hedge of a planned transaction results in the recognition of non-financial assets or non-financial liabilities, the Group excludes the amount from equity and includes in the initial cost or other carrying amount of a non-financial asset or liability.

The implementation of hedge accounting has not caused the need to restate comparative data.

### Changes in applied accounting policies – CO<sub>2</sub> emission rights acquired free of charge

In 2013, PGE Group changed the accounting policies regarding the valuation of CO<sub>2</sub> emission rights received free of charge. In accordance with the previous accounting policy the Group recognized greenhouse gas emission rights free of charge at fair value and the provision for the obligation for redemption of rights was recognized for all CO<sub>2</sub> emission. After the changes in applied accounting policies, emission rights acquired free of charge are presented in the statement of financial position at nominal value, which is zero. The provision for liabilities due to CO<sub>2</sub> emission is raised in the part which is not covered by emission rights acquired free of charge.

After the change of accounting policies, the Group applied the most common approach used by Polish energy market operators making its statement of financial position more comparable to other companies in the industry.

### Reclassification

In addition, PGE Group has reclassified the presentation of connection fees from other non-financial liabilities to deferred income, and perpetual usufruct of land from other assets to intangible assets.

### Restatement of comparative information

Accordingly, the Group restated the information presented in the comparative statements of financial position, statement of comprehensive income and the statement of cash flows. The restatement is presented in below tables. Information presented in explanatory notes to these financial statements have also been restated accordingly.



**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE PERIOD 30 JUNE 2013**

	Period ended 30 June 2013 (published data)	Change in CO <sub>2</sub> valuation	Period ended 30 June 2013 (restated)
<b>PROFIT OR LOSS</b>			
<b>TOTAL SALES REVENUES</b>	<b>15.101</b>	-	<b>15.101</b>
Costs of goods sold	(11.241)	(399)	(11.640)
<b>GROSS PROFIT ON SALES</b>	<b>3.860</b>	<b>(399)</b>	<b>3.461</b>
Other operating revenues	367	-	367
Distribution and selling expenses	(491)	-	(491)
General and administrative expenses	(366)	-	(366)
Other operating expenses	(203)	-	(203)
<b>OPERATING PROFIT</b>	<b>3.167</b>	<b>(399)</b>	<b>2.768</b>
Financial revenues	180	-	180
Financial expenses	(231)	-	(231)
Share of profit of associates	-	-	-
<b>PROFIT BEFORE TAX</b>	<b>3.116</b>	<b>(399)</b>	<b>2.717</b>
Income tax	(591)	76	(515)
<b>NET PROFIT FOR THE OPERATING PERIOD</b>	<b>2.525</b>	<b>(323)</b>	<b>2.202</b>
<b>OTHER COMPREHENSIVE INCOME</b>			
Other net comprehensive income for the period	2	-	2
<b>TOTAL COMPREHENSIVE INCOME</b>	<b>2.527</b>	<b>(323)</b>	<b>2.204</b>
<b>NET PROFIT ATTRIBUTABLE TO:</b>			
- equity holders of the parent company	2.511	(318)	2.193
- non-controlling interest	14	(5)	9
<b>TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO:</b>			
- equity holders of the parent company	2.513	(318)	2.195
- non-controlling interest	14	(5)	9
<b>EARNINGS PER SHARE (in PLN)</b>			
- basic earnings per share for the period	1,34	(0,17)	1,17
- basic earnings per share from the continuing operations	1,34	(0,17)	1,17



**CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2013**

	As at 30 June 2013 (published data)	Perpetual usufruct of land	Change in CO <sub>2</sub> valuation	As at 30 June 2013 (restated)
<b>NON-CURRENT ASSETS</b>				
Property, plant and equipment	44.248	-	-	44.248
Investment property	23	-	-	23
Intangible assets	786	50	-	836
Loans and receivables	370	-	-	370
Available-for-sale financial assets	26	-	-	26
Shares in associates accounted for under the equity method	41	-	-	41
Other non-current assets	504	(50)	-	454
Deferred tax asset	299	-	-	299
<b>TOTAL NON-CURRENT ASSETS</b>	<b>46.297</b>	-	-	<b>46.297</b>
<b>CURRENT ASSETS</b>				
Inventories	1.631	-	-	1.631
Emission rights	2.118	-	(1.119)	999
Income tax receivables	8	-	-	8
Short-term financial assets at fair value through profit or loss	146	-	-	146
Trade receivables	2.161	-	-	2.161
Loans and financial assets	961	-	-	961
Available-for-sale financial assets	4	-	-	4
Other current assets	925	-	-	925
Cash and cash equivalents	6.039	-	-	6.039
Assets classified as held-for-sale	13	-	-	13
<b>TOTAL CURRENT ASSETS</b>	<b>14.006</b>	-	<b>(1.119)</b>	<b>12.887</b>
<b>TOTAL ASSETS</b>	<b>60.303</b>	-	<b>(1.119)</b>	<b>59.184</b>

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2013**

	As at 30 June 2013 (published data)	Change in CO <sub>2</sub> valuation	Connection fees	As at 30 June 2013 (restated)
<b>EQUITY</b>				
Share capital	18.698	-	-	18.698
Foreign exchange differences from translation of foreign entities	5	-	-	5
Reserve capital	8.941	-	-	8.941
Other capital reserves	50	-	-	50
Retained earnings	14.031	(424)	-	13.607
Non-controlling interest	318	(5)	-	313
<b>TOTAL EQUITY</b>	<b>42.043</b>	<b>(429)</b>	-	<b>41.614</b>
<b>NON-CURRENT LIABILITIES</b>				
Interest-bearing loans and borrowings, bonds and lease	2.070	-	-	2.070
Other liabilities	8	-	-	8
Provisions	4.841	-	-	4.841
Deferred tax liabilities	1.691	(100)	-	1.591
Deferred income and government grants	1.141	-	-	1.141
<b>TOTAL NON-CURRENT LIABILITIES</b>	<b>9.751</b>	<b>(100)</b>	-	<b>9.651</b>
<b>CURRENT LIABILITIES</b>				
Trade liabilities	776	-	-	776
Financial liabilities at fair value through profit or loss	42	-	-	42
Interest-bearing loans and borrowings, bonds and lease	636	-	-	636
Other current financial liabilities	1.165	-	-	1.165
Other current non-financial liabilities	3.292	-	(75)	3.217
Income tax liabilities	121	-	-	121
Deferred income and government grants	560	(436)	75	199
Current provisions	1.917	(154)	-	1.763
<b>TOTAL CURRENT LIABILITIES</b>	<b>8.509</b>	<b>(590)</b>	-	<b>7.919</b>
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>60.303</b>	<b>(1.119)</b>	-	<b>59.184</b>

## CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE PERIOD ENDED 30 JUNE 2013

	Period ended 30 June 2013 (published data)	Change in CO <sub>2</sub> valuation	Connection fees	Period ended 30 June 2013 (restated)
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>				
<b>Profit before tax</b>	<b>3.116</b>	<b>(399)</b>	-	<b>2.717</b>
<b>Adjustments for:</b>				
Depreciation and amortization	1.529	-	-	1.529
Interest and dividend, net	8	-	-	8
Profit / loss on investment activities	(169)	-	-	(169)
Change in receivables	(415)	-	-	(415)
Change in inventories	578	-	-	578
Change in liabilities, excluding loans and bank credits	(395)	-	(5)	(400)
Change in prepayments	1.107	(1.417)	5	(305)
Change in provisions	(1.671)	1.816	-	145
Income tax paid	(505)	-	-	(505)
Other	81	-	-	81
<b>NET CASH FROM OPERATING ACTIVITIES</b>	<b>3.264</b>	-	-	<b>3.264</b>

## CONSOLIDATES STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2013

	As at 31 December 2013 (published data)	Connection fees	As at 31 December 2013 (restated)
<b>CURRENT LIABILITIES</b>			
Trade liabilities	935	-	935
Financial liabilities at fair value through profit or loss	24	-	24
Interest-bearing loans and borrowings, bonds and lease	528	-	528
Other current financial liabilities	1.944	-	1.944
Other current non-financial liabilities	1.673	(55)	1.618
Income tax liabilities	155	-	155
Deferred income and government grants	96	55	151
Current provisions	2.435	-	2.435
<b>TOTAL CURRENT LIABILITIES</b>	<b>7.790</b>	-	<b>7.790</b>

