

PGE Polska Grupa
Energetyczna S.A. Group

Opinion and Report

of the Independent Auditor

Financial Year ended

31 December 2016

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 of PGE Polska Grupa Energetyczna S.A.

Opinion on the Consolidated Financial Statements

Opinion

We have audited the accompanying consolidated financial statements of the Group, whose parent company is PGE Polska Grupa Energetyczna S.A. ("the Company") with its registered office in Warsaw, ul. Mysia 2 ("the Group"), which comprise the consolidated statement of financial position as at 31 December 2016, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended and notes comprising a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements of PGE Polska Grupa Energetyczna S.A. Group:

- give a true and fair view of the financial position of the Group as at 31 December 2016 and of its financial performance and its cash flows for the year then ended, in accordance with International Financial Reporting Standards as adopted by the European Union; and
- comply, in all material respects, with applicable regulations that apply to the consolidated financial statements of the Group.

Basis for Opinion

We conducted our audit in accordance with section 7 of the Accounting Act dated 29 September 1994 (Official Journal from 2016, item 1047 with amendments) ("the Accounting Act") and International Standards on Auditing (IAASB) as adopted by the resolution dated 10 February 2015 of the National Council of Certified Auditors as the National Standards on Assurance („National Standards on Assurance”). We are independent of the Company in accordance with the Code of Ethics for Professional Accountants of the International Ethics Standards Board for Accountants' as adopted by the resolution of National Council of Certified Auditors dated 13 June 2011 ("IESBA Code") and the impartiality and independence requirements as described in Art. 56 points 3 and 4 of the Act on Certified Auditors and their Self-Governance, Audit Firms authorized to Audit Financial Statements and Public Oversight dated 7 May 2009 (Official Journal from 2016, item 1000) and have fulfilled other ethical responsibilities in accordance with these regulations and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

On terms agreed with the Management Board of PGE Polska Grupa Energetyczna S.A., our audit work has been undertaken so that we might state to the Company's shareholders key audit matters that we are required to state to them in an auditor's opinion and, in respect of reporting, as if International Standard on Auditing 700 (Revised January 2015) applied.

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on them.

1. Impairment of property, plant and equipment and intangible assets

Net book value of property, plant and equipment and intangible assets as at 31 December 2016: PLN 52,018 million; Impairment loss recognized in 2016: PLN 1,002 million.

We refer to the financial statements: Note 2.4 "Professional judgment of management and estimates", Note 3 "Impairment tests of property, plant and equipment, intangible assets and goodwill", Note 4.11 "Significant accounting principles applied – Impairment of non-financial assets", Note 7.2.1 "Depreciation, amortization, disposals and impairment losses", Note 9 "Property, plant and equipment", Note 28.4 "Other legal claims and disputes – Termination of long-term contracts for purchase of energy origin rights by Enea S.A."

Key audit matter

Due to the unfavourable conditions on the electric energy market in Poland, which are characterised by, among others, decreasing prices of energy origin rights, as well as adverse changes in the legal environment related to the Act on Investments in Wind Farms dated 20 May 2016 resulting in, among others, a change in the definition of structures, causing an expanded tax base for real estate tax applicable to wind farms, and introducing more restrictive criteria for the location of wind farms, the Group performed an impairment test of non-current assets in the Renewable Energy segment.

Determining the recoverable amount of the assets requires a number of significant judgments and estimates, especially in respect of the amount of future cash flows and the applied discount rate. The projected operating cash flows are primarily dependent on long-term assumptions concerning prices of energy and certificates of origin for electric energy. These projections are exposed to significant variability due to changing market conditions and significant legislative changes in regulations related to the energy sector, inter alia, on support for renewable energy sources.

