



TRANSLATION

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

**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 20 pages
Opinion of the independent auditor
and report supplementing the auditor's opinion
on the consolidated financial statements
for the financial year ended
31 December 2010



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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 consolidated financial statements of PGE Polska Grupa Energetyczna S.A. Group, seated in Warsaw, ul. Mysia 2 ("the Group"), which comprise the consolidated statement of financial position as at 31 December 2010, the consolidated income statement and 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 to the consolidated financial statements, comprising of a summary of significant accounting policies and other explanatory information.

Management's and Supervisory Board's Responsibility for the Consolidated Financial Statements

Management of the Parent Entity is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards as adopted by European Union and with other applicable regulations and preparation of the Report on the Group's activities. Management of the Parent Entity 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.

According to the Accounting Act dated 29 September 1994 (Official Journal from 2009, No. 152, item 1223 with amendments) ("the Accounting Act"), Management of the Parent Entity and members of the Supervisory Board are required to ensure that the consolidated financial statements and the Report on the Group'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 consolidated financial statements. 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated 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 consolidated financial statements of PGE Polska Grupa Energetyczna S.A. Group have been prepared and present fairly the financial position of the Group as at 31 December 2010 and 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 are in compliance with the respective regulations that apply to the consolidated financial statements, applicable to the Group.

Emphasis of Matter

Without qualifying our opinion, we draw attention to:

- 1) the Note 45.1 of the explanatory notes to the accompanying consolidated financial statements, and to the fact that the estimates of compensation related to early termination of long-term agreements for the sales of electric power and energy and recognition of related revenues and receivables prepared by the Group were based on the Group's own interpretation of the Act dated 29 June 2009, on rules of covering producer's costs related to early termination of long-term agreements for the sales of electric power and energy (Official Journal, No. 130, item 905, year 2007) ('The LTC Act') and on a number of significant assumptions, some of which are outside the control of the Group.

An unfavorable outcome for the Group of the dispute with the President of the Energy Regulation Office with respect to the interpretation of the LTC Act and changes in assumptions used will significantly impact the estimates and as a consequence will lead to significant changes to the financial position and results of the Group. The final outcome of the dispute with the President of the Energy Regulation Office cannot be determined as at the date of the opinion.

- 2) the information presented in Note 45.2.2 of the explanatory notes to the accompanying consolidated financial statements in which the Management Board describes the court proceeding resulting from the disputed registration of the merger of 12 companies with PGE Elektrownia Bełchatów S.A. (currently PGE Górnictwo i Energetyka Konwencjonalna S.A.). During the course of reconsideration, the District Court may decide again to register the merger or to refuse to register the merger and to remove the existing merger entry from the National Court Register. As at the date of this opinion, it is not possible to determine the probability of each scenario or the realization date thereof. The consolidated financial statements do not reflect the consequences of a possible change in the District Court's decision on the registration of the companies' merger.

- 3) the information presented in Notes 25 and 43.12 of the explanatory notes to the consolidated financial statements in which the Management Board of the parent company describes the uncertainty relating to future settlement of prepayments made by the parent company resulting from the execution of the agreement described in the above mentioned notes.

Other Matters

As required under the Accounting Act, we also report that the Report on the Group'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 consolidated financial statements.

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.
Group**

**Report supplementing
the auditor's opinion
on the consolidated financial
statements**

**Financial Year ended
31 December 2010**

The report supplementing the auditor's opinion
contains 20 pages

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



PGE Polska Grupa Energetyczna S.A. Group
*Report supplementing the opinion on the consolidated 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*

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1. General

1.1 Identification of the Group

1.1.1 Name of the Group

PGE Polska Grupa Energetyczna S.A. Group („the Group”, the PGE 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 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 Information about companies comprising the Group

1.2.1 Companies included in the consolidated financial statements

As at 31 December 2010, the following companies were consolidated by the Group:

Parent Company:

- PGE Polska Grupa Energetyczna S.A.

Subsidiaries consolidated on the full consolidation basis:

- PGE Obrót S.A.
- PGE Dystrybucja S.A.
- PGE Górnictwo i Energetyka Konwencjonalna S.A.
- PGE Energia Odnawialna S.A.

