

PGE Polska Grupa Energetyczna S.A.
Group

**Opinion and Report
of the Independent Auditor
Financial Year ended
31 December 2008**

The opinion contains 3 pages
The report supplementing the auditor's opinion
contains 27 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 2008

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 consolidated financial statements of PGE Polska Grupa Energetyczna S.A. Group seated in Lublin, ul. Garbarska 21A (“the Capital Group”), which comprise the consolidated balance sheet as at 31 December 2008, with total assets and total liabilities and equity of PLN 47,192,261 thousand, the consolidated profit and loss account for the year then ended with a net profit of PLN 2,670,247 thousand, the consolidated statement of changes in equity for the year then ended with an increase in equity of PLN 755,129 thousand, the consolidated cash flow statement for the year then ended with a decrease in cash amounting to PLN 586,190 thousand and supplementary information to the consolidated financial statements, comprising of a summary of significant accounting policies and other explanatory notes.

Management’s Responsibility for the 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. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of consolidated 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 consolidated financial statements. We conducted our audit in accordance with section 7 of the Accounting Act dated 29 September 1994 (Official Journal from 2002, No. 76, item 694 with amendments) (“the Accounting Act”), the professional standards established by the Polish National Council of Certified Auditors 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 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 consolidated financial statements of PGE Polska Grupa Energetyczna S.A. Capital Group have been prepared and present fairly in all material respects the financial position of the PGE Capital Group as at 31 December 2008 and of its financial performance and its cash flows for the year then ended, in accordance with International Financial Reporting Standards as adopted by the European Union, and are in compliance with the respective regulations that apply to the consolidated financial statements, applicable to the PGE Capital Group.

Emphasis of matter

Without qualifying our opinion, we draw attention:

- 1) to the fact that, as described in the note 22 of the explanatory notes to the consolidated financial statements, the impairment analysis of the PGE Capital Group's cash generating units was based on a number of fundamental assumptions, some of which are outside the control of the PGE Capital Group. Any significant change in these assumptions will impact the result of future impairment tests which may lead to significant changes to the financial position and results of the PGE Capital Group.
- 2) to the fact that, as described in the note 46 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 Capital Group were based on the PGE Capital 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 Capital Group. Possible changes in the interpretation of the LTC Act and changes in assumptions used may impact the estimates and as a consequence may lead to significant changes to the financial position and results of the PGE Capital Group.

Other Matters

As required under the Accounting Act we also report that the Report on the PGE Capital Group's activities includes, in all material respects, the information required by Art. 49 of the Accounting Act and the information is consistent with the consolidated financial statements.

Signed on the Polish original

.....
Certified Auditor No. 90047/7420
Zbigniew Libera

Signed on the Polish original

.....
For KPMG Audyt Sp. z o.o.
ul. Chłodna 51; 00-867 Warsaw
Certified Auditor No. 9451/7175
Leszek Dubicki,
Member of the Management Board

28 April 2009
Warsaw, Poland

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

Report supplementing
the auditor's opinion
on the consolidated financial
statements
Financial Year ended
31 December 2008

The report supplementing the auditor's opinion
contains 27 pages
Report supplementing the auditor's opinion
on the consolidated financial statements
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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. Capital Group

1.1.2 Registered office of the Parent Company of the Group

ul. Garbarska 21A
20-340 Lublin

1.1.3 Registration of the Parent Company in the National Court Register

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

1.1.4 Registration of the Parent Company in the Tax Office and Statistical Office

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

1.2 Information about companies comprising the Group

1.2.1 Companies included in the consolidated financial statements

As at 31 December 2008, the following companies were consolidated by the Group:

Parent Company:

- PGE Polska Grupa Energetyczna S.A.

Subsidiaries consolidated on the full consolidation basis:

- PGE - Energia S.A.,
- PGE Zespół Elektrowni Dolna Odra S.A.,
- PGE Zamojska Korporacja Energetyczna S.A.,
- PGE Dystrybucja Zamość Sp. z o.o.,
- PGE Rzeszowski Zakład Energetyczny S.A.,
- PGE Dystrybucja Rzeszów Sp. z o.o.,
- PGE Elektrociepłownia Rzeszów S.A.,
- PGE Lubelskie Zakłady Energetyczne S.A.,
- PGE Dystrybucja LUBZEL Sp. z o.o.,
- PGE Elektrociepłownia Lublin - Wrotków Sp. z o.o.,