Our response

Our audit procedures included, among others:

- assessing internal controls designed to identify impairment indicators;
 - evaluating the reasonableness of the Group's judgments as to the existence of impairment indicators, and consequently, the requirement to perform related impairment tests of non-current assets;
 - evaluating the appropriateness of the allocation of assets to cash generating units;
 - critically assessing the Group's assumptions and estimates used to determine the recoverable amount of non-current assets and consequently any impairment losses recognised, including:
 - testing the Group's discounted cash flow model with the support of our internal valuations specialists;
 - assessing the appropriateness of macroeconomic assumptions, including those relating to discount rates, by comparing these against external sources of data;
 - challenging assumptions in respect of prices by comparing them to analyses prepared at the request of the Group by external experts, whose competence and independence we assessed, as well as through analysis of the terms of existing contracts and the possible effects of disputes with customers;
 - challenging assumptions in respect of volumes by comparing these to historical data, and in the absence of such data for an appropriate period, to forecasts by external experts;
 - evaluating the Group's analysis of the sensitivity of impairment testing results and the adequacy of disclosures with respect to impairment.
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2. Provision for rehabilitation of post-exploitation mining properties

Provision for rehabilitation of post-exploitation mining properties as at 31 December 2016: PLN 2,366 million.

We refer to the financial statements: Note 2.4 "Professional judgment of management and estimates", Note 4.8 "Accounting principles applied – Property, plant and equipment – Costs of rehabilitation of post-exploitation surface mining properties", Note 4.21 "Accounting principles applied – Provisions - Rehabilitation provision", Note 9 "Property, plant and equipment - Capitalization of changes in the rehabilitation provision", Note 21.1 "Rehabilitation provision"

Key audit matter	Our response
<p>The Group recognise provisions for costs of rehabilitation of post-exploitation mining properties with respect to its surface mines. The provision is recognised in operating expenses for the portion attributable to mined lignite or capitalised to the value of the corresponding component of property, plant and equipment in the part attributable to stripping cost. The estimation of the provision requires significant judgments and assumptions regarding the methods of rehabilitation, the timing of execution, anticipated costs and the inflation and discount rates used to determine the present value of provisions. The provision is very sensitive to assumptions regarding inflation rates and discount rates.</p>	<p>Our audit procedures included, among others:</p> <ul style="list-style-type: none">• challenging the Group's assumptions regarding the methods of rehabilitation, the timing of execution and anticipated costs by comparison to reports obtained by the Group from external experts, whose competence and independence we assessed;• assessing the appropriateness of adopted long-term inflation assumptions and the discount rate used to determine the provisions by comparing them against external sources of data;• evaluating the appropriateness of the capitalization of part of the provision raised to property, plant and equipment;• evaluating the accuracy of the rehabilitation expense recognised in the statement of comprehensive income;• evaluating the completeness of the relevant disclosures.

3. Compensation resulting from early termination of long term contracts for the sale of capacity and electricity ("LTC compensation")

Sales revenue recognized in 2016: PLN 520 million; other operating income recognized in 2016: PLN 148 million, net carrying amount of receivables and liabilities as at 31 December 2016: PLN 1,241 million and PLN 1,253 million, respectively.

We refer to the financial statements: Note 2.4 "Professional judgment of management and estimates", Note 4.4 "Accounting principles applied – Revenue - Revenue from LTC compensation", Note 7.1 "Sales revenue", Note 7.3 "Other operating income and expenses", Note 25.1.1 "Financial receivables", Note 25.1.5 "Trade and other financial liabilities", Note 33.1 "Termination of long term LTC contracts".

