



PGE Polska Grupa Energetyczna S.A.

**Opinion and Report
of the Independent Auditor
Financial Year ended
31 December 2011**

The opinion contains 2 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 separate financial statements
for the financial year ended
31 December 2011

OPINION OF THE INDEPENDENT AUDITOR



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

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

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

OPINION OF THE INDEPENDENT AUDITOR

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

We have audited the accompanying separate financial statements of PGE Polska Grupa Energetyczna S.A., seated in Warsaw, ul. Mysia 2 (“the Company”), which comprise the separate statement of financial position as at 31 December 2011, the separate statement of comprehensive income, the separate statement of changes in equity and the separate statement of cash flows for the year then ended and notes to the financial statements, comprising of a summary of significant accounting policies and other explanatory information.

Management’s and Supervisory Board’s Responsibility for the Financial Statements

Management of the Company is responsible for the accuracy of the accounting records and the preparation and fair presentation of these 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 Company’s activities. Management of the Company is also responsible for such internal control as management determines is necessary to enable the preparation of the 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 Company and members of the Supervisory Board are required to ensure that the financial statements and the Report on the Company’s activities are in compliance with the requirements set forth in the Accounting Act.

Auditor’s Responsibility

Our responsibility, based on our audit, is to express an opinion on these financial statements and whether the financial statements are derived from properly maintained accounting records. We conducted our audit in accordance with section 7 of the Accounting Act, national standards on auditing issued by the 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 about whether the financial statements and the accounting records from which they are derived are free of material misstatements.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the

entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the accompanying separate financial statements of PGE Polska Grupa Energetyczna S.A. have been prepared and present fairly, in all material respects, the unconsolidated financial position of the Company as at 31 December 2011 and its unconsolidated financial performance and its unconsolidated cash flows for the year then ended, in accordance with International Financial Reporting Standards as adopted by the European Union, are in compliance with the respective regulations and the provisions of the Company's articles of association that apply to the Company's separate 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 38.4.2 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 with amendments) and the information is consistent with the 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. 11003
Bartłomiej Lachowicz

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

13 March 2012
Warsaw

REPORT OF THE INDEPENDENT AUDITOR



TRANSLATION

PGE Polska Grupa Energetyczna S.A.

Report supplementing
the auditor's opinion
on the separate financial
statements

Financial Year ended
31 December 2011

The report supplementing the auditor's opinion
contains 12 pages

Report supplementing the auditor's opinion
on the separate financial statements
for the financial year ended
31 December 2011



PGE Polska Grupa Energetyczna S.A.

*Report supplementing the opinion on the separate financial statements
for the financial year ended 31 December 2011*

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Anglo-Saxon countries has been used where practicable for the purposes of this
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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

1.1.3. Registration in the National Court Register

Registration court: District Court for the Capital City Warsaw in Warsaw,
XII Commercial Department of the National Court Register
Date: 5 November 2001
Registration number: KRS 0000059307
Share capital as at balance
sheet date: PLN 18,697,837,270.00

1.1.4. Management of the Company

The Management Board is responsible for management of the Company.

At 31 December 2011, the Management Board of the Company was comprised of the following members:

- Paweł Skowroński – acting as President of the Management Board,
- Wojciech Ostrowski – Vice President of the Management Board,
- Piotr Szymanek – Vice President of the Management Board.

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

According to the resolution of Supervisory Board dated 16 March 2011 Mr. Marek Trawiński was dismissed from the position of Vice President of the Management Board for Operating Affairs.

According to the resolution of Supervisory Board dated 16 March 2011 Mr. Wojciech Ostrowski was appointed to the position of Vice President of the Management Board for Financial Affairs effectively from 17 March 2011.

According to the resolution of Supervisory Board dated 16 March 2011 Mr. Paweł Skowroński was appointed to the position of Vice President of the Management Board for Commercial Affairs effectively from 17 March 2011.

On 14 December 2011 Supervisory Board accepted Mr. Tomasz Zadroga's resignation from the position of President of the Management Board. The Supervisory Board entrusted the duties of President of the Management Board to Mr. Paweł Skowroński.