- PGE Elektrownia Opole S.A.
- EXATEL S.A.
- ELBIS Sp. z o.o.
- ELECTRA Deutschland GmbH
- ELECTRA Bohemia s.r.o.
- Budownictwo Hydroenergetyka - Dychów Sp. z o.o.
- Dychowskie Przedsiębiorstwo Eksploatacji Elektrowni ELDEKS Sp. z o.o.
- ESP Usługi Sp. z o.o.
- EnBud Sp. z o.o.
- Bio-Energia ESP Sp. z o.o.
- Elektrownia Wiatrowa Kamieńsk Sp. z o.o.
- MEGAZEC Sp. z o.o.
- Niezależny Operator Międzystrefowy Sp. z o.o.
- Energo-Tel S.A.
- ELMEN Sp. z o.o.
- Energoserwis – Kleszczów Sp. z o.o.
- Niepubliczny Zakład Opieki Zdrowotnej MegaMed Sp. z o.o.
- ELBEST Sp. z o.o.
- BESTUR Sp. z o.o.
- Przedsiębiorstwo Transportowo Sprzętowe BETRANS Sp. z o.o.
- RAMB Sp. z o.o.
- EPO Sp. z o.o.
- Przedsiębiorstwo Transportowe ELTUR-TRANS Sp. z o.o.
- Przedsiębiorstwo Handlowo-Usługowe ELTUR-GLOBAL Sp. z o.o.
- Przedsiębiorstwo Produkcji Sorbentów i Rekultywacji ELTUR-WAPORE Sp. z o.o.
- Przedsiębiorstwo Usługowo-Produkcyjne ELTUR-SERWIS Sp. z o.o.
- Przedsiębiorstwo Usługowo-Produkcyjne TOP SERWIS Sp. z o.o.
- Zakład Obsługi Energetyki Sp. z o.o.
- Centrum Szkolenia i Rekreacji „Energetyk” Sp. z o.o.
- ENESTA Sp. z o.o.
- Energetyczne Systemy Pomiarowe Sp. z o.o.
- Przedsiębiorstwo Transportowo-Usługowe ETRA Sp. z o.o.

- Pracownia Projektowa ENSPRO Sp. z o.o.
- Przedsiębiorstwo Produkcyjno-Handlowe EKTO Sp. z o.o.
- PGE Systemy S.A.
- PGE Inwest Sp. z o.o.
- BESTGUM Sp. z o.o.
- PGE Energia Jądrowa S.A.
- PGE EJ1 sp. z o.o.
- PGE Inwest spółka z ograniczoną odpowiedzialnością II S.K.A.
- Elektrownia Wiatrowa Resko Sp. z o.o.
- Biogazownia Łapy Sp. z o.o.
- Biogazownia Woźuczyn Sp. z o.o.
- PWE GUBIN Sp. z o.o.
- Przedsiębiorstwo Energetyki Ciepłej Sp. z o.o. Zgierz
- Elektrownia Wiatrowa Turów Sp. z o.o.
- EO Baltica Sp. z o.o.
- PGE Serwis Sp. z o.o.

1.2.2 Companies not included in the consolidated financial statements

As at 31 December 2010, the following related parties being a part of the Group were not included in the Group consolidation due to the insignificant value of total assets and turnover in relation to the consolidated financial statements:

- ELECTRA Slovakia s.r.o.,
- E-Telbank S.A.
- Pensjonat Dychów Sp. z o.o.,
- Przedsiębiorstwo Produkcyjno-Usługowe Media-Serwis Dychów Sp. z o.o.,
- Elektrownia Wiatrowa Gniewino Sp. z o.o.,
- Pracownicze Towarzystwo Emerytalne Nowy Świat S.A.,
- Zakład Usług Profilaktyczno-Lecznicznych MEGAWITA Sp. z o.o.,
- Energetyk SPA Sp. z o.o.,
- Ośrodek Wypoczynkowo-Szkoleniowy „Energetyk” Sp. z o.o.
- Eolica Wojciechowo Sp. z o.o.

As at 31.12.2010 the following associated parties being a part of the Group were not included in the Group consolidation due to the insignificant value of total assets and turnover in relation to the consolidated financial statements:

- Zamojskie Przedsiębiorstwo Usługowo-Produkcyjne Energozam Sp. z o.o.,
- ELKOM Sp. z o.o.,
- ELTRANS Sp. z o.o.,
- Energotest Diagnostyka Sp. z o.o.,
- PROZEL-Lublin Sp. z o.o.,
- KE Dolna Odra Sp. z o.o.,
- WIND 1 Koszalin sp. z o.o. w upadłości likwidacyjnej,
- Energetyczne Towarzystwo Finansowo-Leasingowe Energo-Utech S.A.,

1.3 Auditor information

1.3.1 Key certified auditor information

Name and surname: Marek Gajdziński
Registration number: 90061

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

1.3.2 Authorized auditor information

Name: KPMG Audyt Sp. z o.o.
Registered office: Warsaw
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.