Key audit matter	Our response
<p>The revenue from compensation recognized by the Group is based on the Group's interpretation of the Act dated 29 June 2007 on the principles for coverage of costs incurred by producers due to early termination of long-term contracts for the sale of capacity and electricity ("LTC Act") and on a number of significant assumptions regarding operating results and the anticipated outcome of disputes with the President of the Energy Regulatory Office with respect to settlement of LTC compensation for prior years. Changes in either the assumptions or interpretations applied, as well as the final outcome of disputes with the President of the Energy Regulatory Office, may lead to significant changes in the amount of compensation for LTC in relation to the amounts recognized in the consolidated financial statements.</p>	<p>Our audit procedures included, among others:</p> <ul style="list-style-type: none">• assessing the model used by the Group for determining the amount of income from LTC compensation, including:<ul style="list-style-type: none">- testing the model's compliance with accounting standards in terms of revenue recognition criteria and allocating revenue to periods to which it relates;- testing the model's compliance with the LTC Act;• testing the model of discounted cash flows prepared by the Group, with the support of our internal valuation specialists;• evaluating the validity of the macroeconomic assumptions, including the discount rate, by comparing them to external sources;• evaluating the validity of the operating assumptions required in order to determine the annual adjustment for 2016 and the final adjustment;• analysis of information received from external legal advisors relating to the disputes with the President of Energy Regulatory Office and pleadings relating to settlements of disputes during the reporting period and assessing the appropriateness of assumptions relating to the anticipated outcome of the proceedings;• evaluating the completeness of the relevant disclosures.

Management's and Supervisory Board's Responsibility

Management of the parent company is responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union and with other applicable regulations. Management of the parent company is also responsible for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management of the parent company is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management of the parent company either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

According to the Accounting Act, management of the parent company and members of the Supervisory Board are required to ensure that the consolidated financial statements are in compliance with the requirements set forth in the Accounting Act.

Members of the Supervisory Board are responsible for overseeing the Group's financial reporting process.

Auditor's Responsibility

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are derived from properly maintained accounting records and are free from material misstatement, whether due to fraud or error, and to issue an auditor's opinion and report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with National Standards on Assurance will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with National Standards on Assurance, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than the one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management of the parent company and related disclosures.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with members of the Supervisory Board regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide members of the Supervisory Board with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with members of the Supervisory Board, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's opinion unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Specific Comments on Other Legal and Regulatory Requirements

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

Management of the parent company is responsible for the report on the Group's activities.

Our opinion on the consolidated financial statements does not cover the report on the Group's activities.

As required by the Accounting Act, and 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 of information required by the laws of a non-member state (Official Journal from 2014, item 133 with amendments) (the "Decree") we report that the Management Board's report on activities of PGE Polska Grupa Energetyczna S.A. and the PGE Group includes the information required by Art. 49 of the Accounting Act and the Decree and the information is consistent, in all material respects, with the consolidated financial statements. Furthermore, based on our knowledge about the Group and its environment obtained in the audit, we have not identified material misstatements in the report on the Group's activities.

As required by the Accounting Act and the Decree we report that the statement of corporate governance, which is a separate part of the Management Board's report on activities of PGE Polska Grupa Energetyczna S.A. and the PGE Group, includes the information required by paragraph 91 subparagraph 5 point 4 letter a, b, j and k of the Decree. Furthermore we report that the information identified in paragraph 91 subparagraph 5 point 4 letter c, d, e, f, h and i of the Decree included in the statement of corporate governance, in all material respects:

- has been prepared in accordance with the applicable regulations; and
- is consistent with the information contained in the consolidated financial statements.

On behalf of KPMG Audyt Spółka z ograniczoną odpowiedzialnością sp.k.
Registration No. 3546
ul. Inflancka 4A
00-189 Warsaw

Signed on the Polish original

.....
Marta Zemka
Key Certified Auditor
Registration No. 10427
Limited Liability Partner with power of attorney

7 March 2017



PGE Polska Grupa
Energetyczna S.A. Group

Report on the audit

of the consolidated financial statements

Financial Year ended

31 December 2016



PGE Polska Grupa Energetyczna S.A. Group

The report on the audit of the consolidated financial statements
for the financial year ended 31 December 2016

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PGE Polska Grupa Energetyczna S.A. Group