## 7 New standards and interpretations published, not yet effective

The following standards, changes in already effective standards and interpretations are not endorsed by the European Union and are not effective as at 1 January 2014:

- IFRS 9 *Financial Instruments* (with amendments) – for periods beginning 1 January 2018.
- IFRS 14 *Regulatory Deferral Accounts* – for periods beginning 1 January 2016.
- IFRS 15 *Revenue from Contracts with Customers* – for periods beginning 1 January 2017.
- Amendments to IFRS 11 (*Accounting for Acquisitions of Interests in Joint Operations*) – for periods beginning 1 January 2016.
- Amendments to IAS 16 and IAS 38 (*Clarification of Acceptable Methods of Depreciation and Amortisation*) – for periods beginning 1 January 2016.
- Amendments to IAS 16 and IAS 41 (*Bearer Plants*) – for periods beginning 1 January 2016.
- Amendments to IAS 19 *Employee Benefits* – for periods beginning 1 July 2014.
- Changes to various standards (IFRS 1, IFRS 2, IFRS 3, IFRS 8, IFRS 13, IAS 16, IAS 24, IAS 38, IAS 40) – for periods beginning 1 July 2014.

The following standards are applicable from 1 January 2014. The Group chose to early adopt these standards with effect from 2013:

- Amendments to IAS 32 *Financial instruments: presentation*.
- IFRS 10 *Consolidated financial statements*.
- IFRS 11 *Joint agreements*.
- IFRS 12 *Disclosure of investments in other entities*.
- Revised IAS 27 *Separate financial statements*.
- Revised IAS 28 *Investments in associated entities and joint ventures*.

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

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

The new IFRS 15 aims to align the rules for determining income (except for specific regulated revenue in other IFRS / IAS) and indicate the scope of required disclosures. Analysis of the impact of the standard on the Group's future financial statements is not yet complete.

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

## 8 Changes in estimates

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

- During the reporting period a revaluation of provision for reclamation costs and provisions for employee benefits was performed due to a decrease in a discount rate applied. The detailed information is disclosed in note 20 of these financial statements.
- Provisions are liabilities of uncertain timing or amount. During the reporting period, the Group changed estimations regarding the basis and amounts of some provisions. Changes of estimations are presented in note 20 of these financial statements.
- During the reporting period the Group updated the value of impairment allowances of financial and other assets. The changes are described in note 11 and 12 of these financial statements.
- During the reporting period the PGE Capital Group has revaluated the estimates regarding the LTC compensations. The above matter is described in note 26 of these financial statements.

## 9 Fair value hierarchy

The principles for the valuation of inventories, derivatives, stocks, shares and instruments that are not quoted on an active markets, for which the fair value can not be reliably determined is not possible to determine, are the same as presented in the financial statements for year ended 31 December 2013.

During the reporting and the comparative period, there have been no movements of financial instruments between the first and second levels of the fair value of hierarchy.

	As at 30 June 2014		As at 31 December 2013	
	Level 1	Level 2	Level 1	Level 2
<b>FAIR VALUE HIERARCHY</b>				
- CO <sub>2</sub> emission rights	388	-	246	-
<b>Inventories</b>	<b>388</b>	-	<b>246</b>	-
- commodity forward	-	51	-	95
- FX forward	-	14	-	9
<b>Financial assets</b>	-	<b>65</b>	-	<b>104</b>
- FX forward	-	1	-	1
- CCIRS valuation	-	5	-	-
- IRS valuation	-	45	-	23
<b>Financial liabilities</b>	-	<b>51</b>	-	<b>24</b>

As at the reporting date, the carrying amount of inventories amounted to PLN 1.839 million. The item contains CO<sub>2</sub> emission rights at fair value in the amount of PLN 388 million, as presented in the table above. Valuation of commodity forwards, foreign exchange and swap is recognized in the statement of financial position as assets or liabilities at fair value through profit or loss.

## 10 Operating segments

The Group reporting is based on business segments:

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

Organization and management over the Group is based on the division into segments, taking into account the nature of the products and services. Each segment represents a strategic business unit, offering different products and serving different markets. Assignment of particular entities to operating segments is described in note 3 of these financial statements. Transactions between segments are settled within the Group as if they were concluded with third parties – under market conditions.

### Seasonality of business segments

Atmospheric conditions cause seasonality of demand for electricity and heat, and have an impact on technical and economic conditions of their production, distribution and transmission, and thus influence the results obtained by the companies of PGE Group.

The level of electricity sales per year is variable and depends primarily on air temperature and day length. As a rule, lower air temperature in winter and shorter days cause the growth of electricity demand, while higher temperatures and longer days during the summer contribute to its decline. Moreover, seasonal changes are evident among selected groups of end users. Seasonality effects are more significant in particular for households than for the industrial sector.

Sales of heat depend in particular on air temperature and are higher in winter and lower in summer.

## INFORMATION ON BUSINESS SEGMENTS FOR THE PERIOD ENDED 30 JUNE 2014

	SEGMENT: Conventional Energy	SEGMENT: Renewable Energy	SEGMENT: Wholesale	SEGMENT: Distribution	SEGMENT: Retail sale	SEGMENT: Other activities	Consolidation adjustments	Total
<b>REVENUES</b>								
Sales revenues from external customers	6.508	376	118	791	6.038	369	8	14.208
Sales revenues from transactions with other segments	150	11	4.647	2.057	91	480	(7.436)	-
<b>TOTAL REVENUES FROM SEGMENTS</b>	<b>6.658</b>	<b>387</b>	<b>4.765</b>	<b>2.848</b>	<b>6.129</b>	<b>849</b>	<b>(7.428)</b>	<b>14.208</b>
<b>RESULTS</b>								
<b>EBIT *)</b>	<b>2.114</b>	<b>105</b>	<b>280</b>	<b>691</b>	<b>(104)</b>	<b>10</b>	<b>29</b>	<b>3.125</b>
<b>EBITDA **)</b>	<b>2.948</b>	<b>208</b>	<b>287</b>	<b>1.183</b>	<b>(100)</b>	<b>73</b>	<b>9</b>	<b>4.608</b>
Net financial revenues (expenses)								(7)
Share of profit of associates								-
<b>GROSS PROFIT</b>								<b>3.118</b>
Income tax								(608)
<b>NET PROFIT FOR THE REPORTING PERIOD</b>								<b>2.510</b>
<b>ASSETS AND LIABILITIES</b>								
Assets of the segments excluding trade receivables	32.183	3.268	776	14.787	1.744	1.111	(1.246)	52.623
Trade receivables	180	61	417	329	1.286	292	(808)	1.757
Shares in associates								9
Unallocated assets								9.069
<b>TOTAL ASSETS</b>								<b>63.458</b>
Liabilities of the segments excluding trade liabilities	6.360	225	2.276	2.502	1.171	337	(940)	11.931
Trade liabilities	491	42	134	160	553	180	(726)	834
Unallocated liabilities								6.779
<b>TOTAL LIABILITIES</b>								<b>19.544</b>
<b>OTHER INFORMATION ON BUSINESS SEGMENTS</b>								
Capital expenditures	1.578	155	6	452	1	74	(34)	2.232
Impairment allowances on financial and non-financial assets	62	(1)	-	2	11	(4)	(1)	69
Amortization, depreciation	834	103	7	492	4	63	(20)	1.483
Other non-monetary expenses ***)	434	8	(5)	4	435	20	256	1.152

\*) EBIT = operating profit (loss)

\*\*) EBITDA = EBIT + depreciation/amortization

\*\*\*) Non-monetary changes of provisions relate among others to: recultivation, provision for liability due to CO<sub>2</sub> emission rights, jubilee awards, employee tariff that are recognized in profit or loss and other comprehensive income.