1.4 Prior period consolidated financial statements

The consolidated financial statements for the financial 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:

- 1) to the fact that, as described in the Notes 9 and 22 of the explanatory notes to the consolidated financial statements, the impairment analysis of the PGE Group's cash generating units is based on a number of significant assumptions, some of which are outside the control of the PGE Group. Any significant change in these assumptions will impact the result of future impairment tests and as a consequence may lead to significant changes to the financial position and results of the PGE Group;
- 2) to the fact that, as described in the Notes 9 and 46.1 of the explanatory notes to the consolidated financial statements, the estimates of compensation related to early termination of long-term agreements for the sales of electric power and energy and recognition of related revenues and receivables prepared by the PGE Group were based on the PGE Group's interpretation of regulations dated 29 June 2007, the Act on rules of covering producer's costs related to early termination of long-term agreements for the sales of electric power and energy (Official Journal, No. 130, item 905, year 2007) ("the LTC Act") and on a number of significant assumptions, some of which are outside the control of the PGE Group. An unfavorable outcome for the PGE Group of the dispute, described in the Note 46.1, with the President of the Energy Regulation Office with respect to the interpretation of the LTC Act and changes in assumptions used, including those resulting from planned legal mergers within the PGE Group, may impact the estimates and as a consequence may lead to significant changes to the financial position and results of the PGE Capital Group. The final outcome of the dispute with the President of the Energy Regulation Office cannot be determined as at the date of issuing this opinion;
- 3) to the information presented in Note 44.5.7 of the explanatory notes to the consolidated financial statements in which the Management Board of the parent company describes the uncertainty relating to future settlement of prepayments made by the parent company resulting from the execution of the agreement described in the above mentioned Note.”

The consolidated financial statements were approved at the General Meeting on 23 June 2010.

The consolidated 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.

1.5 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 consolidated financial statements comprising: the consolidated statement of financial position as at 31 December 2010, the consolidated income statement and 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 to the consolidated financial statements, comprising of a summary of significant accounting policies and other explanatory information.



The Parent Company prepares its consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the European Union on the basis of the decision of Extraordinary General Meeting dated 18 September 2008.

The consolidated 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 consolidated financial statements in the Parent Company's head office during the period from 7 February to 15 March 2011.

Management of the Parent Company is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the European Union and with other applicable regulations and preparation of the Report on the Company's activities.

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

The Management Board of the Parent Company submitted a statement, dated the same date as this report, as to the true and fair presentation of the consolidated financial statements presented for audit, 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 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 from the companies included in the Group 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.

1.6 Information on audits of the financial statements of the consolidated companies

1.6.1 Parent Company

The financial statements of the Parent Company for the year ended 31 December 2010 were audited by KPMG Audyt Sp. z o.o., certified auditor number 458, 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 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."

1.6.2 Other consolidated entities

Financial statements of significant consolidated entities for the year ended 31 December 2010 were prepared in accordance with the Accounting Act dated 29 September 1994 (Official Journal from 2002, No. 76, item 694 with amendments) and related bylaws and other applicable regulations.