According to the resolution of Supervisory Board dated 14 December 2011 Mr. Marek Szostek was dismissed from the position of Vice President of the Management Board for Operating Affairs.

On 1 March 2012 the Supervisory Board of the Company adopted a resolution to appoint Mr. Krzysztof Kilian as a President of the Management Board, and Mrs. Bogusława Matuszewska as a Vice-President of the Management Board, effectively from 5 March 2012.

Therefore as at the date of signing the foregoing opinion, the composition of the Management Board was as follows:

- Krzysztof Kilian – President of the Management Board,
- Bogusława Matuszewska – Vice President of the Management Board,
- Wojciech Ostrowski – Vice President of the Management Board,
- Paweł Skowroński – Vice President of the Management Board,
- Piotr Szymanek – Vice President of the Management Board.

1.2. Auditor information

1.2.1. Key certified auditor information

Name and surname: Marek Gajdziński
Registration number: 90061

Name and surname: Bartłomiej Lachowicz
Registration number: 11003

1.2.2. Audit firm 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 audit firms under number 458.

1.3. Prior period financial statements

The separate financial statements for the period ended 31 December 2010 were audited by KPMG Audyt Sp. z o.o. and received an unqualified opinion with the following emphasis of matter:

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

The separate financial statements were approved at the General Meeting on 29 June 2011 where it was resolved to distribute the net profit for year 2010 of PLN 2,920,423,465.45 as follows:

- dividend for Shareholders in the amount of PLN 0.65 per one share,
- reserve capital in the amount constituting the remaining part of net profit for the year 2010 and undistributed profit from the previous years.

Due to the changes in the applied accounting policies resulting from the adoption of the accounting policies that are in compliance with International Financial Reporting Standards as adopted by the European Union, the related corresponding figures for 31 December 2010 have been restated.

The separate financial statements were submitted to the Registry Court on 6 July 2011 and were published in Monitor Polski B No. 2130 on 9 November 2011.

1.4. Audit scope and responsibilities

This report was prepared for the General Meeting of PGE Polska Grupa Energetyczna S.A. seated in Warsaw, ul. Mysia 2 and relates to the separate financial statements comprising: the separate statement of financial position as at 31 December 2011, the separate statement of comprehensive income, the separate statement of changes in equity and the separate statement of cash flows for the year then ended and notes to the financial statements, comprising of a summary of significant accounting policies and other explanatory information.

The audited Company prepares its separate financial statements in accordance with International Financial Reporting Standards as adopted by the European Union on the basis of the decision of shareholders dated 3 August 2010.

The separate financial statements have been audited in accordance with the contract dated 15 November 2010, concluded on the basis of the resolution of 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 the Polish National Council of Certified Auditors and International Standards on Auditing.

We audited the separate financial statements in the Company's head office during the period from 6 February to 13 March 2012.

Management of the Company is responsible for the accuracy of the accounting records and the preparation and fair presentation of the 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 separate financial statements and whether the financial statements are derived 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 separate financial statements presented for audit, which confirmed that there were no undisclosed matters which could significantly influence the information presented in the separate financial statements.



PGE Polska Grupa Energetyczna S.A.
Report supplementing the opinion on the separate financial statements
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All required statements, explanations and information and all our requests for additional documents and information necessary for expressing our opinion and preparing the report have been fulfilled.

Key certified auditors and KPMG Audyt Sp. z o.o. fulfill independence requirements as described in Art. 56 points 3 and 4 of the Act on Certified Auditors and Their Government, Audit Firms and Public Oversight dated 7 May 2009 (Official Journal from 2009, No. 77, item 649).

