



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

**Opinion and Report  
of the Independent Auditor  
Financial Year ended  
31 December 2010**

The opinion contains 3 pages  
The report supplementing the auditor's opinion  
contains 10 pages  
Opinion of the independent auditor  
and report supplementing the auditor's opinion  
on the financial statements  
for the financial year ended  
31 December 2010



KPMG Audyt Sp. z o.o.  
ul. Chłodna 51  
00-867 Warszawa  
Poland

Telefon +48 22 528 11 00  
Fax +48 22 528 10 09  
E-mail kpmg@kpmg.pl  
Internet www.kpmg.pl

*This document is a free translation of the Polish original. Terminology current in Anglo-Saxon countries has been used where practicable for the purposes of this translation in order to aid understanding. The binding Polish original should be referred to in matters of interpretation.*

## OPINION OF THE INDEPENDENT AUDITOR

*To the General Meeting PGE Polska Grupa Energetyczna S.A.*

We have audited the accompanying financial statements of PGE Polska Grupa Energetyczna S.A., seated in Warsaw, ul. Mysia 2 ("the Company"), which comprise the introduction to the financial statements, the balance sheet as at 31 December 2010, the profit and loss account, the statement of changes in equity and the cash flow statement for the year then ended and the supplementary information and explanations.

### *Management's and Supervisory Board's Responsibility for the Financial Statements*

Management of the Company is responsible for the correctness of the accounting records, the preparation and fair presentation of these financial statements and preparation of the Report on the Company's activities in accordance with the Accounting Act dated 29 September 1994 (Official Journal from 2009, No. 152, item 1223 with amendments) ("the Accounting Act") and related bylaws, the requirements for issuers of securities admitted to trading on an official stock-exchange listing market and other applicable regulations. Management of the Company is also responsible for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

According to the Accounting Act, Management of the Company and members of the Supervisory Board are required to ensure that the financial statements and the Report on the Company's activities are in compliance with the requirements set forth in the Accounting Act.

### *Auditor's Responsibility*

Our responsibility, based on our audit, is to express an opinion on these financial statements and whether the financial statements are derived from properly maintained accounting records. We conducted our audit in accordance with section 7 of the Accounting Act, national standards on auditing issued by Polish National Council of Certified Auditors and International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements and the accounting records from which they are derived are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### *Opinion*

In our opinion, the accompanying financial statements of PGE Polska Grupa Energetyczna S.A. have been prepared and present fairly, in all material respects, the financial position of the Company as at 31 December 2010 and its financial performance and its cash flows for the year then ended in accordance with the accounting principles applicable to the territory of the Republic of Poland as set out in the Accounting Act and related bylaws, the requirements for issuers of securities admitted to trading on an official stock-exchange listing market, are in compliance with the respective regulations and the provisions of the Company's articles of association that apply to the Company's financial statements and have been prepared from accounting records that, in all material respects, have been properly maintained.

#### *Emphasis of Matter*

Without qualifying our opinion, we draw attention to the information presented in note VI.22 of the supplementary information and explanations to the financial statements, in which the Management Board describes the uncertainty relating to future settlement of prepayments made by the Company resulting from the execution of the agreement described in the above mentioned Note.

#### *Other Matters*

As required under the Accounting Act, we also report that the Report on the PGE Polska Grupa Energetyczna S.A. activities includes, in all material respects, the information required by Art. 49 of the Accounting Act and by the Decree of the Ministry of Finance dated 19 February 2009 on current and periodic information provided by issuers of securities and the conditions for recognition as equivalent information required by the law of a non-Member State (Official Journal from 2009, No 33, item 259) and the information is consistent with the financial statements.

A comparative data of the accompanying financial statements of PGE Polska Grupa Energetyczna S.A. contain, in connection with mergers of companies that have taken place during the financial year ended 31 December 2010, data from financial statements of the Company and companies listed in the note VI.1 of the Supplementary information and explanations to the financial statements. Financial statements as at and for the year ended 31 December 2009, under which the restated comparative data were prepared transformed comparative figures: PGE Energia S.A. in Lublin and PGE Electra S.A. in Warsaw were audited by other entities authorized to audit, which issued an unqualified opinion on those financial statements. The financial statements of PGE Górnictwo i Energetyka S.A. in Lodz, under which restated comparative data were prepared, audited by KPMG Audyt Sp. z o.o.