- Zakłady Energetyczne Okręgu Radomsko-Kieleckiego S.A.,
- PGE ZEORK Dystrybucja Sp. z o.o.,
- PGE Elektrociepłownia Kielce S.A.,
- PGE Łódzki Zakład Energetyczny S.A.,
- PGE Dystrybucja Łódź Sp. z o.o.,
- PGE Zakład Energetyczny Białystok S.A.,
- PGE Dystrybucja Białystok Sp. z o.o.,
- PGE Dystrybucja Łódź-Teren S.A.,
- PGE ZELT Obrót Sp. z o.o.,
- PGE Zakład Energetyczny Warszawa-Teren S.A.,
- PGE Dystrybucja Warszawa-Teren Sp. z o.o.,
- PGE Górnictwo i Energetyka S.A.,
- PGE KWB Bełchatów S.A.,
- PGE Elektrownia Bełchatów S.A.,
- PGE Elektrownia Opole S.A.,
- PGE Elektrownia Turów S.A.,
- PGE KWB Turów S.A.,
- Elektrownia Turów BV,
- PGE Energia Odnawialna S.A. (previously under business name Elektrownie Szczytowo Pompowe S.A.),
- PGE ZEW Dychów S.A.,
- PGE ZEC Bydgoszcz S.A.,
- PGE Electra S.A.,
- PGE Elektrociepłownia Gorzów S.A.,
- EXATEL S.A.,
- ELBIS Sp. z o.o.
- ELBEST Sp. z o.o.
- Energoserwis - Kleszczów Sp z o.o.
- Niepubliczny Zakład Opieki Zdrowotnej MegaMed Sp. z o.o.
- ELMEN Sp. z o.o.
- Energetyka Boruta Sp. z o.o.

- Elektrownia Wodna Żarnowiec S.A.
- Elektrownia Wiatrowa Kamieńsk Sp. z o.o.
- EnBud Sp. z o.o.
- Zespół Elektrowni Wodnych Porąbka-Żar S.A.
- EGO-Odra S.A.
- Bio-Energia ESP Sp. z o.o.
- Zespół Elektrowni Wodnych Solina-Myczkowce S.A.
- Dychowskie Przedsiębiorstwo Eksploatacji Elektrowni ELDEKS Sp. z o.o.
- ESP Usługi Sp. z o.o.
- Budownictwo Hydroenergetyka - Dychów Sp. z o.o.
- Przedsiębiorstwo Usługowo-Produkcyjne ELTUR-SERWIS Sp. z o.o.
- Przedsiębiorstwo Produkcji Sorbentów i Rekultywacji ELTUR-WAPORE Sp. z o.o.
- Przedsiębiorstwo Transportowe ELTUR-TRANS Sp. z o.o.
- Przedsiębiorstwo Handlowo-Usługowe GLOBAL - TUR Sp. z o.o.
- Centrum Medyczne Turów Sp. z o.o.
- Energo Invest Broker S.A.
- Przedsiębiorstwo Usługowo-Produkcyjne TOP SERWIS Sp. z o.o.
- ENESTA Sp. z o.o.
- NOM Sp. z o.o.
- Energo-Tel S.A.
- E-Telbank S.A.
- PEC Gorzów Sp. z o.o.
- Towarzystwo Gospodarcze BEWA Sp. z o.o.
- RAMB Sp. z o.o.
- BESTUR Sp. z o.o.
- Przedsiębiorstwo Transportowo Sprzętowe BETRANS Sp. z o.o.
- Górniczy Klub Sportowy Bełchatów S.A.
- ELECTRA Deutschland GmbH
- ELECTRA Bohemia s.r.o.
- MEGAZEC Sp. z o.o.

- Zakład Energetyczny Białystok Przedsiębiorstwo Transportowo-Usługowe ETRA Sp. z o.o.
- Zakład Energetyczny Białystok Przedsiębiorstwo Produkcyjno-Handlowe EKTO Sp. z o.o.
- Energetyczne Systemy Pomiarowe Sp. z o.o.
- Zakład Energetyczny Białystok Pracownia Projektowa ENSPRO Sp. z o.o.
- Przedsiębiorstwo Energetyki Ciepłej Sp. z o.o.
- Zakład Usług Medycznych Dolna Odra Sp. z o.o.
- EPO Sp. z o.o.
- Przedsiębiorstwo Wielobranżowe Agtel Sp. z o.o.
- Centrum Szkolenia i Rekreacji „Energetyk” Sp. z o.o.
- Zakład Obsługi Energetyki Sp. z o.o.
- PGE Serwis Sp. z o.o.