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TRANSLATION

1. General

1.1. Identification of the Group

1.1.1. Name of the Group

PGE Polska Grupa Energetyczna S.A. Group

1.1.2. Registered office of the parent company of the Group

ul. Mysia 2
00-496 Warsaw

1.1.3. Registration of the parent company in the register of entrepreneurs of the National Court Register

Registration court:	District Court for the Capital City of Warsaw in Warsaw, XII Commercial Department of the National Court Register
Date:	5 November 2001
Registration number:	KRS 0000059307
Share capital as at the end of reporting period:	PLN 19,165,048,497.25

On 5 September 2016 the General Meeting of PGE Polska Grupa Energetyczna S.A. adopted resolution on the increase of the Company's share capital from PLN 18,697,608,209.00 to PLN 19,165,048,497.25 i.e. by PLN 467,440,207.25 from the Company's reserve capital by increasing the nominal value of series A, B, C, D shares from PLN 10.00 to PLN 10.25. The increase of share capital was registered in National Court Register on 25 November 2016.

1.1.4. Management of the parent company

The Management Board is responsible for management of the parent company.

As at 31 December 2016, the Management Board of the parent company was comprised of the following members:

- Henryk Baranowski – President of the Management Board,
- Bolesław Jankowski – Vice President of the Management Board,
- Marek Pastuszko – Vice President of the Management Board,
- Ryszard Wasilek – Vice President of the Management Board,
- Emil Wojtowicz – Vice President of the Management Board,
- Paweł Śliwa – Vice President of the Management Board,
- Marta Gajęcka – Vice President of the Management Board.

During the period from 1 January 2016 to 31 December 2016 the following changes occurred in the composition of the Management Board:

- on 29 January 2016 the Supervisory Board recalled Mr. Jacek Drozd and Dariusz Marzec from the position of Vice Presidents of the Management Board of the Company. Additionally, on 29 January 2016 the Supervisory Board has temporarily delegated its member – Mr. Marek Pastuszko – to perform the duties of Member of the Management Board of the Company for the period of three months.



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- on 25 February 2016 the Supervisory Board appointed Mr. Marek Pastuszko to the position of Vice President of the Management Board of the Company.
- on 26 February 2016 the Supervisory Board appointed Mr. Emil Wojtowicz to the position of Vice President of the Management Board of the Company effective on 15 March 2016 and Mr. Ryszard Wasilek to the position of Vice President of the Management Board of the Company effective on 7 March 2016.
- on 2 March 2016 Mr. Marek Woszczyk and Mr. Grzegorz Krystek resigned from the Management Board effective on 30 March 2016.
- on 22 March 2016 the Supervisory Board appointed four Members of the Management Board effective on 31 March 2016: Mr. Henryk Baranowski was appointed to the position of President of the Management Board, Ms. Marta Gajęcka, Mr. Bolesław Jankowski and Mr. Paweł Śliwa, who resigned from the position of the Supervisory Board Member on that day, were appointed to the positions of Vice Presidents of the Management Board.

After the reporting date, the Supervisory Board decided to recall all Management Board's members on 13 February 2017. At the same time, the Supervisory Board appointed the following individuals to the 10th term of the Management Board effective on 14 February 2017: Mr. Henryk Baranowski to the position of President of the Management Board; Mr. Bolesław Jankowski, Mr. Wojciech Kowalczyk, Mr. Marek Pastuszko, Mr. Paweł Śliwa, Mr. Ryszard Wasilek and Mr. Emil Wojtowicz to the positions of Vice-Presidents of the Management Board.

1.2. Key Certified Auditor and Audit Firm Information

1.2.1. Key Certified Auditor information

Name and surname: Marta Zemka
Registration number: 10427

1.2.2. Audit Firm information

Name: KPMG Audyt Spółka z ograniczoną odpowiedzialnością sp.k.
Address of registered office: ul. Inflancka 4A, 00-189 Warsaw
Registration number: KRS 0000339379
Registration court: District Court for the Capital City of Warsaw in Warsaw, XII Commercial Department of the National Court Register
NIP number: 527-26-15-362

KPMG Audyt Spółka z ograniczoną odpowiedzialnością sp.k. is entered into the register of audit firms, maintained by the National Council of Certified Auditors, under number 3546.

