



PGE Polska Grupa Energetyczna S.A.

**Opinion and Report
of the Independent Auditor
Financial Year ended
31 December 2009**

The opinion contains 3 pages
The report supplementing the auditor's opinion
contains 12 pages
Opinion of the independent auditor
and report supplementing the auditor's opinion
on the financial statements
for the financial year ended
31 December 2009

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.

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 2009, with total assets and total liabilities and equity of PLN 25,956,484,942.85, the profit and loss account for the year then ended with a net profit of PLN 1,440,497,736.84, the statement of changes in equity for the year then ended with an increase in equity of PLN 6,400,701,902.61, the cash flow statement for the year then ended with an increase in cash of PLN 3,173,435,210.45 and the supplementary information and explanations.

Management’s Responsibility for the Financial Statements

Management of the Company is responsible for the correctness of the accounting records and the preparation and fair presentation of these financial statements 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. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatements, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

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 and International Standards on Auditing. Those standards require that we comply with relevant 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 principles 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 2009 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.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.

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.

Signed on the Polish original

.....
On behalf of KPMG Audyt Sp. z o.o.
ul. Chłodna 51, 00-867 Warsaw
Certified Auditor No. 11746
Aleksandra Kamińska

Signed on the Polish original

.....
On behalf of KPMG Audyt Sp. z o.o.
ul. Chłodna 51, 00-867 Warsaw
Certified Auditor No. 9451
Leszek Dubicki, Director

15 March 2010
Warsaw

PGE Polska Grupa Energetyczna S.A.

Report supplementing
the auditor's opinion
on the financial statements
Financial Year ended
31 December 2009

The report supplementing the auditor's opinion
contains 12 pages
Report supplementing the auditor's opinion
on the financial statements
for the financial year ended
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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

The Company was seated in Lublin, ul. Garbarska 21 A until 30 June 2009. This change was registered in the National Court Register on 30 July 2009.

1.1.3. Registration in the National Court Register

Registration court:	District Court in Warsaw, XII Commercial Department of the National Court Register
Date:	5 November 2001
Registration number:	KRS 0000059307

1.1.4. Tax Office and Provincial Statistical Office registration

NIP number:	526-025-05-41
REGON:	006227638

1.2. 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.

1.3. Legal status

1.3.1. Share capital

The Company was established for an indefinite period under the terms of its articles of association dated 2 August 1990.

The share capital of the Company amounted to PLN 17,300,900,000.00 as at 31 December 2009 divided into 1,730,090,000 ordinary shares with a nominal value of PLN 10.00 each.

As at 31 December 2009, the shareholder structure was as follows:

Name of the Shareholder	Number of shares	Voting rights (%)	Nominal value of shares of PLN '000	Percentage of share capital (%)
State Treasury	1 470 576 500	85,0%	14 705 765,0	85,0%
Other shareholders	259 513 500	15,0%	2 595 135,0	15,0%
	1 730 090 000	100,0%	17 300 900,0	100,0%

On 3 September 2009 the Extraordinary Meeting of Shareholders adopted a resolution related to an increase of the share capital of the Company in the manner of an issue of new shares excluding the subscription right of the hitherto existing shareholder. Based on the resolution, the share capital was increased by the amount no greater than PLN 2,595,135,000.00 (PLN two billion five hundred and ninety five million one hundred and thirty five thousand) through an issue of B shares in the nominal value of PLN 10.00 each. All Shares of the Company, in particular the Shares Offered, hold the same rights to dividend. The Shares Offered will participate in a potential dividend for the 2009 reporting period, i.e. from 1 January 2009, under the same conditions as all other shares of the Company.

On 30 November 2009, the increase of the share capital of the Company was registered. The share capital was increased by PLN 2,595,135,000.00

1.3.2. Related parties

The Company is a member of the PGE Polska Grupa Energetyczna S.A. Group.

1.3.3. Management of the Company

The Management Board is responsible for management of the Company.

At 31 December 2009, 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.

During the audited period the following changes in the composition of the Board of the Company:

- On 27 February 2009 Mr Adam Cichocki was dismissed from the Management Board,
- On 27 February 2009 Mr Henryk Majchrzak was dismissed from the Management Board,
- On 3 August 2009 Mr Marek Szostek was appointed to the position of Vice President of the Management Board.

1.3.4. Scope of activities

The business activities listed in the Company's articles of association include the following:

- activities of central companies and holding, excluding financial holdings,
- activities of financial holdings,
- guidance over effectiveness of management,
- rendering of other services related to the above mentioned activities,
- wholesale and retail sale of electricity.

1.4. Prior period financial statements

The financial statements as at and for the year ended 31 December 2008 were audited by KPMG Audyt Sp. z o.o. and received an unqualified opinion.