## INFORMATION ON BUSINESS SEGMENTS FOR THE PERIOD ENDED 30 JUNE 2013

<i>restated</i>	SEGMENT: Conventional Energy	SEGMENT: Renewable Energy	SEGMENT: Wholesale	SEGMENT: Distribution	SEGMENT: Retail sale	SEGMENT: Other activities	Consolidation adjustments	Total
<b>REVENUES</b>								
Sales revenues from external customers	6.005	322	1.352	676	6.367	379	-	15.101
Sales revenues from transactions with other segments	277	54	4.821	2.110	119	422	(7.803)	-
<b>TOTAL REVENUES FROM SEGMENTS</b>	<b>6.282</b>	<b>376</b>	<b>6.173</b>	<b>2.786</b>	<b>6.486</b>	<b>801</b>	<b>(7.803)</b>	<b>15.101</b>
<b>RESULT</b>								
<b>EBIT *)</b>	<b>1.071</b>	<b>127</b>	<b>479</b>	<b>649</b>	<b>414</b>	<b>2</b>	<b>26</b>	<b>2.768</b>
<b>EBITDA **)</b>	<b>1.920</b>	<b>217</b>	<b>486</b>	<b>1.136</b>	<b>418</b>	<b>59</b>	<b>9</b>	<b>4.245</b>
Net financial revenues (expenses)								(51)
Share of profit of associates								-
<b>GROSS PROFIT</b>								<b>2.717</b>
Income tax								(515)
<b>NET PROFIT FOR THE REPORTING PERIOD</b>								<b>2.202</b>
<b>ASSETS AND LIABILITIES</b>								
Assets of the segments excluding trade receivables	29.826	2.937	1.823	14.507	1.456	1.050	(2.483)	49.116
Trade receivables	229	67	711	385	1.436	259	(926)	2.161
Shares in associates								41
Unallocated assets								7.866
<b>TOTAL ASSETS</b>								<b>59.184</b>
Liabilities of segment excluding trade liabilities	6.898	218	1.917	2.588	2.544	335	(2.124)	12.376
Trade liabilities	442	23	303	178	548	153	(871)	776
Unallocated liabilities								4.418
<b>TOTAL LIABILITIES</b>								<b>17.570</b>
<b>OTHER INFORMATION ON BUSINESS SEGMENTS</b>								
Capital expenditures	1.108	62	5	467	4	60	(46)	1.660
Purchase of non-current assets (net value) within acquired new companies	-	411	-	-	-	-	312	723
Impairment allowances on financial and non-financial assets	94	5	108	8	13	1	(14)	215
Amortization, depreciation	849	90	7	487	4	57	(17)	1.477
Other non-monetary expenses ***)	1.049	7	5	67	301	23	(54)	1.398

\*) EBIT = operating profit (loss)

\*\*) EBITDA = EBIT + amortization, depreciation

\*\*\*) Non-monetary changes of provisions relate among others to: recultivation, provision for liability due to CO<sub>2</sub> emission rights, jubilee awards, employee tariff that are recognized in profit or loss and other comprehensive income.



## 11 Revenues and expenses

### 11.1 Sales revenues

	Period ended 30 June 2014	Period ended 30 June 2013
<b>REVENUES FROM OPERATING ACTIVITIES</b>		
Sales of finished goods and merchandise with excise tax	13.065	14.704
Excise tax	(267)	(260)
<b>REVENUES FROM SALE OF MERCHANDISE AND FINISHED GOODS, INCLUDING:</b>	<b>12.798</b>	<b>14.444</b>
Sale of electricity	8.876	10.723
Sale of distribution services	2.675	2.593
Sale of heat	367	403
Sale of the property rights of energy origin	362	206
Regulatory system services	214	216
Other sales	304	303
<b>REVENUES FROM SALE OF SERVICES</b>	<b>248</b>	<b>287</b>
<b>REVENUES FROM LTC COMPENSATIONS</b>	<b>1.162</b>	<b>370</b>
<b>TOTAL SALES REVENUES</b>	<b>14.208</b>	<b>15.101</b>

The decrease in sales revenues for the period ended 30 June 2014 compared to the corresponding period of prior year is mainly due to the expiration of the contract with Energa Obrót S.A. and decrease of electricity prices.

The issue of revenues from LTC compensations is described in note 26.1 of these financial statements.

### 11.2 Costs by type and functions

	Period ended 30 June 2014	Period ended 30 June 2013 <i>restated</i>
<b>COSTS BY TYPE</b>		
Depreciation/amortization	1.483	1.477
Materials and energy	1.530	1.859
External services	1.190	1.085
Taxes and charges	1.430	1.620
Personnel expenses	2.302	2.147
Other costs by type	148	166
<b>TOTAL COSTS BY TYPE</b>	<b>8.083</b>	<b>8.354</b>
Change in inventories	(27)	(23)
Cost of products and services for the entity's own needs	(645)	(677)
Distribution and selling expenses	(744)	(491)
General and administrative expenses	(366)	(366)
Cost of merchandise and materials sold	4.181	4.843
<b>COST OF GOODS SOLD</b>	<b>10.482</b>	<b>11.640</b>

As described in note 6 of these consolidated financial statements, the Group changed its accounting policy for the valuation of the carbon dioxide emission rights. In order to ensure comparability of the relevant costs for the period ended 30 June 2013, these costs have appropriately restated.

### 11.3 Other operating revenues and expenses

	Period ended 30 June 2014	Period ended 30 June 2013
<b>OTHER OPERATING REVENUES</b>		
Provisions released	832	61
Adjustment of revenues from LTC compensations	246	148
Grants received	76	9
Compensations, penalties and fines received	56	77
Reversal of impairment allowances for receivables	30	7
Profit on disposal of property, plant and equipment	9	10
Surpluses / disclosures of assets	8	19
Other	32	36
<b>TOTAL OTHER OPERATING REVENUES</b>	<b>1.289</b>	<b>367</b>

Revenue from provisions released relates mainly to the release of provision for the purchase of CO<sub>2</sub> emission rights which amounted to PLN 751 million in PGE Górnictwo i Energetyka Konwencjonalna S.A. The issue was described in details in note 20.1.

The issue of revenues from the LTC compensation is described in note 26.1 of these financial statements.

	Period ended 30 June 2014	Period ended 30 June 2013
<b>OTHER OPERATING EXPENSES</b>		
The effect of change in the reclamation provision due to the change in discount rate	601	-
Impairment allowances raised for other assets	53	62
Impairment allowances raised for receivables	35	30
Liquidation of damages/ removal of failures	24	15
Provisions raised	21	60
Other	46	36
<b>TOTAL OTHER OPERATING EXPENSES</b>	<b>780</b>	<b>203</b>

The effect of the changes in the reclamation provision due to change in discount rate is described in note 20.2 of these financial statements.

The impairment allowances for other assets in the current period relate to modernization of tangible fixed assets, for which impairment was identified. In comparable period this position related primarily to Opole II Project. The impairment allowance was reversed in subsequent reporting periods.

## 11.4 Financial revenues and expenses

	Period ended 30 June 2014	Period ended 30 June 2013
<b>FINANCIAL REVENUES FROM FINANCIAL INSTRUMENTS</b>		
Dividends	2	3
Interest revenue	106	108
Revaluation / Reversal of impairment allowance	28	30
Foreign exchange gain	27	26
<b>FINANCIAL REVENUES FROM FINANCIAL INSTRUMENTS</b>	<b>163</b>	<b>167</b>
Provisions released	18	6
Other	1	7
<b>OTHER FINANCIAL REVENUES</b>	<b>19</b>	<b>13</b>
<b>TOTAL FINANCIAL REVENUES</b>	<b>182</b>	<b>180</b>

Revaluation of financial instruments relates mainly to transactions concluded on the market for carbon dioxide emission rights.

	Period ended 30 June 2014	Period ended 30 June 2013
<b>FINANCIAL EXPENSES FROM FINANCIAL INSTRUMENTS</b>		
Interest expense	36	37
Revaluation	27	-
Impairment losses	3	3
Foreign exchange losses	31	51
<b>FINANCIAL EXPENSES FROM FINANCIAL INSTRUMENTS</b>	<b>97</b>	<b>91</b>
<b>OTHER FINANCIAL EXPENSES</b>		
Interest expenses (including effect of discount unwinding)	91	129
Other	1	11
<b>OTHER FINANCIAL EXPENSES</b>	<b>92</b>	<b>140</b>
<b>TOTAL FINANCIAL EXPENSES</b>	<b>189</b>	<b>231</b>

Revaluation includes valuation of hedging transactions CCIRS and IRS.