On behalf of KPMG Audyt Sp. z o.o. registration number 458  
ul. Chłodna 51, 00-867 Warsaw

*Signed on the Polish original*

*Signed on the Polish original*

.....  
Certified Auditor No. 90116  
Renata Dobersztyn-Hamerska

.....  
Certified Auditor No. 90061  
Marek Gajdziński

15 March 2011  
Warsaw



TRANSLATION

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

**Report supplementing  
the auditor's opinion  
on the financial statements  
Financial Year ended  
31 December 2010**

The report supplementing the auditor's opinion  
contains 10 pages

Report supplementing the auditor's opinion  
on the financial statements  
for the financial year ended  
31 December 2010



**PGE Polska Grupa Energetyczna S.A.**  
*Report supplementing the opinion on the financial statements  
for the financial year ended 31 December 2010*

*This document is a free translation of the Polish original. Terminology  
current in Anglo-Saxon countries has been used where practicable for the  
purposes of this translation in order to aid understanding. The binding  
Polish original should be referred to in matters of interpretation.*

## Contents

1.	General	3
1.1.	General information about the Company	3
1.1.1.	Company name	3
1.1.2.	Registered office	3
1.1.3.	Registration in the National Court Register	3
1.1.4.	Management of the Company	3
1.2.	Auditor information	3
1.2.1.	Key certified auditor information	3
1.2.2.	Authorized auditor information	4
1.3.	Prior period financial statements	4
1.4.	Audit scope and responsibilities	4
2.	Financial analysis of the Company	6
2.1.	Summary of the financial statements	6
2.1.1.	Balance sheet	6
2.1.2.	Profit and loss account	7
2.2.	Selected financial ratios	8
3.	Detailed report	9
3.1.	Proper operation of the accounting system	9
3.2.	Introduction and supplementary information and explanations to the financial statements	9
3.3.	Report on the Company's activities	9
3.4.	Information on the opinion of the independent auditor	10

## **1. General**

### **1.1. General information about the Company**

#### **1.1.1. Company name**

PGE Polska Grupa Energetyczna S.A.

#### **1.1.2. Registered office**

ul. Mysia 2  
00-496 Warsaw

#### **1.1.3. Registration in the National Court Register**

Registration court:	District Court for the Capital City Warsaw in Warsaw, XII Commercial Department of the National Court Register
Date:	5 November 2001
Registration number:	KRS 0000059307
Initial capital as at balance sheet date	PLN 18,697,837,280.00

#### **1.1.4. Management of the Company**

The Management Board is responsible for management of the Company.

At 31 December 2010, the Management Board of the Company was comprised of the following members:

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

According to the resolution of the Supervisory Board dated 5 January 2011 Mr Wojciech Topolnicki was dismissed from the position of the Vice President of the Management Board.

## **1.2. Auditor information**

### **1.2.1. Key certified auditor information**

Name and surname:	Marek Gajdziński
Registration number:	90061

Name and surname:	Renata Dobersztyn-Hamerska
Registration number:	90116



### **1.2.2. Authorized auditor information**

Name:	KPMG Audyt Sp. z o.o.
Address:	ul. Chłodna 51, 00-867 Warsaw
Registration number:	KRS 0000104753
Registration court:	District Court for the Capital City Warsaw in Warsaw, XII Commercial Department of the National Court Register
Share capital:	PLN 125,000
NIP number:	526-10-24-841

KPMG Audyt Sp. z o.o. is entered in the register of entities authorised to audit financial statements under number 458.