1.2.2 Companies not included in the consolidated financial statements:

As at 31.12.2008, the following PGE Capital Group subsidiaries were not consolidated due to insignificant as compared to consolidated financial statement balance sheet amount and turnover:

- ELECTRA Slovakia s.r.o.
- SOK 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.
- IBN sp. z o.o.
- Ośrodek Wypoczynkowo-Szkoleniowy „Energetyk” sp. z o.o.
- Energetyk SPA sp. z o.o.
- Elektrociepłownia Bio-Ekologiczna Szczytno sp. z o.o.
- Bogatyńsko-Zgorzelecki Park Przemysłowo-Technologiczny "Turów Park" sp. z o.o.
- Ekologiczne Projekty Energetyczne MADEX sp. z o.o.
- Pracownicze Towarzystwo Emerytalne Nowy Świat S.A.
- POLFRANK – ENERGETYK sp. z o.o.
- Zakład Usług Profilaktyczno -Lecznicznych MEGAWITA sp. z o.o.
- Zamojska Spółka Elektroenergetyczna sp. z o.o. w likwidacji
- TeNet 7 sp. z o.o. w likwidacji

- ZKE – OBRÓT sp. z o.o. w likwidacji
- Polskie Elektrownie Gazowe sp. z o.o. w likwidacji

1.3 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 Legal status

1.4.1 Share capital

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

The share capital of the Parent Company, in accordance with National Court Register, amounted to PLN 14,705,765,000.00 as at 31 December 2008 and was divided into 1,470,576,500 ordinary shares of a nominal value of PLN 10.00 each.

As at 31 December 2008, the shareholder structure was as follows:

Name of the Shareholder	Number of shares	Voting rights (in %)	Book value of shares PLN'000	Percentage of share capital (in %)
Skarb Państwa	1 470 576 500	100,0%	14 705 765,0	100,0%
	1 470 576 500	100,0%	14 705 765,0	100,0%

On 12 September 2008, the Extraordinary Meeting of Shareholders changed the hitherto existing number of shares by dividing their nominal value in the proportion of 1:100, i.e. the nominal value of shares which amounted to PLN 1,000 per share was decreased and settled at the level of PLN 10 per share. The change of the nominal value of shares did not constitute for a decrease of the share capital of the Parent Company. Simultaneously, the shareholders adopted a resolution on the basis of which all shares issued so far in the number of 1,470,576,500 constitute A series shares.

On 18 September 2008, 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 is to be increased by the amount no greater than PLN 2,595,135,000 (PLN two billion five hundred and ninety five million one hundred and thirty five thousand) through an issue of B series shares of the nominal value of PLN 10 each. New shares will be offered to Polish individual investors as well as to Polish and foreign corporate investors in the manner of a public offering within the Republic of Poland in accordance with the Act on Public Offering, Conditions Governing the Introduction of Financial Statements to Organized Trading, and Public Companies dated 29 July 2005 ("Act on Public Offering") as well as individual offerings outside of the Republic of Poland.

1.4.2 Management of the Parent Company

The Management Board is responsible for management of the Parent Company.

At 31 December 2008, the Management Board of the Parent Company comprised the following members:

- Tomasz Zadroga – President of the Management Board,
- Adam Cichocki – Vice President of the Management Board,
- Henryk Majchrzak – Vice 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.

According to the resolution of the Supervisory Board of 28 January 2008, Mr. Lech Suchcicki was dismissed from the Management Board.

On 30 June 2008, the term of office of the hitherto existing Management Board expired:

- Paweł Urbański – President of the Management Board,
- Henryk Baranowski – Vice President of the Management Board,
- Emil Wojtowicz – Vice President of the Management Board.

Since 1 July 2008, the following changes have taken place:

- On 1 July 2008, Mr. Paweł Urbański was appointed to the position of Vice President of the Management Board responsible for Investments and Development and to perform duties of the President of the Board,
- On 1 July 2008, Mr. Henryk Majchrzak was appointed to the position of Vice President of the Management Board responsible for Production,
- On 1 July 2008, Mr. Wojciech Topolnicki was appointed to the position of Vice President of the Management Board responsible for Finances,
- On 1 July 2008, Mr. Adam Cichocki was appointed to the position of Vice President of the Management Board responsible for Human Resources,
- On 21 July 2008, Mr. Piotr Szymanek was appointed to the position of Vice President of the Management Board responsible for Corporate and Legal Matters,

- On 23 July 2008, Mr. Marek Trawiński was appointed to the position of Vice President of the Management Board responsible for Trade and Distribution,
- On 1 August 2008, Mr. Tomasz Zadroga was appointed to the position of the President of the Management Board,
- On 28 October 2008, Mr. Paweł Urbański resigned from the position of the Vice President of the Management Board,
- On 27 February 2009, Mr. Henryk Majchrzak and Mr. Adam Cichocki were dismissed from the Management Board.