The financial statements were approved at the General Meeting on 30 June 2009 where it was resolved to allocate the profit for the prior financial year of PLN 553,461,763.75 as follows:

- PLN 509,184,822.65 as a cash dividend to State Treasury,
- PLN 44,276,941.10 to the reserve capital.

The closing balances as at 31 December 2008 have been properly recorded as the opening balances of the audited year.

The financial statements were submitted to the Registry Court on 13 July 2009 and were published in Monitor Polski B No. 1761 on 28 September 2009.

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 financial statements comprising: the introduction to the financial statements, the balance sheet as at 31 December 2009, with total assets and total liabilities and equity of PLN 25,956,484.9 thousand, the profit and loss account for the year then ended with a net profit of PLN 1,440,497.7 thousand, the statement of changes in equity for the year then ended with an increase in equity of PLN 6,400,701.9 thousand, the cash flow statement for the year then ended with an increase in cash of PLN 3,173,435.2 thousand, and the supplementary information and explanations.

The financial statements have been audited in accordance with the contract dated 21 November 2008, concluded on the basis of the resolution of Supervisory Board dated 23 October 2008 on the appointment of the auditor.

We conducted the audit in accordance with section 7 of the Accounting Act and International Standards on Auditing.

We audited the financial statements in the Company's head office during the period from 25 January 2010 to 12 February 2010.

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

Management of the Company and members of the Supervisory Board are obliged 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.

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 our requests for additional documents and information necessary for expressing our opinion and preparing the report have been fulfilled.

KPMG Audyt Sp. z o.o., the members of its Management Board and Supervisory Board and other persons involved in the audit of financial statements of the Company fulfill independence requirements. 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	31.12.2009 PLN '000	% of total	31.12.2008 PLN '000	% of total
Non-current assets				
Intangible assets	3 810,1	-	2 974,7	-
Tangible fixed assets	74 424,8	0,3	75 941,7	0,3
Long term receivables	2 041,6	-	2 367,6	-
Long term investments	20 701 201,0	79,8	20 149 674,4	92,6
Long term prepayments and deferred expenses	237 038,7	0,9	188 752,5	0,9
	<u>21 018 516,2</u>	<u>81,0</u>	<u>20 419 710,9</u>	<u>93,8</u>
Current assets				
Inventory	242,9	-	166,8	-
Short term receivables	836 912,5	3,2	777 312,5	3,6
Short term investments	4 079 601,1	15,7	519 441,9	2,4
Short term prepayments and deferred expenses	21 212,2	0,1	45 459,2	0,2
	<u>4 937 968,7</u>	<u>19,0</u>	<u>1 342 380,4</u>	<u>6,2</u>
TOTAL ASSETS	<u>25 956 484,9</u>	<u>100,0</u>	<u>21 762 091,3</u>	<u>100,0</u>
EQUITY AND LIABILITIES				
	31.12.2009 PLN '000	% of total	31.12.2008 PLN '000	% of total
Equity				
Share capital	17 300 900,0	66,7	14 705 765,0	67,6
Reserve capital	5 449 548,8	21,0	2 100 155,6	9,7
Revaluation reserve	3 695,1	-	3 696,2	-
Other reserve capital	-	-	414 017,0	1,9
Retained earnings	1 800,0	-	18 644,2	0,1
Net profit	1 440 497,7	5,5	553 461,8	2,5
	<u>24 196 441,6</u>	<u>93,2</u>	<u>17 795 739,8</u>	<u>81,8</u>
Liabilities and provisions for liabilities				
Provisions for liabilities	398 055,4	1,5	343 648,2	1,6
Short term liabilities	1 352 752,0	5,2	3 613 369,5	16,6
Accruals and deferred income	9 235,9	0,1	9 333,8	-
	<u>1 760 043,3</u>	<u>6,8</u>	<u>3 966 351,5</u>	<u>18,2</u>
TOTAL EQUITY AND LIABILITIES	<u>25 956 484,9</u>	<u>100,0</u>	<u>21 762 091,3</u>	<u>100,0</u>