Entity's name	Authorised auditor	Financial year end	Type of auditor's opinion
PGE Obrót S.A.	Deloitte Audyt Sp. z o.o.	31.12.2010	unqualified opinion with emphases of matter 1)
PGE Dystrybucja S.A.	Deloitte Audyt Sp. z o.o.	31.12.2010	unqualified opinion with emphases of matter 2)
PGE Górnictwo i Energetyka Konwencjonalna S.A.	KPMG Audyt Sp. z o.o.	31.12.2010	unqualified opinion with emphases of matter 3)
PGE Energia Odnawialna S.A.	Deloitte Audyt Sp. z o.o.	31.12.2010	in the course of audit
PGE Elektrownia Opole S.A.	KPMG Audyt Sp. z o.o.	31.12.2010	unqualified opinion
EXATEL S.A.	KPMG Audyt Sp. z o.o.	31.12.2010	unqualified opinion with emphases of matter 4)
Elbis Sp. z o.o.	KPMG Audyt Sp. z o.o.	31.12.2010	unqualified opinion
ELECTRA Deutschland GmbH		31.12.2010	-
ELECTRA Bohemia s.r.o.		31.12.2010	-
PSE - Serwis Sp. z o.o.		31.12.2010	-
Budownictwo Hydroenergetyka - Dychów Sp. z o.o.	Progres Biegli Rewidenci Glinkowski i Partnerzy	31.12.2010	unqualified opinion
Dychowskie Przedsiębiorstwo Eksploatacji Elektrowni ELDEKS Sp. z o.o.	Progres Biegli Rewidenci Glinkowski i Partnerzy	31.12.2010	unqualified opinion

ESP Usługi Sp. z o.o.	ForBiznes Audyt - Libisz Kępka Zielińska spółka partnerska	31.12.2010	unqualified opinion
EnBud Sp. z o.o.	Progres Biegli Rewidenci Glinkowski i Partnerzy	31.12.2010	unqualified opinion
Bio-Energia ESP Sp. z o.o.	Kamiński i Wspólnicy Sp. z o.o.	31.12.2010	unqualified opinion
Elektrownia Wiatrowa Kamięnsk sp. z o.o.	ForBiznes Audyt - Libisz Kępka Zielińska spółka partnerska	31.12.2010	unqualified opinion
MEGAZEC Sp. z o.o.	Justan Audytor Sp. z o.o.	31.12.2010	unqualified opinion
Niezależny Operator Międzystrefowy Sp. z o.o.		31.12.2010	in the course of audit
Energo-Tel SA	BDO Sp. z o.o.	31.12.2010	unqualified opinion
ELMEN Sp. z o.o.	ForBiznes Audyt - Libisz Kępka Zielińska spółka partnerska	31.12.2010	unqualified opinion
Energoserwis – Kleszczów Sp. z o.o.	PKF Audyt Sp. z o.o.	31.12.2010	unqualified opinion
Niepubliczny Zakład Opieki Zdrowotnej MegaMed sp. z o.o.	PKF Audyt Sp. z o.o.	31.12.2010	unqualified opinion
ELBEST Sp. z o.o.	Accord'ab Biegli Rewidenci Sp. z o.o.	31.12.2010	unqualified opinion
BESTUR Sp. z o.o.	Eko-Bilans Sp. z o.o.	31.12.2010	unqualified opinion
Przedsiębiorstwo Transportowo Sprzętowe BETRANS sp. z o.o.	Eko-Bilans Sp. z o.o.	31.12.2010	unqualified opinion
RAMB Sp. z o.o.		31.12.2010	-
EPO Sp. z o.o.	Kancelaria Rachunkowo- Podatkowa Biegły Rewident Bernarda Sobczyk	31.12.2010	unqualified opinion
Przedsiębiorstwo Transportowe ELTUR-TRANS Sp. z o.o.	Doradca Sp. z o.o. – Zespół Doradców Finansowo- Księgowych Sp. z o.o.	31.12.2010	unqualified opinion
Przedsiębiorstwo Handlowo- Usługowe ELTUR-Global Sp. z o.o.	Doradca Sp. z o.o. – Zespół Doradców Finansowo- Księgowych Sp. z o.o.	31.12.2010	unqualified opinion with emphases of matter 5)
Przedsiębiorstwo Produkcji Sorbentów i Rekultywacji ELTUR-WAPORE Sp. z o.o.	Doradca Sp. z o.o. – Zespół Doradców Finansowo- Księgowych Sp. z o.o.	31.12.2010	unqualified opinion
Przedsiębiorstwo Usługowo- Produkcyjne ELTUR-SERWIS Sp. z o.o.	KPMG Audyt Sp. z o.o.	31.12.2010	unqualified opinion
Przedsiębiorstwo Usługowo- Produkcyjne TOP SERWIS Sp. z o.o.		31.12.2010	-