## 12 Impairment allowances of assets

	Period ended 30 June 2014	Period ended 30 June 2013 <i>restated</i>
<b>IMPAIRMENT ALLOWANCES ON PROPERTY, PLANT AND EQUIPMENT</b>		
Impairment allowances raised	53	63
Reversal of impairment allowance	-	10
<b>IMPAIRMENT ALLOWANCES ON INVENTORIES</b>		
Impairment allowances raised	12	16
Reversal of impairment allowance	4	1

Impairment allowances raised on property, plant and equipment relates to write-offs on investment projects in manufacturing units which were covered with an impairment allowance in the previous years, due to the impairment losses recognized in cash generating units.

## 13 Income tax

	Period ended 30 June 2014	Period ended 30 June 2013 <i>restated</i>
<b>INCOME TAX PRESENTED IN THE STATEMENT OF PROFIT AND LOSS</b>		
Current income tax	246	404
Deferred income tax	362	111
<b>TOTAL</b>	<b>608</b>	<b>515</b>

In addition, in the item of other comprehensive income in the financial statements as at 30 June 2014, the Group recognized deferred tax asset on the valuation of financial instruments and the provisions for post-employment employee benefits in the amount of PLN 13 million.

## 14 Deferred tax asset and liability

	As at 30 June 2014	As at 31 December 2013
<b>COMPONENTS OF DEFERRED TAX ASSET</b>		
Difference between tax value and carrying value of property, plant and equipment	478	494
Difference between tax value and carrying value of financial assets	20	24
Difference between tax value and carrying value of financial liabilities	31	19
Difference between tax value and carrying value of inventories	29	41
Compensations from cancellation of LTC	92	215
Provisions for reclamation of excavations and of ash storages	499	369
Provision for CO <sub>2</sub> emission rights	60	272
Provisions for employee benefits	474	453
Other provisions	114	141
Unrealized tax costs	213	216
Infrastructure and connection fees granted free of charge	151	155
Tax losses	48	6
Other	93	101
<b>GROSS DEFERRED TAX ASSET</b>	<b>2.302</b>	<b>2.506</b>
Impairment allowance	(5)	(4)
<b>NET DEFERRED TAX ASSET</b>	<b>2.297</b>	<b>2.502</b>

	As at 30 June 2014	As at 31 December 2013
<b>COMPONENTS OF DEFERRED TAX LIABILITY</b>		
Difference between tax value and carrying value of property, plant and equipment	2.622	2.487
Difference between tax value and carrying value of other financial assets	9	-
Difference between tax value and carrying value of financial liabilities	22	31
Difference between tax value and carrying value of energy origin units	75	70
CO <sub>2</sub> emission rights	151	235
Revenues from accrued LTC compensations	770	647
Unrealized tax profits	193	203
Upward valuation of revenues	126	138
Other	40	54
<b>GROSS DEFERRED TAX LIABILITY</b>	<b>4.008</b>	<b>3.865</b>
<b>AFTER OFF-SET OF BALANCES THE DEFERRED TAX OF THE GROUP IS PRESENTED AS:</b>		
Deferred tax asset	356	302
Deferred tax liability	(2.067)	(1.665)

## 15 Greenhouse gas emission rights

The PGE Group producers maintain installations, covered with the act dated 28 April 2011 about a scheme for greenhouse gas emission allowance trading. From 2013, only part of emission rights for production of heat is granted unconditionally, while for production of electricity, as a rule, there are granted no free of charge EUA. Only on the basis of article 10c of Directive 2003/87/WE of the European Parliament on establishing a scheme for greenhouse gas emission allowance trading within the Union, is derogation possible providing the realization of investment projects included in the National Investment Plan. In order to cover electricity production entities can obtain free of charge CO<sub>2</sub> emission rights upon completion of the condition of presenting factual-financial statements on realization of projects included in the National Investment Plan.

PGE Polska Grupa Energetyczna S.A. submitted required statement from realization of investments on 9 December 2013. In April 2014, the entities of PGE Group received free CO<sub>2</sub> emission rights in the amount of approximately 31 million tonnes for units producing electricity and about 3 million tonnes for installations other than generating electricity.

	EUA		CER/ERU		Total Value
	amount (million Mg)	Value	amount (million Mg)	Value	
<b>AS AT 1 JANUARY 2013</b>	<b>76</b>	<b>597</b>	<b>6</b>	<b>194</b>	<b>791</b>
Purchase	38	772	-	-	772
Allocated free of charge	-	-	-	-	-
Redemption	(55)	(42)	(6)	(193)	(235)
Other	-	77	-	(1)	76
<b>AS AT 31 DECEMBER 2013</b>	<b>59</b>	<b>1.404</b>	<b>-</b>	<b>-</b>	<b>1.404</b>
Purchase	10	240	-	-	240
Allocated free of charge	34	-	-	-	-
Redemption	(61)	(682)	-	-	(682)
<b>AS AT 30 JUNE 2014</b>	<b>42</b>	<b>962</b>	<b>-</b>	<b>-</b>	<b>962</b>

## 16 Other current and non-current assets

### Other non-current assets

	As at 30 June 2014	As at 31 December 2013
Prepayments for property, plant and equipment under construction	1.180	602
Other prepayments	39	42
<b>Total other assets</b>	<b>1.219</b>	<b>644</b>

Prepayments for property, plant and equipment under construction mainly relate to investment projects conducted by PGE Górnictwo i Energetyka Konwencjonalna S.A.

### Other current assets

	As at 30 June 2014	As at 31 December 2013
<b>Deferred expenses</b>		
Property and tort insurance	21	20
IT services	8	10
Accrued commissions	34	22
Accrued construction-assembly contracts	-	9
Social Benefit Fund	43	5
Exclusion of land from agricultural and forestry production	16	-
Other accrued costs	54	34
<b>Other current assets</b>		
Accrued revenues	532	529
Advances for deliveries	433	-
VAT receivables	337	67
Excise tax receivables	45	23
Other tax receivables	5	2
Advances for deliveries of property, plant and equipment, and intangible assets	13	16
Other current assets	13	12
<b>Total other assets</b>	<b>1.554</b>	<b>749</b>

The accrued revenues comprise estimation of sales of the electric energy not read from the meters as at the reporting date. Advances for deliveries results from carbon purchase contract concluded by PGE Górnictwo i Energetyka Konwencjonalna S.A.

## 17 Significant financial assets

The carrying amount of financial assets measured at amortized cost is a reasonable estimate of their fair value.

### 17.1 Other loans and financial receivables

At the reporting date the main item of loans and other financial receivables represent deposits with maturity of over 3 months.

	As at 30 June 2014		As at 31 December 2013	
	Non-current	Current	Non-current	Current
Bank and other deposits	-	2.115	-	100
LTC compensation	-	1.323	-	675
Purchased bonds	376	-	358	-
Bails and guarantee deposits	-	23	1	58
Securities on the balancing market, IRGIT, KDPW guarantee fund	27	107	18	13
Other financial receivables	11	16	15	57
<b>TOTAL LOANS AND RECEIVABLES</b>	<b>414</b>	<b>3.584</b>	<b>392</b>	<b>903</b>

### 17.2 Cash and cash equivalents

Cash at bank earns interest at floating interests' rates, which depend on the bank deposits interest rates. Short-term deposits are made for various periods, mostly from one day to one month, depending on the Group's current demand for cash and bear interest at fixed interest rates.

	As at 30 June 2014	As at 31 December 2013
Cash at bank and in hand	638	986
Overnight deposits	508	517
Short-term deposits	3.431	4.449
<b>Total cash and cash equivalents</b>	<b>4.577</b>	<b>5.952</b>
Interest accrued on cash and cash equivalents, not received at the reporting date	(3)	(5)
Exchange rate differences on cash and cash equivalents in foreign currencies	1	-
<b>Total cash and cash equivalents recognized in the cash flow statement</b>	<b>4.575</b>	<b>5.947</b>
Remaining available credit limits	1.781	1.757
<i>Including credit limits on current account</i>	<i>1.459</i>	<i>1.646</i>

## 17.3 Financial assets at fair value through profit and loss

	As at 30 June 2014	As at 31 December 2013
<b>FINANCIAL ASSETS AT FAIR VALUE</b>		
- commodity forward	51	95
- currency forward	14	9
<b>TOTAL</b>	<b>65</b>	<b>104</b>

Within financial assets at fair value through profit and loss the PGE Group recognizes financial instruments related to carbon dioxide emissions trade - commodity forward and currency forward.