1.3. Prior period consolidated financial statements

The consolidated financial statements for the financial year ended 31 December 2015 were audited by KPMG Audyt Spółka z ograniczoną odpowiedzialnością sp.k. and received an unmodified opinion.

The consolidated financial statements were approved at the General Meeting of the parent company on 28 June 2016.

The consolidated financial statements were submitted to the Registration Court on 4 July 2016.



PGE Polska Grupa Energetyczna S.A. Group

The report on the audit of the consolidated financial statements
for the financial year ended 31 December 2016

TRANSLATION

1.4. Audit scope and responsibilities

The consolidated financial statements were audited in accordance with the contract dated 4 November 2014, concluded on the basis of the resolution of the Supervisory Board dated 9 September 2014 on the appointment of the auditor.

We conducted our audit in accordance with section 7 of the Accounting Act dated 29 September 1994 (Official Journal from 2016, item 1047 with amendments) (“the Accounting Act”) and International Standards on Auditing as adopted by the resolution dated 10 February 2015 of the National Council of Certified Auditors as National Standards on Assurance.

We audited the consolidated financial statements at the Group entities during the period from 21 November 2016 to 25 November 2016 and from 23 January 2017 to 7 March 2017.

Management of the parent company is responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union and with other applicable regulations. Management of the parent company is also responsible for the report on the Group’s activities.

Our responsibility is to express an opinion and to prepare a report on the audit of the financial statements.

The Management Board of the parent company submitted a statement, dated as at the same date as this report, as to the preparation of the consolidated financial statements that give a true and fair view, which confirmed that there were no undisclosed matters which could significantly influence the information presented in the consolidated financial statements.

All required statements, explanations and information were provided to us by Management of the Group and all our requests for additional documents and information necessary for expressing our opinion and preparing the report have been fulfilled.

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 the Audit Firm.

The Key Certified Auditor and the Audit Firm are independent of the entities within the Group in accordance with the Code of Ethics for Professional Accountants of the International Ethics Standards Board for Accountants’ as adopted by the resolution of National Council of Certified Auditors dated 13 June 2011 (“IESBA Code”) and the impartiality and independence requirements as described in Art. 56 points 3 and 4 of the Act on Certified Auditors and their Self-Governance, Audit Firms authorized to Audit Financial Statements and Public Oversight dated 7 May 2009 (Official Journal from 2016, item 1000) and have fulfilled other ethical responsibilities in accordance with these regulations and the IESBA Code.



PGE Polska Grupa Energetyczna S.A. Group

The report on the audit of the consolidated financial statements
for the financial year ended 31 December 2016