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TRANSLATION

Zakład Obsługi Energetyki Sp. z o.o.		31.12.2010	-
Centrum Szkolenia i Rekreacji „Energetyk” Sp. z o.o.		31.12.2010	-
ENESTA Sp. z o.o.	Revision-Rzeszów Józef Król Sp. z o.o. sp. k.	31.12.2010	unqualified opinion
Energetyczne Systemy Pomiarowe Sp. z o.o.	Kancelaria Księgowo- Audytorska „Buchalteria” Sp. z o.o.	31.12.2010	unqualified opinion
Przedsiębiorstwo Transportowo- Usługowe ETRA Sp. z o.o.	Kancelaria Księgowo- Audytorska „Buchalteria” Sp. z o.o.	31.12.2010	unqualified opinion
Pracownia Projektowa ENSPRO Sp. z o.o.	Kancelaria Księgowo- Audytorska „Buchalteria” Sp. z o.o.	31.12.2010	unqualified opinion
Przedsiębiorstwo Produkcyjno- Handlowe EKTO Sp. z o.o.	Kancelaria Księgowo- Audytorska „Buchalteria” Sp. z o.o.	31.12.2010	unqualified opinion
PGE Systemy S.A.	Justan Audytor Sp. z o.o.	31.12.2010	in the course of audit
PGE Invest Sp. z o.o.		31.12.2010	-
BESTGUM Sp. z o.o.	Eko-Bilans Sp. z o.o.	31.12.2010	unqualified opinion
PGE Energetyka Jądrowa S.A.	KPMG Audyt Sp. z o.o.	31.12.2010	in the course of audit
PGE EJ1 sp. z o.o.	KPMG Audyt Sp. z o.o.	31.12.2010	in the course of audit
PGE Invest II Sp. z o.o.		31.12.2010	-
Elektrownia Wiatrowa Resko Sp. z o.o.		31.12.2010	-
Biogazownia Łapy Sp. z o.o.		31.12.2010	-
Biogazownia Wozuczyn Sp. z o.o.		31.12.2010	-
PWE GUBIN Sp. z o.o.		31.12.2010	-
Przedsiębiorstwo Energetyki Ciepłej Sp. z o.o. Zgierz		31.12.2010	-
Elektrownia Wiatrowa Turów Sp. z o.o.		31.12.2010	-
EO Baltica Sp. z o.o.		31.12.2010	-
PGE Serwis Sp. z o.o.		31.12.2010	-

¹ The emphasis of matter: "Without qualifying our opinion on fair presentation of the audited financial statement we draw attention the information in the note 40 of the Supplementary information and explanations to the financial statements concerning merger of the companies. In year 2010 merger of PGE Obrót S.A. with PGE Lubelskie Zakłady Energetyczne S.A., PGE Łódzki Zakład Energetyczny S.A., PGE Zakład Energetyczny Białystok S.A., PGE ZELT Obrót Sp. z o.o., PGE Zakłady Energetyczne Okręgu Radomsko-Kieleckiego S.A., PGE Zakład Energetyczny Warszawa-Teren S.A. and PGE Zamojska Korporacja Energetyczna S.A. took place. The merger was carried out in line with article 492 par.1 point 1 of the Commercial Code, i.e. as a transfer of total assets and liabilities of the target companies to the acquiring company in the exchange for shares of the acquiring company (PGE Obrót S.A.), which were delivered to shareholders/stockholders of target companies.

According to the Polish Accounting Act (article 44c point 6), financial statements of the acquiring company prepared as at the end of the period in which the takeover took place, provide comparable data for the prior reporting period prepared as if the merger took place as at the beginning of the prior reporting period."

² The emphasis of matter: "Without qualifying our opinion on fair presentation of the audited financial statements we draw attention to the information in the Note 41 of explanatory notes to the financial statements, in which the Management Board presented matters concerning the merger of companies within the Consolidation Programme of the PGE Group. In year 2010 merger of PGE Dystrybucja S.A. with PGE Dystrybucja LUBZEL Sp. z o.o., PGE Dystrybucja Łódź Sp. z o.o., PGE Dystrybucja Rzeszów Sp. z o.o., PGE Dystrybucja Białystok Sp. z o.o., PGE Dystrybucja Łódź-Teren S.A., PGE Zakłady Energetyczne Okręgu Radomsko-Kieleckiego Dystrybucja Sp. z o.o., PGE Dystrybucja Warszawa-Teren Sp. z o.o. and PGE Dystrybucja Zamość Sp. z o.o. took place. The merger was carried out in line with article 492, par. 1 point 1 of the Commercial Code, i.e. as a transfer of a total assets and liabilities of the target companies to the acquiring company in the exchange for shares of the acquiring company (PGE Dystrybucja S.A.), which were delivered to the shareholders of target companies.