## 18 Equity

### 18.1 Share capital

	As at 30 June 2014	As at 31 December 2013
Number of series A ordinary shares with a nominal value of 10 PLN each	1.470.576.500	1.470.576.500
Number of series B ordinary shares with a nominal value of 10 PLN each	259.513.500	259.513.500
Number of series C ordinary shares with a nominal value of 10 PLN each	73.228.888	73.228.888
Number of series D ordinary shares with a nominal value of 10 PLN each	66.441.941	66.441.941
<b>TOTAL NUMBER OF SHARES</b>	<b>1.869.760.829</b>	<b>1.869.760.829</b>

During the reporting period there were no changes in the structure or the amount of share capital.

Ownership structure of the Company as at the reporting dates is presented below.

	State Treasury	Other Shareholders	Total
As at 1 January 2014	61,89%	38,11%	100,00%
As at 30 June 2014	61,89%	38,11%	100,00%

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

After the reporting date, that is on 2 July 2014 the State Treasury has disposed (directly and indirectly through Polskie Inwestycje Rozwojowe S.A.) 65.441.629 ordinary shares of the Company of a nominal value of PLN 10, representing 3,50% share in the share capital of the Company. According to the received notification from the Ministry of Treasury, after the above transaction, the share of the State Treasury in the Company's share capital amounts to 58,39%. According to information available to the Company on the date of publication of these financial statements, the only shareholder holding at least 5% of the total number of votes at the General Meeting of PGE S.A. was the State Treasury.

After the reporting date, and as at the date of the preparation of these financial statements, no changes to the share capital of the Company have occurred.



## 18.2 Revaluation reserve on financial instruments

Due to implementation of the hedge accounting, the PGE Group recognized an amount of PLN (15) million in the revaluation reserve in the period ended 30 June 2014. After taking into account deferred tax effect, the revaluation reserve amounted to PLN (12) million.

The below table presents changes in revaluation reserve in the reporting period due to applied hedge accounting (amounts presented gross before deferred tax):

	Period ended 30 June 2014	Year ended 31 December 2013
<b>Opening balance</b>	-	-
Deferral of changes in fair value of hedging instruments recognized as an effective hedge	(4)	-
Accrued interest on derivatives transferred revaluation reserve and recognized in interest expense	2	-
Currency revaluation CCIRS transferred from revaluation reserve and recognized in result on foreign exchange differences	(13)	-
Ineffective portion of changes in fair value of hedging derivatives recognized in the profit and loss	-	-
<b>Change in revaluation reserve</b>	<b>(15)</b>	-

## 19 Dividends paid and dividends declared

	Dividend paid or declared from the profit for the period/ for the year ended		
	30 June 2014	31 December 2013	31 December 2012
<b>CASH DIVIDENDS FROM ORDINARY SHARES</b>			
Dividend from retained earnings	-	2.057	784
Dividend from reserve capital	-	-	824
<b>TOTAL CASH DIVIDEND FROM ORDINARY SHARES</b>	-	<b>2.057</b>	<b>1.608</b>
Cash dividend per share (in PLN)	-	1,10	0,86

### Dividend from the profit for the period ended 30 June 2014

During the reporting period and till the day of the preparation of these financial statements, the Company made no advance payments of dividends.

### Dividend from the profit for the year 2013

On 6 June 2014, the General Shareholders Meeting of PGE S.A. resolved to distribute PLN 2.057 million from the net profit of 2013 as a dividend (that comprise dividend of PLN 1,10 per share). The dividend day was fixed on 5 September 2014 and dividend payment day on 26 September 2014.

In the statement of financial position prepared as at 30 June 2014 the liability resulting from declared dividends is presented in line other non-financial liabilities.

### Dividend from the profit for the year 2012

On 27 June 2013, the General Shareholders Meeting of the Company resolved to distribute PLN 784 million from the net profit of 2012 as a dividend. In addition, the dividend payment was in part paid from the reserve capital in the amount of PLN 824 million. The dividend was declared by the resolution of the Ordinary General Meeting held on 27 June 2013 and paid on 26 September 2013.

## 20 Provisions

	Post-employment benefits	Provisions for jubilee awards	Provisions for non-contractual use of the property	Provisions for purchase of CO <sub>2</sub> emission rights	Provisions for reclamation costs	Provisions for scrapping of property, plant and equipment	Provisions for energy origin units held for redemption	Other	Total
<b>AS AT 1 JANUARY 2014</b>	<b>1.342</b>	<b>941</b>	<b>161</b>	<b>1.432</b>	<b>2.054</b>	<b>63</b>	<b>395</b>	<b>509</b>	<b>6.897</b>
Interest costs	28	20	-	-	42	-	-	-	90
Revaluation of provision/ discount rate adjustment	52	47	-	-	601	-	-	-	700
Cost of present employment/ used provisions	(41)	(37)	-	(683)	-	(8)	(627)	(301)	(1.697)
Raised during the year	-	-	7	321	31	-	617	478	1.454
Reversed	-	-	(70)	(751)	-	-	(85)	(55)	(961)
Other changes	-	-	-	-	11	-	-	-	11
<b>AS AT 30 JUNE 2014</b>	<b>1.381</b>	<b>971</b>	<b>98</b>	<b>319</b>	<b>2.739</b>	<b>55</b>	<b>300</b>	<b>631</b>	<b>6.494</b>
<b>CURRENT</b>	<b>89</b>	<b>98</b>	<b>25</b>	<b>319</b>	<b>-</b>	<b>9</b>	<b>300</b>	<b>474</b>	<b>1.314</b>
<b>NON-CURRENT</b>	<b>1.292</b>	<b>873</b>	<b>73</b>	<b>-</b>	<b>2.739</b>	<b>46</b>	<b>-</b>	<b>157</b>	<b>5.180</b>

According to the current plans for reclamation of post-exploitation excavations, the Group estimates that the respective costs will be incurred in the years 2032-2081 (for PGE Górnictwo i Energetyka Konwencjonalna S.A. Branch Kopalnia Węgla Brunatnego Bełchatów) and in the years 2041-2090 (for PGE Górnictwo i Energetyka Konwencjonalna S.A. Branch Kopalnia Węgla Brunatnego Turów).

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS FOR THE 6 MONTHS PERIOD ENDED 30 JUNE 2014 IN ACCORDANCE WITH IFRS EU (IN PLN MILLION)

	Post-employment benefits	Provisions for jubilee awards	Provisions for non-contractual use of the property	Provisions for purchase of CO <sub>2</sub> emission rights	Provisions for reclamation costs	Provisions for scrapping of property, plant and equipment	Provisions for energy origin units held for redemption	Other	Total
<b>AS AT 1 JANUARY 2013</b> (restated)	<b>1.552</b>	<b>990</b>	<b>91</b>	<b>163</b>	<b>2.076</b>	<b>83</b>	<b>751</b>	<b>698</b>	<b>6.404</b>
Changes in the composition of the Group	-	(1)	-	-	26	-	-	(2)	23
Cost of present employment	33	46	-	-	-	-	-	-	79
Actuarial gains and losses excluding discount rate adjustment	(255)	(15)	-	-	-	-	-	-	(270)
Revaluation of provision/ discount rate adjustments	(56)	(25)	-	-	(226)	-	-	-	(307)
Interest costs	60	37	-	-	88	2	-	-	187
Benefits paid/ provisions used	(57)	(94)	(1)	(158)	-	(21)	(1.178)	(446)	(1.955)
Raised	-	-	109	1.427	66	-	979	348	2.929
Reversed	-	-	(39)	-	(36)	(1)	(157)	(89)	(322)
Other changes	65	3	1	-	60	-	-	-	129
<b>AS AT 31 DECEMBER 2013</b>	<b>1.342</b>	<b>941</b>	<b>161</b>	<b>1.432</b>	<b>2.054</b>	<b>63</b>	<b>395</b>	<b>509</b>	<b>6.897</b>
<b>CURRENT</b>	<b>93</b>	<b>97</b>	<b>37</b>	<b>1.432</b>	<b>-</b>	<b>18</b>	<b>395</b>	<b>363</b>	<b>2.435</b>
<b>NON-CURRENT</b>	<b>1.249</b>	<b>844</b>	<b>124</b>	<b>-</b>	<b>2.054</b>	<b>45</b>	<b>-</b>	<b>146</b>	<b>4.462</b>

## 20.1 Provisions for liability due to CO<sub>2</sub> emission rights

As a general rule, particular Group entities record provisions for liabilities of CO<sub>2</sub> emissions in relation to the shortage with CO<sub>2</sub> emission rights granted free of charge. Provision includes acquired EUA, and also possible coverage of the shortage with CER or ERU certificates. As described in note 15 of these financial statements the PGE Group is entitled to receive CO<sub>2</sub> emissions rights granted free of charge in connection to expenditures concerning investments submitted to the National Investment Plan.