2.1.2. Profit and loss account

	1.01.2009 - 31.12.2009 PLN '000	% of total sales	1.01.2008 - 31.12.2008 PLN '000	% of total sales
Net revenues from the sale of finished products, merchandise and raw materials				
Net revenues from the sale of finished products	83 544,1	0,8	871 862,0	9,0
Net revenues from the sale of merchandise and raw materials	10 846 326,1	99,2	8 832 538,9	91,0
	10 929 870,2	100,0	9 704 400,9	100,0
Cost of finished products, merchandise and raw materials sold				
Cost of finished products sold	(83 223,7)	0,8	(881 147,4)	9,1
Cost of merchandise and raw materials sold	(10 305 687,9)	94,3	(8 362 120,7)	86,1
	(10 388 911,6)	95,1	(9 243 268,1)	95,2
Gross profit on sales	540 958,6	4,9	461 132,8	4,8
Selling expenses	(72 350,2)	0,6	(79 315,5)	0,8
Administration and general expenses	(78 442,8)	0,7	(75 984,5)	0,8
Profit on sales	390 165,6	3,6	305 832,8	3,2
Other operating revenues				
Profit on the disposal of non-financial fixed assets	52,5	-	122 782,3	1,3
Grants	467,6	-	-	-
Other operating revenues	7 108,6	0,1	3 383,4	-
	7 628,7	0,1	126 165,7	1,3
Other operating expenses				
Revaluation of non-financial assets	(551,1)	-	(195,3)	-
Other operating costs	(50 564,7)	0,5	(291 664,0)	3,1
	(51 115,8)	0,5	(291 859,3)	3,1
Operating profit	346 678,5	3,2	140 139,2	1,4
Financial revenues				
Dividends and shares in profits	1 209 307,3	11,1	267 156,1	2,8
Interest	169 940,9	1,6	207 471,6	2,1
Profit on the disposal of investments	15 523,9	0,1	88 489,9	0,9
Revaluation of investments	190 335,1	1,7	50 673,0	0,5
Other	590,2	-	76 147,2	0,8
	1 585 697,4	14,5	689 937,8	7,1
Financial expenses				
Interest	(140 834,0)	1,3	(78 375,9)	0,8
Revaluation of investments	(30 851,2)	0,3	(1 256,9)	-
Other	(41 384,1)	0,4	(18 692,7)	0,2
	(213 069,3)	2,0	(98 325,5)	1,0
Gross profit	1 719 306,6	15,7	731 751,5	7,5
Corporate income tax expense	(80 666,8)	0,7	(78 719,5)	0,8
Other obligatory charges decreasing the profit	(198 142,1)	1,8	(99 570,2)	1,0
Net profit	1 440 497,7	13,2	553 461,8	5,7

2.2. Selected financial ratios

	2009	2008	2007
1. Return on sales			
$\frac{\text{net profit} \times 100\%}{\text{net revenues}}$	13,2%	5,7%	7,3%
2. Return on equity			
$\frac{\text{net profit} \times 100\%}{\text{equity} - \text{net profit}}$	6,3%	3,2%	4,9%
3. Debtors' days			
$\frac{\text{average trade receivables (gross)} \times 365 \text{ days}}{\text{net revenues}}$	24 days	29 days	38 days
4. Debt ratio			
$\frac{\text{liabilities and provisions for liabilities} \times 100\%}{\text{total equity and liabilities}}$	6,8%	18,2%	12,6%
5. Current ratio			
$\frac{\text{current assets}}{\text{current liabilities}}$	2,8	0,3	1,8

- 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.

2.3. Interpretation of selected financial ratios

Return on sales and return on equity

Return on sales and return on equity increased as compared to prior period mostly due to higher income resulting from dividends from related parties.

Debtors' days

Debtors' days decreased as compared to prior period as a result of a change in the structure of business parties. Capital group was formed in 2007 what intensified sales of electricity made to group companies at the expense of third parties, which shortened the payment terms.

Debt ratio

Debt ratio decreased in 2009 as compared to prior period due to lower liabilities relating to issue of debt securities, which were repaid with the use of incomes resulting from shares issue at Warsaw Stock Exchange.

Current ratio

Current ratio increased as compared to prior period. The change is a result of a significant increase of the value of cash and cash equivalents, which mainly is a result of the Initial Public Offering of shares, and a decrease of short-term liabilities (current portion of interest bearing loans and borrowings).

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. Our assessment covered in particular:

- appropriateness and consistency of the accounting principles used,
- correctness of the documentation of transactions,
- fairness, accuracy and verifiability of the accounting records, including the matching of accounting entries with supporting documentation and the financial statements,
- compliance of the adopted policies relating to the safeguarding of the supporting documentation, the accounting records and the financial statements with the Accounting Act.

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.

3.2. Asset verification

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

- cash,
- trade receivables.

Verification differences have been recognised in the period covered by the financial statements.

3.3. 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 taken as a whole.

3.4. 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.

3.5. 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 2009, we have issued an unqualified opinion with an 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.”

Signed on the Polish original

.....
On behalf of KPMG Audyt Sp. z o.o.
ul. Chłodna 51, 00-867 Warsaw
Certified Auditor No. 11746
Aleksandra Kamińska

15 March 2010
Warsaw

Signed on the Polish original

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On behalf of KPMG Audyt Sp. z o.o.
ul. Chłodna 51, 00-867 Warsaw
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Leszek Dubicki, Director