TRANSLATION

2. Financial analysis of the Group

2.1. Summary analysis of the consolidated financial statements

2.1.1. Consolidated statement of financial position

ASSETS	31.12.2016		31.12.2015	
	PLN '000 000	% of total	PLN '000 000	% of total
Non-current assets				
Property, plant and equipment	51 365	76,1	47 068	76,8
Investment property	27	-	30	0,1
Intangible assets	653	1,0	904	1,5
Financial receivables	237	0,3	142	0,2
Derivatives	356	0,5	43	0,1
Available-for-sale financial assets	37	0,1	15	-
Shares accounted for using the equity method	402	0,6	8	-
Other non-current assets	730	1,1	1 063	1,7
Deferred tax assets	268	0,4	313	0,5
	54 075	80,1	49 586	80,9
Current assets				
Inventories	1 596	2,4	1 959	3,2
CO ₂ emission rights for own use	2 349	3,5	2 172	3,5
Income tax receivables	19	-	101	0,2
Derivatives	9	-	7	-
Trade and other financial receivables	6 325	9,4	3 748	6,1
Available-for-sale financial assets	4	-	4	-
Other current assets	416	0,6	599	1,0
Cash and cash equivalents	2 669	4,0	3 104	5,1
Assets classified as held-for-sale	12	-	16	-
	13 399	19,9	11 710	19,1
TOTAL ASSETS	67 474	100,0	61 296	100,0
EQUITY AND LIABILITIES				
	31.12.2016	% of total	31.12.2015	% of total
	PLN '000 000		PLN '000 000	
Equity				
Share capital	19 165	28,4	18 698	30,5
Hedging reserve	147	0,2	(21)	-
Foreign exchange differences from translation of foreign entities	3	-	(1)	-
Reserve capital	13 730	20,4	13 009	21,2
Retained earnings	9 634	14,3	8 636	14,1
Total equity attributed to equity holders of the parent company	42 679	63,3	40 321	65,8
Non-controlling interest	96	0,1	96	0,1
Total equity	42 775	63,4	40 417	65,9
Liabilities				
Non-current provisions	5 004	7,4	6 044	9,9
Loans, borrowings, bonds and lease	9 603	14,2	5 118	8,3
Derivatives	30	-	55	0,1
Deferred tax liabilities	1 191	1,8	852	1,4
Deferred income and government grants	1 141	1,7	1 192	1,9
Other financial liabilities	33	0,1	34	0,1
	17 002	25,2	13 295	21,7
Current liabilities				
Current provisions	2 181	3,2	1 809	2,9
Loans, borrowings, bonds and lease	411	0,6	291	0,5
Derivatives	-	-	34	0,1
Trade and other financial liabilities	3 556	5,3	3 945	6,4
Income tax liabilities	6	-	5	-
Deferred income and government grants	119	0,2	112	0,2
Other current non-financial liabilities	1 424	2,1	1 388	2,3
	7 697	11,4	7 584	12,4
Total liabilities	24 699	36,6	20 879	34,1
TOTAL EQUITY AND LIABILITIES	67 474	100,0	61 296	100,0



PGE Polska Grupa Energetyczna S.A. Group

The report on the audit of the consolidated financial statements

for the financial year ended 31 December 2016

TRANSLATION

2.1.2. Consolidated statement of comprehensive income

	1.01.2016 - 31.12.2016 PLN '000 000	% of total sales	1.01.2015 - 31.12.2015 PLN '000 000	% of total sales
STATEMENT OF PROFIT OR LOSS				
Sales revenues	28 092	100,0	28 542	100,0
Cost of goods sold	(23 174)	82,5	(30 066)	105,3
Gross profit/(loss) on sales	4 918	17,5	(1 524)	5,3
Distribution and selling expenses	(1 429)	5,1	(1 408)	4,9
General and administrative expenses	(977)	3,5	(825)	2,9
Other operating income	1 171	4,2	431	1,5
Other operating expenses	(171)	0,6	(263)	0,9
Operating profit/(loss)	3 512	12,5	(3 589)	12,5
Financial income	191	0,7	156	0,5
Financial expenses	(384)	1,4	(323)	1,1
Share of profit/(loss) of entities accounted for using the equity method	(45)	0,2	-	-
Profit/(loss) before tax	3 274	11,7	(3 756)	13,1
Current income tax	(414)	1,5	(461)	1,6
Deferred income tax	(294)	1,0	1 180	4,1
Net profit/(loss) for the reporting period	2 566	9,1	(3 037)	10,6
OTHER COMPREHENSIVE INCOME				
Items, which may be reclassified to profit or loss, including:				
Valuation of financial instruments	1	-	-	-
Valuation of hedging instruments	206	0,7	49	0,2
Foreign exchange differences from translation of foreign entities	4	-	-	-
Deferred tax	(39)	0,1	(9)	0,1
Items, which will not be reclassified to profit or loss, including:				
Actuarial gains and losses from valuation of provisions for employee benefits	249	0,9	15	0,1
Deferred tax	(47)	0,2	(3)	-
Share of profit/(loss) of entities accounted for using the equity method	(2)	-	-	-
Other comprehensive income for the reporting period, net	372	1,3	52	0,2
Total comprehensive income	2 938	10,5	(2 985)	10,4
Net profit/(loss) attributable to:				
equity holders of the parent company	2 568		(3 032)	
Non-controlling interests	(2)		(5)	
Comprehensive income attributable to:				
equity holders of the parent company	2 940		(2 980)	
non-controlling interests	(2)		(5)	
Earnings and diluted earnings per share attributable to equity holders of the parent company (in PLN)	1,37		(1,62)	