On 8 April 2014, the European Commission approved the list of installations producing electricity, which included installations belonging to the Group, together with the number of allocated emission rights for 2013. On 10 April 2014 the Resolution of the Council of Ministers was published on the list of installations generating electricity and covered by the trading system for carbon dioxide emission rights in the settlement period beginning on 1 January 2013. Based on this regulation in April 2014 Krajowy Ośrodek Bilansowania i Zarządzania Emisjami (KOBiZE) granted CO<sub>2</sub> emission rights in total amount of 31 million tonnes to the respective accounts of installations belonging to the Group entities.

Also in April 2014, KOBiZE transferred CO<sub>2</sub> emission rights in total amount of 3 million tonnes to the accounts of PGE Group for years 2013 and 2014 for installations other than generating electricity.

Accordingly, in the second quarter of 2014, the PGE Group reversed the provision of PLN 751 million recognized in 2013, relating to CO<sub>2</sub> emission rights for 2013. While recognizing provision for liability due to CO<sub>2</sub> emission rights, the PGE Capital Group takes into account free of charge emission rights for year 2014.

## 20.2 Change of discount rate in reclamation and actuarial provisions

Due to the changes of the market interest rates, the PGE Group has adjusted the discount rate applied in the valuation of reclamation and actuarial provisions. The discount rate applied as at 30 June 2014 amounts to 3,50% (in comparison to 4,35% as at 31 December 2013). Due to the change of discount rate:

- Reclamation provision increased other operating expenses by PLN 601 million;
- Actuarial provision increased operating expenses by PLN 47 million;
- Actuarial provision increased other comprehensive income by PLN 52 million.

## 20.3 Other provisions

The main position of other provisions is a provision covering reported and anticipated claims relating to real estate tax. Moreover, the caption consists of provisions for disputes with counterparties, employees' annual bonuses and unused annual holiday leave accrual as well.

# 21 Contingent liabilities and receivables. Legal claims

## 21.1 Contingent liabilities

	As at 30 June 2014	As at 31 December 2013
Liabilities due to bank guarantees	3	3
Contingent return of grants from environmental funds	268	271
Legal claims	10	11
Contractual fines and penalties	12	12
Other contingent liabilities	26	23
<b>TOTAL CONTINGENT LIABILITIES</b>	<b>319</b>	<b>320</b>

## Other contingent liabilities

The other contingent liabilities comprise of compensation for damages caused by unforeseen events of PLN 15 million, value of potential cash fines resulting from proceeding relating to environmental protection of PLN 7 million (breach of the conditions of disposal of sewage and deforestation in some of PGE Group companies).

## 21.2 Other significant issues related to contingent liabilities

### Non-contractual use of property

The PGE Group creates provision for disputes under court proceedings, concerning non-contractual use of properties used for distribution activities. In addition, in the PGE Group, there are disputes at an earlier stage of proceedings and there is a possibility of increased number of disputes in the future.

## 21.3 Contingent receivables

As at reporting date, the PGE Group did not have significant contingent receivables. Contingent receivables related mainly to financing received from the National Fund for Environmental Protection and Water Management regarding the realization of the project of construction of cogeneration unit, reimbursement of VAT and registered claims for compensations from insurers relating to fortuitous events.

## 21.4 Other legal claims and court issues

### The issue of compensation for conversion of shares

Former shareholders of PGE Górnictwo i Energetyka S.A. are presenting to the courts a motion to summon PGE S.A. to attempt a settlement for payment of compensation for incorrect (in their opinion) determination of the exchange ratio of shares of PGE Górnictwo i Energetyka S.A. into shares of PGE S.A. during consolidation process that took place in 2010. The total value of claims resulting from the settlement directed by the former shareholders of PGE Górnictwo i Energetyka S.A. amounts to nearly PLN 8 million.

Independently from the settlement attempts stated above, Socrates Investment S.A. called for two trial settlements to the courts. The company demands from PGE S.A. compensation in a total amount of almost PLN 371 million in connection with incorrect (in their opinion) determination of the exchange ratio of shares in the merger of PGE Górnictwo i Energetyka S.A. with PGE S.A.

PGE S.A. does not recognize the claims of Socrates Investment S.A. and other shareholders who call for trial settlements. These claims are undocumented and unfounded. The value of the shares, which were subject to the process of consolidation (merger) were valued by the company PwC Polska sp. z o.o. The plan of the merger, including the exchange ratio of the company's shares which was merged with PGE S.A., was tested for correctness and fairness by the court-appointed expert, who found no irregularities. The independent court registered the merger. The former shareholders appearing before the courts have not established the basis on which, how nor based on what data or documents their claims were calculated.

In these cases, PGE S.A. refuses any settlements. It is to be noted, that there is a risk that Socrates Investment S.A. and other former shareholders will take a legal action lawsuit to receive compensation in claims previously claimed during the settlement attempts. For the reported claims, the Company has not created a provision.

### Claim for annulment of the resolutions of the Extraordinary General Shareholders Meeting

On 1 April 2014, PGE S.A. received a copy of lawsuit filed to the District Court of Warsaw by one of the shareholders. In the lawsuit, the shareholder is applying for annulment of the resolutions 1, 2 and 4 of the Extraordinary General Shareholders Meeting of the Company held on 6 February 2014. The Company filed a response to the claim.

## 22 Financial liabilities

### 22.1 Financial liabilities measured at amortised cost

	As at 30 June 2014		As at 31 December 2013	
	Non-current	Current	Non-current	Current
<b>FINANCIAL LIABILITIES VALUED AT AMORTIZED COST</b>				
Interest bearing loans and credits	931	658	992	526
Bonds	3.034	34	1.000	-
Leasing	2	1	2	2
Trade liabilities	-	834	-	935
Compensations related to LTC	-	168	-	817
Other financial liabilities	11	706	11	1.127
<b>TOTAL</b>	<b>3.978</b>	<b>2.401</b>	<b>2.005</b>	<b>3.407</b>

#### Interest-bearing loans

As part of the loans and credits presented in the table, the Group recognizes:

- investment credit facility drawn by PGE Górnictwo i Energetyka Konwencjonalna S.A. Branch Elektrownia Bełchatów from Nordic Investment Bank to finance construction of 858 MW power unit – in the carrying amount of PLN 618 million as at 30 June 2014;
- investment credit facilities drawn by PGE Górnictwo i Energetyka Konwencjonalna S.A. Branch Elektrownia Turów from Nordic Investment Bank and UBS Investment Bank AG to modernize production equipment in a total carrying amount of PLN 252 million as at 30 June 2014;
- overdraft facilities drawn by PGE Górnictwo i Energetyka Konwencjonalna S.A. as at 30 June 2014 of PLN 502 million.