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



2. Financial analysis of the Company

2.1. Summary of the separate financial statements

2.1.1. Separate statement of financial position

ASSETS	31.12.2011	% of	31.12.2010	% of	01.01.2010	% of
	PLN '000	total	PLN '000	total	PLN '000	total
			restated/ unaudited*		restated/ unaudited*	
Non-current assets						
Property, plant and equipment	216,271.7	0.6	232,309.9	0.7	238,669.9	0.8
Intangible assets	17,537.7	0.1	18,449.3	0.1	23,213.0	0.1
Loans and receivables	4,783,678.8	14.5	612,964.8	1.9	1,949,757.4	6.7
Shares in subsidiaries	22,587,091.2	68.4	22,428,008.6	70.3	19,334,823.0	66.7
Available-for-sale financial assets	69,963.2	0.2	38,670.7	0.1	1,840,789.6	6.4
Prepayments for perpetual usufruct	4,326.9	-	27,133.1	0.1	25,166.2	0.1
Total non-current assets	27,678,869.5	83.8	23,357,536.4	73.2	23,412,419.1	80.8
Current assets						
Inventories	32,466.4	0.1	30,894.6	0.1	68,018.9	0.2
Income tax receivables	-	-	4,130.6	-	2,527.8	-
Shares in subsidiaries	217,877.2	0.7	214,077.3	0.7	-	-
Trade receivables	616,658.4	1.8	867,578.9	2.7	1,015,013.7	3.6
Other loans and financial assets	3,331,624.4	10.1	4,770,064.9	15.0	932,516.4	3.2
Available-for-sale short-term financial assets	39,067.2	0.1	1,724,482.9	5.4	-	-
Other current assets	94,672.2	0.3	660,934.0	2.1	124,912.0	0.4
Cash and cash equivalents	1,020,822.9	3.1	257,955.4	0.8	3,410,076.1	11.8
Total current assets	5,353,188.7	16.2	8,530,118.6	26.8	5,553,064.9	19.2
TOTAL ASSETS	33,032,058.2	100.0	31,887,655.0	100.0	28,965,484.0	100.0

* For information regarding comparative figures please refer to notes 9 and 11 of the financial statements.



PGE Polska Grupa Energetyczna S.A.
*Report supplementing the opinion on the separate financial statements
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LIABILITIES AND EQUITY	31.12.2011	% of	31.12.2010	% of	01.01.2010	% of
	PLN '000	total	PLN '000	total	PLN '000	total
			restated/ unaudited*		restated/ unaudited*	
Equity						
Share capital	18,697,837.3	56.6	18,697,837.3	58.6	17,300,900.0	59.7
Equity of merging companies to be allocated to share capital of PGE Polska Grupa Energetyczna S.A.	-	-	-	-	1,396,937.3	4.8
Revaluation reserve	(777.0)	-	(1,081.0)	-	(1,161.8)	-
Treasury shares	(229.0)	-	(229.0)	-	-	-
Reserve capital	8,553,142.6	25.9	6,727,589.2	21.1	6,591,665.8	22.8
Other capital reserves	49,779.3	0.2	49,779.3	0.2	-	-
Retained earnings	4,482,346.4	13.6	2,967,564.5	9.3	1,584,079.8	5.5
Total equity	31,782,099.6	96.2	28,441,460.3	89.2	26,872,421.1	92.8
Long-term liabilities						
Other liabilities	-	-	-	-	27.5	-
Provisions	18,784.0	0.1	21,410.6	0.1	18,052.6	0.1
Total long-term liabilities	18,784.0	0.1	21,410.6	0.1	18,080.1	0.1
Short-term liabilities						
Trade liabilities	423,572.9	1.3	973,071.6	3.0	1,085,524.8	3.7
Interest-bearing loans, borrowings, bonds and lease	-	-	2,011,131.6	6.3	556,541.6	1.9
Other short-term financial liabilities	4,480.7	-	25,040.5	0.1	31,454.4	0.1
Other short-term non-financial liabilities	45,016.8	0.1	36,123.2	0.1	18,693.0	0.1
Income tax liabilities	318,174.2	1.0	-	-	14,146.3	-
Deferred income	286.6	-	4,787.9	-	218.2	-
Short-term provisions	439,643.4	1.3	374,629.3	1.2	368,404.5	1.3
Total short-term liabilities	1,231,174.6	3.7	3,424,784.1	10.7	2,074,982.8	7.1
Total liabilities	1,249,958.6	3.8	3,446,194.7	10.8	2,093,062.9	7.2
TOTAL LIABILITIES AND EQUITY	33,032,058.2	100.0	31,887,655.0	100.0	28,965,484.0	100.0

* For information regarding comparative figures please refer to notes 9 and 11 of the financial statements.