### **1.3. Prior period financial statements**

The financial statements as at and for the year ended 31 December 2009 were audited by KPMG Audyt Sp. z o.o. and received an unqualified opinion with the following emphasis of matter:

“Without qualifying our opinion, we draw attention to the information presented in note VI.16 of the supplementary information and explanations to the financial statements, in which the Management Board describes the uncertainty relating to future settlement of prepayments made by the Company resulting from the execution of the agreement described in the above mentioned Note.”

The financial statements were approved at the General Meeting on 23 June 2010 where it was resolved to allocate the profit for the prior financial year of PLN 1,440,497,736.84 as follows:

- 125,629,336.84 – to reserve capital,
- 1,314,868,400.00 – to be paid as a dividend.

The financial statements were submitted to the Registry Court on 24 June 2010 and were published in Monitor Polski B No. 1801 on 28 September 2010.

### **1.4. Audit scope and responsibilities**

This report was prepared for the General Meeting of PGE Polska Grupa Energetyczna S.A. seated in Warsaw, ul. Mysia 2 and relates to the financial statements comprising: the introduction to the financial statements, the balance sheet as at 31 December 2010, the profit and loss account, the statement of changes in equity, the cash flow statement for the year then ended and the supplementary information and explanations.

The financial statements have been audited in accordance with the contract dated 15 November 2010, concluded on the basis of the resolution of the Supervisory Board dated 30 September 2010 on the appointment of the auditor.

We conducted the audit in accordance with section 7 of the Accounting Act, national standards on auditing issued by Polish National Council of Certified Auditors and International Standards on Auditing.

We audited the financial statements in the Company's head office during the period from 7 February to 15 March 2011.



Management of the Company is responsible for the correctness of the accounting records and the preparation and fair presentation of the financial statements and preparation of the Report on the Company's activities in accordance with the accounting principles as set out in the Accounting Act and in compliance with the respective bylaws, the requirements for issuers of securities admitted to trading on an official stock-exchange listing market and other applicable regulations.

Our responsibility is to express an opinion and to prepare a supplementing report on the financial statements and whether the financial statements have been prepared from properly maintained accounting records based on our audit.

Management of the Company submitted a statement, dated the same date as this report, as to the true and fair presentation of the financial statements presented for audit, which confirmed that there were no undisclosed matters which could significantly influence the information presented in the financial statements.

All required statements, explanations and information and all our requests for additional documents and information necessary for expressing our opinion and preparing the report have been fulfilled.

Key certified auditors and KPMG Audyt Sp. z o.o. fulfill independence requirements as described in Art. 56 points 3 and 4 of the Act on certified auditors and their government, audit firms and public oversight dated 7 May 2009 (Official Journal No. 77, item 649).

The scope of the work planned and performed has not been limited in any way. The method and scope of our audit is detailed in working papers prepared by us and retained in the offices of KPMG Audyt Sp. z o.o.