#### Issuance of bonds

The parent company has the ability to finance its own, and its subsidiaries operations through three bond issue programs:

- The bond issue program for the amount of PLN 5 billion directed towards investors from the Polish capital market. On 27 June 2013, the first non-public issuance took place of 5-year bonds, the coupon bearer bonds with a variable interest rate under this program. The nominal value of the issue was PLN 1 billion and the maturity of the bonds is 27 June 2018. On 29 August 2013 the bonds were floated in the Alternative Trading System organized by BondSpot S.A. and Giełda Papierów Wartościowych S.A.
- The bond issue program in the amount of PLN 5 billion directed towards entities within the PGE Group.
- The medium term Eurobonds Issue Programme of EUR 2 billion established on 22 May 2014 by PGE S.A. together with PGE Sweden AB (publ), a 100% subsidiary of PGE S.A. Under the Programme, PGE Sweden AB (publ) may issue eurobonds up to the amount of EUR 2 billion with a minimum maturity of 1 year. On 9 June 2014, PGE Sweden AB (publ) has issued Eurobonds in total amount of EUR 500 million and a five year maturity.

#### Other financial liabilities

Other financial liabilities consist mainly of payables for the purchased property, plant and equipment of PLN 421 million and received bails and guarantee deposits of PLN 65 million.

## 22.2 Financial liabilities at fair value

	As at 30 June 2014	As at 31 December 2013
<b>FINANCIAL LIABILITIES AT FAIR VALUE</b>		
- IRS valuation	45	23
- CCIRS valuation	5	-
- FX forward	1	1
<b>TOTAL</b>	<b>51</b>	<b>24</b>

### IRS hedging transaction

In the reporting period PGE S.A. concluded 2 IRS transactions, hedging the interest rate on issued bonds with a nominal value of PLN 1 billion. Payments arising from IRS transactions are correlated with interest payments on bonds. Changes in fair value of IRS transaction are recognized fully in profit or loss.

In 2013, Elektrownia Turów S.A. (currently a branch of PGE Górnictwo i Energetyka Konwencjonalna S.A.) concluded a IRS hedge transactions – swap. These transactions are aimed to hedge variable interest rates (USD LIBOR 6m) on investment credits in the value of USD 30, 40 and 80 million from Nordic Investment Bank incurred to finance investments in Turów power plant. In these transactions, banks-contractors pay interest based on variable rate, and the company pays Citibank interest based on fixed rate. As a result of IRS transaction hedging variable interest rate is effectively changed to fixed interest rate in relation to Nordic Investment Bank loans.

### CCIRS hedging transaction

In connection with loans received from PGE Sweden AB (publ), disclosed in note 26.2 of these financial statements, in June 2014 the Company concluded a CCIRS transaction and designated them for currency risk hedging instruments in cash flow hedge accounting. In these transactions, banks-contractors of PGE S.A. pay interests based on a fixed rate in EUR and PGE S.A. pays interest based on a fixed rate in PLN. The nominal value, payment of interest and repayment of nominal value in CCIRS transaction are correlated with the relevant conditions arising from loan agreements.

For the CCIRS transaction the Company applies hedge accounting. The impact of hedge accounting is presented in note 18.2 of these financial statements.

## 23 Future investment commitments

At the date of the preparation of these consolidated financial statements, the largest investment in the PGE Group is the construction of power units 5 and 6 at PGE Górnictwo i Energetyka Konwencjonalna S.A., Branch Elektrownia Opole. According to the contract signed with the General Contractor, the value of this project is PLN 9.397 million, including advance payment already made of PLN 811 million. On 31 January 2014 the General Contractor has received Order to Start of Work. Beyond the mentioned investment as at 30 June 2014, the PGE Group was committed to incur capital expenditures on property, plant and equipment in the amount of approximately PLN 5.264 million. These amounts relate mainly to construction of new power units, modernization of the Group's assets and a purchase of machinery and equipment. Significant future investment commitments concern:

- PGE Górnictwo i Energetyka Konwencjonalna S.A. Branch Elektrownia Bełchatów – reconstruction and modernization of blocks, including flue gas desulphurization of approximately PLN 2.208 million,
- PGE Górnictwo i Energetyka Konwencjonalna S.A. Branch Elektrociepłownia Gorzów – construction of new steam – gas block including service agreement and connection to transmission network – of approximately PLN 564 million,
- PGE Górnictwo i Energetyka Konwencjonalna S.A. Branch Elektrownia Turów, Elektrownia Opole and Elektrownia Dolna Odra – investment aiming to reduce nitric and sulphur oxide emission – of approximately PLN 602 million,
- investment commitments of PGE Dystrybucja S.A. related to network distribution assets of the total value of approximately PLN 759 million.

## 24 Information on significant purchase transactions of property, plant and equipment, and intangible assets

During the reporting period, the PGE Group purchased tangible fixed assets and tangible fixed assets under construction of a total amount of PLN 2.232 million. The largest expenditures were incurred by PGE Górnictwo i Energetyka Konwencjonalna S.A. (PLN 1.578 million), PGE Dystrybucja S.A. (PLN 452 million), and Eolica Wojciechowo Sp. z o.o. (PLN 114 million). The main items of expenditures were:

- Reconstructing and refurbishing project of power units 7 – 12 in Elektrownia Bełchatów - PLN 532 million;
- Construction of two power units 5 and 6 in Elektrownia Opole - PLN 127 million;
- Change in the ash storage technology in Elektrownia Bełchatów - PLN 78 million;
- The construction of wind farms by Eolica Wojciechowo with the power of 28 MW - PLN 114 million.

## 25 Information on related parties

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

### 25.1 Associates

The sale of entities belonging to the PGE Group to associates for the 6 month period ended 30 June 2014 and 30 June 2013 amounted to PLN 4 million. As at 31 December 2013, the Group presented trade receivables from associates in the amount of PLN 1 million. As at 30 June 2014, trade receivables from associates did not occur

### 25.2 Subsidiaries of the State Treasury

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

	Period ended 30 June 2014	Period ended 30 June 2013
Sales to related parties	1.154	1.893
Purchases from related parties	2.011	1.926

  

	As at 30 June 2014	As at 31 December 2013
Trade receivables from related parties	204	523
Trade payables to related parties	330	351

The largest transactions with related entities of the State Treasury relate to the company Polskie Sieci Elektroenergetyczne S.A. and the purchase of coal from Polish mines. In addition, the PGE Group concludes significant transactions on the energy market via Towarowa Giełda Energii S.A. However, because this entity is only engaged in the organization of exchange trading activities, purchases and sales transacted through this entity are not recognized as transactions with related parties.

The decrease in sales and receivables from related entities is mainly due to the expiration of the contract of the parent company with Energa Obrót S.A.



## 25.3 Key management personnel remuneration

The key management personnel comprises of the Management Boards and Supervisory Boards of the parent company, group entities included in main business lines, PGE EJ1 sp. z o.o., PGE Systemy S.A. and Exatel S.A.

<i>PLN thousand</i>	Period ended 30 June 2014	Period ended 30 June 2013 <i>restated</i>
Short-term employee benefits (salaries and salary related costs)	12.092	13.766
Post-employment and termination benefits	2.698	1.535
<b>TOTAL REMUNERATION OF KEY MANAGEMENT PERSONNEL</b>	<b>14.790</b>	<b>15.301</b>
Remuneration of key management personnel of non-core entities	8.990	9.284
<b>TOTAL REMUNERATION OF KEY MANAGEMENT PERSONNEL</b>	<b>23.780</b>	<b>24.585</b>

<i>PLN thousand</i>	Period ended 30 June 2014	Period ended 30 June 2013 <i>restated</i>
The Management Board of the Parent	4.064	5.232
The Supervisory Board of the Parent	160	145
The Management Boards – subsidiaries	10.030	9.489
The Supervisory Boards – subsidiaries	536	435
<b>TOTAL</b>	<b>14.790</b>	<b>15.301</b>
Remuneration of key management personnel of non-core entities	8.990	9.284
<b>TOTAL REMUNERATION OF KEY MANAGEMENT PERSONNEL</b>	<b>23.780</b>	<b>24.585</b>

The Members of the Management Boards of some of the Group companies are employed on the basis of civil law contracts for management (i.e. management contracts). The above remuneration is included in other costs by type disclosed in note 11.2 Costs by type and function.