2.1.2. Separate statement of comprehensive income

	1.01.2011 - 31.12.2011 PLN '000	% of total sales	1.01.2010 - 31.12.2010 PLN '000 restated/ unaudited*	% of total sales
CONTINUING OPERATIONS				
Revenues from sale of products and merchandise	9,889,873.8	97.5	11,558,959.5	99.1
Revenues from services rendered	239,571.7	2.4	96,155.6	0.8
Revenues from rent	8,447.7	0.1	8,231.2	0.1
Total sales revenue	10,137,893.2	100.0	11,663,346.3	100.0
Costs of goods sold	(9,784,114.6)	96.5	(11,324,805.9)	97.1
Gross profit on sales	353,778.6	3.5	338,540.4	2.9
Other operating revenues	5,637.3	0.1	12,747.5	0.1
Distribution and selling expenses	(17,325.3)	0.2	(20,862.5)	0.2
General and administrative expenses	(122,397.3)	1.2	(106,757.4)	0.9
Other operating expenses	(40,851.5)	0.4	(16,030.9)	0.1
Financial revenues	4,889,376.0	48.2	2,874,333.8	24.6
Financial expenses	(105,359.1)	1.0	(91,869.1)	0.8
Profit before tax	4,962,858.7	49.0	2,990,101.8	25.6
Corporate income tax expense	(406,743.2)	4.1	(85,223.5)	0.7
Net profit	4,556,115.5	44.9	2,904,878.3	24.9
Net profit for the operating period	4,556,115.5	44.9	2,904,878.3	24.9
OTHER COMPREHENSIVE INCOME				
Valuation of available-for-sale financial assets	304.1	-	80.7	-
Other comprehensive income for the period, net	304.1	-	80.7	-
Total comprehensive income	4,556,419.6	44.9	2,904,959.0	24.9
Earnings per share				
basic earnings per share for the period	2.44	-	1.55	-
basic earnings per share from the continuing operations	2.44	-	1.55	-

* For information regarding comparative figures please refer to notes 9 and 11 of the financial statements.

2.2. Selected financial ratios

	2011	2010
		restated/unaudited*
1. Return on sales		
$\frac{\text{profit for the period} \times 100\%}{\text{revenue}}$	44,9%	24,9%
2. Return on equity		
$\frac{\text{profit for the period} \times 100\%}{\text{equity} - \text{profit for the period}}$	16,7%	11,4%
3. Debtors' days		
$\frac{\text{average trade receivables (gross)} \times 365 \text{ days}}{\text{revenue}}$	27 days	30 days
4. Debt ratio		
$\frac{\text{liabilities} \times 100\%}{\text{equity and liabilities}}$	3,8%	10,8%
5. Current ratio		
$\frac{\text{current assets}}{\text{current liabilities}}$	4,3	2,5

* For information regarding comparative figures please refer to notes 9 and 11 of the financial statements.

- 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. 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 separate financial statements, we tested, on a sample basis, the operation of the accounting system.

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

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

3.2. Notes to the separate financial statements

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

3.3. Report on the Company's activities

The Report on the Company's activities includes, in all material respects, 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 with amendments) and the information is consistent with the separate financial statements.



3.4. Information on the opinion of the independent auditor

Based on our audit of the separate financial statements as at and for the year ended 31 December 2011, we have issued an unqualified opinion with the following emphasis of matter:

“Without qualifying our opinion, we draw attention to the information presented in note 38.4.2 of the supplementary information and explanations to the financial statements, in which the Management Board describes the uncertainty relating to future settlement of prepayments made by the Company resulting from the execution of the agreement described in the above mentioned Note.”

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

Signed on the Polish original

Signed on the Polish original

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Certified Auditor No. 11003
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13 March 2012
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