## 2. Financial analysis of the Company

### 2.1. Summary of the financial statements

#### 2.1.1. Balance sheet

ASSETS	31.12.2010 PLN '000	% of total	31.12.2009 PLN '000 not audited	% of total
<b>Non-current assets</b>			restated data*	
Intangible assets	6,519.2	-	11,079.2	0.1
Tangible fixed assets	86,504.2	0.3	84,250.4	0.3
Long-term receivables	3,358.5	-	3,457.0	-
Long-term investments	22,903,348.3	71.6	23,161,628.5	79.7
Long-term prepayments and deferred expenses	221,040.2	0.7	239,084.2	0.8
	23,220,770.4	72.6	23,499,499.3	80.9
<b>Current assets</b>				
Inventory	31,318.2	0.1	68,261.9	0.2
Short-term receivables	1,461,676.2	4.5	1,151,667.8	4.0
Short-term investments	7,163,168.2	22.4	4,318,862.4	14.8
Short-term prepayments and deferred expenses	125,974.1	0.4	22,495.6	0.1
	8,782,136.7	27.4	5,561,287.7	19.1
<b>TOTAL ASSETS</b>	<b>32,002,907.1</b>	<b>100.0</b>	<b>29,060,787.0</b>	<b>100.0</b>
<b>EQUITY AND LIABILITIES</b>	<b>31.12.2010 PLN '000</b>	<b>% of total</b>	<b>31.12.2009 PLN '000 not audited</b>	<b>% of total</b>
<b>Equity</b>			restated data*	
Share capital	18,697,837.3	58.4	17,300,900.0	59.5
Capital of the subsidiaries to raise the capital of PGE S.A.	-	-	1,396,937.3	4.8
Treasury shares	(229.0)	0.0	-	-
Reserve capital	6,727,591.7	21.0	6,591,665.8	22.7
Revaluation reserve	3,692.6	-	3,695.1	-
Other reserve capital	49,779.3	0.2	-	-
Retained earnings	120,474.5	0.4	271,463.5	1.0
Net profit	2,920,423.5	9.1	1,391,031.0	4.8
Appropriation of the net profit during the financial year	-	-	(20,636.9)	0.1
	28,519,569.9	89.1	26,935,055.8	92.7
<b>Liabilities and provisions for liabilities</b>				
Provisions for liabilities	418,826.5	1.3	405,369.1	1.4
Short-term liabilities	3,048,824.9	9.5	1,709,534.9	5.9
Accruals and deferred income	15,685.8	0.1	10,827.2	-
	3,483,337.2	10.9	2,125,731.2	7.3
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>32,002,907.1</b>	<b>100.0</b>	<b>29,060,787.0</b>	<b>100.0</b>

\*) Restatement of the comparative data is described in the note VI.1 of the Supplementary information and explanations to the financial statements.

## 2.1.2. Profit and loss account

	1.01.2010 - 31.12.2010 PLN '000	% of total sales	1.01.2009 - 31.12.2009 PLN '000 <i>not audited</i>	% of total sales
<b>Net revenues from the sale of finished products, merchandise and raw materials</b>			restated data*	
Net revenues from the sale of products	104,386.8	0.9	116,953.5	0.9
Net revenues from the sale of merchandise and raw materials	11,558,959.5	99.1	12,415,146.9	99.1
	11,663,346.3	100.0	12,532,100.4	100.0
<b>Cost of finished products, merchandise and raw materials sold</b>				
Cost of finished products sold	(114,209.7)	1.0	(139,117.7)	1.1
Cost of merchandise and raw materials sold	(11,216,304.1)	96.1	(11,756,668.9)	93.8
	(11,330,513.8)	97.1	(11,895,786.6)	94.9
<b>Gross profit on sales</b>	332,832.5	2.9	636,313.8	5.1
<b>Selling expenses</b>	(7,917.7)	0.1	(61,742.1)	0.5
<b>Administration and general expenses</b>	(106,757.3)	0.9	(94,345.9)	0.8
<b>Profit on sales</b>	218,157.5	1.9	480,225.8	3.8
<b>Other operating revenues</b>				
Profit on the disposal of non-financial fixed assets	443.6	-	66.7	-
Grants	-	-	488.5	-
Other operating revenues	12,303.9	0.1	13,327.1	0.1
	12,747.5	0.1	13,882.3	0.1
<b>Other operating expenses</b>				
Revaluation of non-financial assets	(121.8)	0.0	(2,531.3)	0.0
Other operating costs	(15,792.8)	0.2	(53,473.7)	0.4
	(15,914.6)	0.2	(56,005.0)	0.4
<b>Operating profit</b>	214,990.4	1.8	438,103.1	3.5
<b>Financial income</b>				
Dividends and shares in profits	2,534,467.1	21.7	1,079,881.9	8.6
Interest	225,714.1	2.0	175,954.3	1.4
Profit on the disposal of investment	92,970.1	0.8	15,548.9	0.2
Revaluation of investment	3,487.0	-	190,598.9	1.5
Other	881.0	-	877.8	-
	2,857,519.3	24.5	1,462,861.8	11.7
<b>Financial expenses</b>				
Interest	(4,070.6)	0.0	(136,850.1)	1.1
Revaluation of investment	(27.6)	0.0	(31,406.1)	0.3
Other	(57,954.4)	0.5	(43,173.8)	0.3
	(62,052.6)	0.5	(211,430.0)	1.7
<b>Gross profit</b>	3,010,457.1	25.8	1,689,534.9	13.5
<b>Income tax</b>	(90,023.2)	0.8	(100,361.8)	0.8
<b>Other obligatory charges decreasing the profit - distribution from profit</b>	(10.4)	0.0	(198,142.1)	1.6
<b>Net profit</b>	2,920,423.5	25.0	1,391,031.0	11.1

\*) Restatement of the comparative data is described in the note VI.1 of the Supplementary information and explanations to the financial statements.