## 26 Significant events of the reporting period and subsequent events

### 26.1 Compensation of long term contracts

#### The decision of the President of the Energy Regulatory Office concerning the implementation of the LTC Act

Some producers of PGE Górnictwo i Energetyka Konwencjonalna S.A. became entitled to receive funds to cover stranded costs (so-called "compensation") pursuant to the Act of 29 June 2007 on the Rules of Coverage of Costs Occurring at Production Plants as a Consequence of Early Termination of Long-Term Power and Electricity Sales Contracts (Journal of Laws No. 130, item 905, of 2007) (the "Long-Term Contracts Act"). The LTC Act is ambiguous in many points and raise important questions of interpretation. The calculation of the estimated results of each manufacturer and resulting compensations, annual adjustments of stranded costs, final adjustments and resulting revenues enclosed in statement of comprehensive income was performed by the PGE Capital Group with the best of its knowledge in this area and with support of external experts.

In the previous years, the producers (from the PGE Group) received decisions on annual adjustments of stranded costs and costs related to natural gas fired entities for the years 2008 - 2012. The majority of these decisions were unfavourable for the particular entities and the Group believes that they were issued in violation of the LTC Act. As a consequence, since 2009, a number of proceedings have been pending before the Regional Court in Warsaw - Competition and Consumer Protection Court ("CCP Court") and before the Court of Appeals concerning appeals filed by producers from the PGE Group against the decision of the President of the Energy Regulatory Office ("ERO"). These proceedings are currently at various levels of advancement.

In the first half of 2014, a final sentences, favourable for the Group, were made in the proceedings concerning appeals against the President of ERO decisions regarding the annual adjustment of stranded costs for PGE GiEK S.A. Branch

Elektrociepłownia Rzeszów for the year 2009, PGE GiEK S.A. Branch Elektrownia Opole for the year 2009 and PGE GiEK S.A. for the year 2010. The amount of dispute in these cases was PLN 680 million.

On 11 August 2014, PGE GiEK S.A. received an administrative decision from the President of ERO regarding the amount of the annual adjustment of the stranded costs for the year 2013. In accordance with the decision of the President of ERO, the annual adjustment of stranded costs incurred in the manufacturing units: Branch Elektrownia Turów and Branch Elektrownia Opole for the year 2013 amounted to approximately PLN (+) 438 million. The Group considers this amount as undisputable.

On 14 August 2014, CCP Court made a sentence which considered part of the appeal of PGE GiEK S.A. and changed the decision of the President of ERO dated 11 July 2011 regarding the amount of the annual adjustment of the stranded costs due to PGE GiEK S.A. Branch Elektrownia Opole for the year 2010. Based on the CCP Court sentence, the annual adjustment of the stranded costs due to PGE GiEK S.A. Branch Elektrownia Opole for the year 2010 amounted to approximately PLN (-) 50 million including interests.

### **Impact on the financial statements for the 1 half of 2014**

In the financial statements for the period ended 30 June 2014, the Group recognized LTC revenue in sales revenue in the amount of PLN 1.162 million. In this value, the amount of approximately PLN 911 million relates to the revaluation of the LTC compensation model, which was caused by the change in assumptions used to calculate the final adjustment (including in particular the change in the discount rate). The rationale for the introduced changes in assumptions was the information regarding the decision of the President of ERO concerning the final adjustment submitted to one of the producers which is covered by the compensation system.

In addition, the final judgments of the Court of Appeal on PGE GiEK S.A. Branch Elektrownia Opole, GiEK S.A. Branch Elektrociepłownia Rzeszów and PGE GiEK S.A. caused an LTC compensation adjustment of approximately PLN 246 million recorded in the financial statements for the period ended 30 June 2014. The adjustment value is recognized in the statement of comprehensive income under other operating income.

The amount of disputes in all matters relating to the years 2008 – 2012 amount to PLN 1.660 million, including the amount of disputes favourably resolved for PGE Group by the Court of Appeal and a favourable final judgment regarding CCP Court in the amount of PLN 1.422 million.

The decision of the ERO President regarding the annual adjustment of stranded costs for the year 2013 and CCP Court decision dated 14 August 2014 will not have impact on reported revenues and earnings of the Group in 2014.

## **26.2 Establishment of the Eurobonds programme**

On 22 May 2014 PGE Polska Grupa Energetyczna S.A. along with PGE Sweden AB (publ), 100% subsidiary of PGE S.A., established a Euro Medium Term Note Programme. Under the Programme PGE Sweden AB (publ) may issue Eurobonds up to EUR 2 billion with a minimum maturity of 1 year.

On 9 June 2014 PGE Sweden AB (publ) issued Eurobonds in the total amount of EUR 500 million with a five-year maturity. Then, on 10 June 2014 PGE Sweden AB (publ) concluded 3 loan agreements with PGE S.A. of EUR 514 million. According to the repayment schedule the loans were granted for the period of 5 years. Principal and interest cash flows under the loan agreement are secured by the CCIRS hedging transactions, the terms of which correspond exactly to the conditions of hedged instruments.

After the reporting date, on 1 August 2014 PGE Sweden AB (publ) has issued bonds worth EUR 138 million with maturity date of 15 years.

## **26.3 Conclusion of the contract for project and construction of power unit in Elektrownia Turów**

On 10 July 2014 PGE Górnictwo i Energetyka Konwencjonalna S.A. concluded the contract with consortium comprised of: Mitsubishi Hitachi Power Systems Europe GmbH (consortium leader), Budimex S.A. and Tecnicas Reunidas S.A. Subject of the contract contains project and construction in a turnkey solution of power unit with net power of 450 MWe with a supercritical steam dust boiler in Elektrownia Turów. The power unit will be noted as CCS Ready.

The deadline of the contract completion was set at 56 months from the date of noticed request for works commencement. Net value of the contract amounted to PLN 3.250 million.

The parties have also concluded an Amendment No. 1 to the agreement, in which changes of limitation of risks of the parties were introduced (the deadline for issuance of request for commencement of works was extended to 31 December 2014) due to potential possibility of raising a complaint to the District Court by the other bidders participating in the tender procedure.

## 26.4 Preparations for the construction and operations for the first Polish nuclear power plant

On 28 January 2014, the Council of Ministers adopted a resolution regarding the Polish Nuclear Power Program.

Adoption of the Program was one of the conditions required by the shareholders agreement between PGE Polska Grupa Energetyczna S.A., KGHM Polska Miedź S.A., Tauron Polska Energia S.A. and ENEA S.A. (further together as "Parties"). The second of the conditions is to obtain a favourable response from the President of the OCCP regarding the intention of the concentration.

The Shareholders agreement was initialled on 23 September 2013, as a result of the work related to the development of a draft agreement for the acquisition of shares in the target company responsible for the construction and operation of the nuclear power plant. In accordance, the Parties stated that the initialled document was a draft of the future shareholders agreement, which would be signed after obtaining necessary corporate approvals of all Parties.

Shareholders agreement commits the parties to conclude an agreement for the acquisition of shares in PGE EJ1 Sp. z o.o., the special purpose entity for the purpose of constructing and operating the nuclear power plant. In accordance with the Shareholders Agreement, PGE S.A. will sell, based on the remaining parties of the shareholders agreement, a package of shares representing a total of 30% of the share capital of PGE EJ1 Sp. z o.o., in which:

- PGE S.A. will possess 70% of the share capital of PGE EJ1 sp. z o.o.
- KGHM Polska Miedź S.A. will possess 10% of the share capital of PGE EJ1 sp. z o.o.
- Tauron Polska Energia S.A. will possess 10% of the share capital of PGE EJ1 sp. z o.o.
- ENEA S.A. will possess 10% of the share capital of PGE EJ1 sp. z o.o.

On 1 August 2014, the Parties submitted a request to the OCCP for the approval of the concentration regarding the planned sale of PGE EJ 1 sp. z o.o. shares by PGE S.A. to KGHM Polska Miedź S.A., Tauron Polska Energia S.A. and Enea S.A.

Warsaw, 26 August 2014

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

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***Marek Woszczyk***

***President of the Management Board***

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***Jacek Drozd***  
***Vice-President of the***  
***Management Board***

***Grzegorz Krystek***  
***Vice-President of the***  
***Management Board***

***Dariusz Marzec***  
***Vice-President of the***  
***Management Board***