According to the Polish Accounting Act (article 44c point 6), financial statements of the acquiring company prepared as at the end of the period in which the takeover took place, provide comparable data for the prior reporting period prepared as if the merger took place as at the beginning of the prior reporting period."

³ The emphasis of matter: "Without qualifying our opinion we would like to draw attention to:

- 1) information in the Note 47 of the financial statements, and to the fact that the estimates of compensation related to early termination of long-term agreements for the sales of electric power and energy and recognition of related revenues and receivables prepared by the Group were based on the Group's own interpretation of regulations dated 29 June 2009, the Act on rules of covering producer's costs related to early termination of long-term agreements for the sales of electric power and energy (Official Journal, No. 130, item 905, year 2007) ('The LTC Act') and on a number of significant assumptions, some of which are outside the control of the Group.

An unfavorable outcome for the Group of the dispute with the President of the Energy Regulation Office with respect to the interpretation of the LTC Act and changes in assumptions used will significantly impact the estimates and as a consequence will lead to significant changes to the financial position and results of the Group. The final outcome of the dispute with the President of the Energy Regulation Office cannot be determined as at the date of preparing the consolidated financial statements.

- 2) information presented in point 6 of the Introduction to the financial statements and in the Note 42 in the financial statements presenting potential risk of going concern of the Company in the hitherto extent, related to the possibility of a reversal of the decision of District Court in Łódź concerning registration of companies' merger.

The result of possible unfavorable outcome of the court proceeding concerning registration of the merger would be cancellation of the current entry about merger, which would influence the financial situation of the Company. Moreover, reversal of merger's consequences would generate additional risks and costs, full identification and quantification of which is impossible as at the moment. As at the date of preparing the financial statements result of the proceedings cannot be determined. Accompanying financial statements do not contain the consequences of possible change of the District Court's resolution on the registration of the Company's merger."

⁴ The emphasis of matter: "Without qualifying our opinion, we draw attention to the information presented in note 13 of the financial statements in which the Management Board describes the history of the litigation with Taifun Real Sp. z o.o. The Management Board has assessed the probability that the litigation will be settled unfavourable for the Company and the Company has recognized a provision in the amount of 12,047.4 thousand zloty. However, the ultimate outcome of this matter cannot presently be determined."

⁵ The emphasis of matter: "The attention was drawn to the fact, that the consolidation programme introduced in GK PGE Polska Grupa Energetyczna S.A. is assuming a merger of the Company with Elbest Sp. z o.o. For the merger purposes value of stocks in Global Tur Sp. z o.o. will be subject to valuation. Valuation results may considerably differ from the book value presented in the financial statements of the Company."

2 Financial analysis of the Group

2.1 Summary of the consolidated financial statements

2.1.1 Consolidated statement of financial position

ASSETS	31.12.2010 PLN '000	% of total	31.12.2009 PLN '000	% of total
Non-current assets				
Property, plant and equipment	41,442,181	80.5	38,945,664	71.5
Investment property	24,959	0.0	25,431	-
Intangible assets	202,629	0.4	153,335	0.3
Loans and receivables	407,831	0.8	389,566	0.7
Available-for-sale financial assets	95,242	0.2	198,211	0.4
Shares in associates accounted for under the equity method	1,408,465	2.7	1,354,799	2.5
Other long-term assets	264,432	0.5	485,087	0.9
Deferred tax assets	286,621	0.6	412,353	0.8
Tangible assets related to discontinued operations	5,062	0.0	-	-
Total non-current assets	44,137,422	85.7	41,964,446	77.1
Current assets				
Inventories	1,090,549	2.1	1,271,165	2.3
Income tax receivables	29,976	0.1	49,827	0.1
Trade receivables	2,094,506	4.1	2,059,119	3.8
Other loans and financial assets	796,663	1.5	987,575	1.8
Available-for-sale short-term financial assets	130,924	0.3	5,984	-
Other current assets	445,809	0.9	391,147	0.7
Cash and cash equivalents	2,730,423	5.3	7,712,823	14.2
Current assets related to discontinued operations	10,095	0.0	-	-
Total current assets	7,328,945	14.3	12,477,640	22.9
Non-current assets classified as held for sale	7,572	-	5,712	-
TOTAL ASSETS	51,473,939	100.0	54,447,798	100.0