## 2.2. Selected financial ratios

	2010	2009 not audited restated data*
<b>1. Return on sales</b>		
$\frac{\text{net profit} \times 100\%}{\text{net revenues}}$	25.0%	11.1%
<b>2. Return on equity</b>		
$\frac{\text{net profit} \times 100\%}{\text{equity} - \text{net profit}}$	11.4%	5.4%
<b>3. Debtors' days</b>		
$\frac{\text{average trade receivables (gross)} \times 365 \text{ days}}{\text{net revenues}}$	33 days	31 days
<b>4. Debt ratio</b>		
$\frac{\text{liabilities and provisions for liabilities} \times 100\%}{\text{total equity and liabilities}}$	10.9%	7.3%
<b>5. Current ratio</b>		
$\frac{\text{current assets}}{\text{current liabilities}}$	2.5	2.6

\*) Restatement of the comparative data is described in the note VI.1 of the Supplementary information and explanations to the financial statements.

- Current assets exclude receivables due in more than 12 months.
- Current liabilities are comprised of short-term provisions for liabilities, short-term liabilities (excluding liabilities due in more than 12 months) and other short-term accruals.
- Net revenues are comprised of the sale of finished products, merchandise and raw materials.
- Average trade receivables represent the average of trade receivables to related and other parties at the beginning and at the end of the period, excluding allowances for receivables.



### **3. Detailed report**

#### **3.1. Proper operation of the accounting system**

The Company maintains current documentation describing the applied accounting principles adopted by the Management Board to the extent required by Art. 10 of the Accounting Act.

During the audit of the financial statements, we tested, on a sample basis, the operation of the accounting system.

On the basis of the work performed, we have not identified material irregularities in the accounting system which have not been corrected and that could have a material impact on the financial statements. Our audit was not conducted for the purpose of expressing a comprehensive opinion on the operation of the accounting system.

The Company performed a physical verification of assets in accordance with the requirements and time frame specified in Art. 26 of the Accounting Act.

#### **3.2. Introduction and supplementary information and explanations to the financial statements**

All information included in the introduction and the supplementary information and explanations to the financial statements is, in all material respects, presented correctly and completely. The introduction and supplementary information and explanations should be read in conjunction with the financial statements.

#### **3.3. Report on the Company's activities**

The Report on the Company's activities includes, in all material respects, the information required by Art. 49 of the Accounting Act and by the Decree of the Ministry of Finance dated 19 February 2009 on current and periodic information provided by issuers of securities and the conditions for recognition as equivalent information required by the law of a non-Member State (Official Journal from 2009, No 33, item 259) and the information is consistent with the financial statements.



### **3.4. Information on the opinion of the independent auditor**

Based on our audit of the financial statements of the Company as at and for the year ended 31 December 2010, we have issued an unqualified opinion with the following emphasis of matter:

“Without qualifying our opinion, we draw attention to the information presented in note VI.22 of the supplementary information and explanations to the financial statements, in which the Management Board describes the uncertainty relating to future settlement of prepayments made by the Company resulting from the execution of the agreement described in the above mentioned Note.”

On behalf of KPMG Audyt Sp. z o.o. registration number 458  
ul. Chłodna 51, 00-867 Warsaw

*Signed on the Polish original*

.....  
Certified Auditor No. 90116  
Renata Dobersztyn-Hamerska

15 March 2011  
Warsaw

*Signed on the Polish original*

.....  
Certified Auditor No. 90061  
Marek Gajdziński