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2.2. Selected financial ratios

	2016	2015	2014
Return on sales			
<u>profit for the period x 100%</u> revenue	9.1%	negative value	13.0%
Return on equity			
<u>profit for the period x 100%</u> equity - profit for the period	6.4%	negative value	8.9%
Debtors' days			
<u>average trade receivables (gross) x 365 days</u> revenue	37 days	34 days	36 days
Debt ratio			
<u>liabilities x 100%</u> equity and liabilities	36.6%	34.1%	32.2%
Current ratio			
<u>current assets</u> current liabilities	1.7	1.5	1.9

- Sales revenues include revenues from sales of finished products, merchandise and raw materials.
- Average trade receivables represent the average of trade receivables at the beginning and at the end of the period, with no deduction made for allowances.

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3. Detailed report

3.1. Accounting principles

The parent company maintains current documentation describing the accounting principles applied by the Group and adopted by the Management Board of the parent company.

The accounting principles are described in the notes to the consolidated financial statements to the extent required by International Financial Reporting Standards as adopted by the European Union.

In view of the fact that not all entities being part of the Group apply common accounting principles consistent with the accounting principles applied by the parent company, appropriate adjustments to the financial statements of those entities were made to ensure consistency with the accounting principles applied by the parent company.

The financial statements of the entities included in the consolidated financial statements were prepared at the end of the same reporting period as the financial statements of the parent company.

3.2. Basis of preparation of the consolidated financial statements

The consolidated financial statements of the PGE Polska Grupa Energetyczna S.A. Group were prepared in accordance with International Financial Reporting Standards as adopted by the European Union and with other applicable regulations.

The consolidated financial statements were prepared on the basis of the consolidation documentation prepared in accordance with the requirements the Decree of the Ministry of Finance dated 25 September 2009 on principles for the preparation of consolidated financial statements of a capital group by companies other than banks and insurance companies (Official Journal from 2009 No. 169, item 1327 with amendments).

3.3. Method of consolidation

The method of consolidation is described in note 4.1 of the notes to the consolidated financial statements.

3.4. Goodwill arising on consolidation

The method of calculating goodwill arising on consolidation is described in note 4.1 of the notes to the consolidated financial statements.

3.5. Consolidation of equity and calculation of non-controlling interest

The share capital of the Group is equal to the share capital of the parent company.

Other equity items of the Group are determined by adding the equity balances of subsidiaries included in the consolidated financial statements in the proportion reflecting the parent company's share in the subsidiaries' equity as at the end of the reporting period to the corresponding positions of the equity of the parent company.

Only equity of subsidiaries arising after the parent company obtained control of the subsidiary is included in the equity of the Group.

Non-controlling interests in subsidiaries included in the consolidated financial statements were determined based on the non-controlling interests' share in the subsidiaries' equity as at the end of the reporting period.



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3.6. Consolidation eliminations

Intercompany balances within the Group were eliminated on consolidation.

Sales between entities and other intercompany operating revenues and expenses and financial revenues and expenses were eliminated on consolidation.

The consolidation eliminations were based on the accounting records of PGE Polska Grupa Energetyczna S.A. and agreed with information received from the subsidiaries.

On behalf of KPMG Audyt Spółka z ograniczoną odpowiedzialnością sp.k.
Registration No. 3546
ul. Inflancka 4A
00-189 Warsaw

Signed on the Polish original

.....
Marta Zemka
Key Certified Auditor
Registration No. 10427
Limited Liability Partner with power of attorney

7 March 2017