LIABILITIES AND EQUITY

	31.12.2010 % of total PLN '000	31.12.2009 % of total PLN '000	
			restated data*
Equity attributable to equity holders of the parent			
Share capital	18,697,837	36.3	17,300,900 31.8
Revaluation reserve	(1,081)	0.0	(1,161) -
Own shares	(229)	-	- -
Foreign exchange differences from translation of foreign entities	945	0.0	(812) -
Reserve capital	6,727,589	13.1	5,449,549 10.0
Other capital reserves	49,779	0.1	- -
Retained earnings	11,609,114	22.5	8,419,848 15.5
Total equity attributable to equity holders of the parent	37,083,954	72.0	31,168,324 57.3
Non-controlling interest	598,819	1.2	7,681,428 14.1
Total equity	37,682,773	73.2	38,849,752 71.4
Long-term liabilities			
Interest-bearing loans and borrowings	1,804,429	3.5	4,056,270 7.5
Other long-term liabilities	14,403	0.0	15,941 -
Provisions	3,072,295	6.0	3,238,759 5.9
Deferred tax liabilities	1,194,763	2.3	1,358,546 2.5
Deferred income and government grants	1,112,553	2.2	1,092,806 2.0
Long-term liabilities related to discontinued operations	1,366	0.0	- -
Total long-term liabilities	7,199,809	14.0	9,762,322 17.9
Trade liabilities	986,301	1.9	1,082,582 2.0
Financial liabilities at fair value through profit and loss	41,165	0.1	37,701 0.1
Interest-bearing loans and borrowings	914,956	1.8	969,929 1.8
Other short-term financial liabilities	1,259,478	2.5	566,571 1.0
Other short-term non-financial liabilities	1,396,213	2.7	1,197,829 2.2
Income tax liabilities	218,158	0.4	372,888 0.7
Deferred income	100,157	0.2	40,903 0.1
Short-term provisions	1,668,640	3.2	1,567,321 2.8
Short-term liabilities related to discontinued operations	6,289	0.0	- -
Total short-term liabilities	6,591,357	12.8	5,835,724 10.7
Total liabilities	13,791,166	26.8	15,598,046 28.6
TOTAL LIABILITIES AND EQUITY	51,473,939	100.0	54,447,798 100.0

*) Restatement of the comparative data is described in the note 13.34 of the Supplementary information and explanations to the financial statements.



2.1.1. Consolidated statement of comprehensive income

	1.01.2010 - 31.12.2010 zł '000	% of total sales	1.01.2009 - 31.12.2009 zł '000	% of total sales
CONTINUING OPERATIONS				
Sales revenues	20,476,465	100.0	21,623,350	100.0
Cost of goods sold	(14,071,540)	68.7	(13,727,469)	63.5
Gross profit on sales	6,404,925	31.3	7,895,881	36.5
Other operating revenues	666,403	3.2	422,568	2.0
Distribution and selling expenses	(1,527,718)	7.5	(1,368,079)	6.3
General and administrative expenses	(950,702)	4.6	(914,109)	4.2
Other operating expenses	(407,575)	2.0	(691,532)	3.2
Financial revenues	422,115	2.1	372,265	1.7
Financial expenses	(558,217)	2.7	(580,617)	2.7
Share of profit of associates	227,019	1.1	242,157	1.1
Profit before tax	4,276,250	20.9	5,378,534	24.9
Corporate income tax expense	(673,400)	3.3	(1,041,311)	4.8
Net profit from continuing operations	3,602,850	17.6	4,337,223	4.8
DISCONTINUED OPERATIONS				
Profit for the period on discontinued operations	24,237	0.1	-	-
Net profit for the operating period	3,627,087	17.7	4,337,223	20.1

OTHER COMPREHENSIVE INCOME

Valuation of available-for-sale financial assets	80	-	(41,287)	0.2
Revaluation of assets of associates	-	-	41	-
Foreign exchange differences from translation of foreign entities	1,757	-	531	-
Other comprehensive income for the period, net	1,837	-	(40,715)	0.2
Total comprehensive income for the period	3,628,924	-	4,296,508	19.9

Net profit attributable to:

- equity holders of the parent company	3,014,120	14.7	3,370,712	15.6
- non-controlling interest	612,967	3.0	966,511	4.5
Net profit for the reporting year	3,627,087	17.7	4,337,223	20.1

Total comprehensive income attributable to:

- equity holders of the parent company	3,015,957	14.7	3,340,169	15.5
- non-controlling interest	989,965	3.0	956,339	4.4
Total comprehensive income for the reporting year	3,628,924	17.7	4,296,508	19.9

Profit per share (in PLN)

Basic earnings for the period	1.70	-	2.23	-
Basic earnings from the continuing operations	1.70	-	2.23	-

2.2 Selected financial ratios

	2010	2009	2008
1. Return on sales			
$\frac{\text{net profit} \times 100\%}{\text{net revenues}}$	17.7%	20.1%	13.8%
2. Return on equity			
$\frac{\text{net profit} \times 100\%}{\text{equity} - \text{net profit}}$	10.7%	12.6%	9.7%
3. Debtors turnover			
$\frac{\text{average trade receivables (gross)} \times 365 \text{ days}}{\text{net revenues}}$	41 days	39 days	47 days
4. Debt ratio			
$\frac{\text{liabilities} \times 100\%}{\text{equity and liabilities}}$	26.8%	28.6%	36.1%
5. Current ratio			
$\frac{\text{current assets}}{\text{current liabilities}}$	1.1	2.1	0.9

- Net revenues are comprised of the sale 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, excluding allowances for receivables.

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.

Entities included in the Group apply common accounting principles consistent 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 r., No 169, item 1327).

3.3 Method of consolidation

The method of consolidation is described in notes from 13.1 to 13.4 of the explanatory notes to the consolidated financial statements.

3.4 Consolidation of equity and calculation of non-controlling interest

The share capital and reserve capital of the Group is equal to the share capital and reserve capital of the Parent Company.

The valuation of the revaluation reserve and foreign exchange differences from translation of the PGE Capital Group was calculated as the total of revaluation reserve and foreign exchange differences from translation of subsidiaries in respect of the parent company's share in the subsidiaries' equity as at the balance sheet date.

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 to retained earnings as at the end of the reporting period.

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

3.5 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. (or subsidiary entities) and agreed with information received from the subsidiaries.

3.6 Notes to the consolidated financial statements

All information included in the notes to the consolidated financial statements, comprising of a summary of significant accounting policies and other explanatory information, is, in all material respects, presented correctly and completely. This information should be read in conjunction with the consolidated financial statements.

3.7 Report of the Management Board of the Parent Company on the Group's activities

The Report of the Management Board of the Parent Company on the Group'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 consolidated financial statements.

3.8 Information on the opinion of the independent auditor

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

“Without qualifying our opinion, we draw attention to:

- 1) the Note 45.1 of the explanatory notes to the accompanying consolidated financial statements, and to the fact that the estimates of compensation related to early termination of long-term agreements for the sales of electric power and energy and recognition of related revenues and receivables prepared by the Group were based on the Group's own interpretation of the Act dated 29 June 2009, on rules of covering producer's costs related to early termination of long-term agreements for the sales of electric power and energy (Official Journal, No. 130, item 905, year 2007) ('The LTC Act') and on a number of significant assumptions, some of which are outside the control of the Group.

An unfavorable outcome for the Group of the dispute with the President of the Energy Regulation Office with respect to the interpretation of the LTC Act and changes in assumptions used will significantly impact the estimates and as a consequence will lead to significant changes to the financial position and results of the Group. The final outcome of the dispute with the President of the Energy Regulation Office cannot be determined as at the date of the opinion.



- 2) the information presented in Note 45.2.2 of the explanatory notes to the accompanying consolidated financial statements in which the Management Board describes the court proceeding resulting from the disputed registration of the merger of 12 companies with PGE Elektrownia Bełchatów S.A. (currently PGE Górnictwo i Energetyka Konwencjonalna S.A.). During the course of reconsideration, the District Court may decide again to register the merger or to refuse to register the merger and to remove the existing merger entry from the National Court Register. As at the date of this opinion, it is not possible to determine the probability of each scenario or the realization date thereof. The consolidated financial statements do not reflect the consequences of a possible change in the District Court's decision on the registration of the companies' merger.
- 3) to the information presented in Notes 25 and 43.12 of the explanatory notes to the consolidated financial statements in which the Management Board of the parent company describes the uncertainty relating to future settlement of prepayments made by the parent 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