As at the day of preparation of the consolidated financial statements, the composition of the Management Board of the parent company is as follows:

- 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.

1.4.3 Scope of activities

The business activities listed in the Parent Company's Statute include the following:

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

The business activities of subsidiaries of the PGE Capital Group, according to their Deed, include the following:

- PGE - Energia S.A. – holding activities – management over Capital Group,
- PGE Zespół Elektrowni Dolna Odra S.A. – production of electric energy and heat,
- PGE Zamojska Korporacja Energetyczna S.A. – sale of electric energy,
- PGE Dystrybucja Zamość Sp. z o.o. - distribution of electric energy,
- PGE Rzeszowski Zakład Energetyczny S.A. - sale of electric energy,
- PGE Dystrybucja Rzeszów Sp. z o.o. - distribution of electric energy,
- PGE Elektrociepłownia Rzeszów S.A. - production of electric energy and heat,
- PGE Lubelskie Zakłady Energetyczne S.A. - sale of electric energy,
- PGE Dystrybucja LUBZEL Sp. z o.o. - distribution of electric energy,
- PGE Elektrociepłownia Lublin - Wrotków Sp. z o.o. - production of electric energy and heat,
- PGE Zakłady Energetyczne Okręgu Radomsko-Kieleckiego S.A. - sale of electric energy,
- PGE ZEORK Dystrybucja sp. z o.o. - distribution of electric energy,
- PGE Elektrociepłownia Kielce S.A. – production of heat,
- PGE Łódzki Zakład Energetyczny S.A. - sale of electric energy,
- PGE Dystrybucja Łódź Sp. z o.o. - distribution of electric energy,

- PGE Zakład Energetyczny Białystok S.A. - sale of electric energy,
- PGE Dystrybucja Białystok Sp. z o.o. – distribution of electric energy,
- PGE Dystrybucja Łódź-Teren S.A. - distribution of electric energy,
- PGE ZELT Obrót sp. z o.o. – sale and production of electric energy,
- PGE Zakład Energetyczny Warszawa-Teren S.A. – sale and production of electric energy,
- PGE Dystrybucja Warszawa-Teren Sp. z o.o. - distribution of electric energy
- PGE Górnictwo i Energetyka S.A. – holding activities – management over Capital Group,
- PGE KWB Bełchatów S.A. – lignite mining,
- PGE Elektrownia Bełchatów S.A. – production of electric energy and heat,
- PGE Elektrownia Opole S.A. - production of electric energy and heat,
- PGE Elektrownia Turów S.A. - production of electric energy and heat,
- PGE KWB Turów S.A. – lignite mining,
- Elektrownia Turów BV – issue and processing of Eurobonds,
- PGE Energia Odnawialna S.A. (previously under business name: Elektrownie Szczytowo Pompowe S.A.) – holding activities – management over Capital Group, production of electric energy,
- PGE ZEW Dychów S.A. – production and distribution of electric energy,
- PGE ZEC Bydgoszcz S.A. – distribution of heat, production of electric energy,
- PGE Electra S.A. – wholesale and retail sale of electric energy, advisory and financial agency services,
- PGE Elektrociepłownia Gorzów S.A. – production and distribution of heat and electric energy,
- EXATEL S.A. - telecommunication services, construction, modernization and utilization of telecommunication subsystems,
- ELBIS Sp. z o.o. – sale of electric energy,
- ELBEST Sp. z o.o. - hotel and gastronomic services, cleaning services,
- Energoserwis - Kleszczów Sp z o.o. - distribution of electric energy, construction works, wholesale of construction materials,
- Niepubliczny Zakład Opieki Zdrowotnej MegaMed Sp. z o.o. - medical services,
- ELMEN Sp. z o.o. - construction and renovation services,
- Energetyka Boruta Sp. z o.o. - manufacture of electric energy and heat,
- Elektrownia Wodna Żarnowiec S.A. - manufacture of electric energy,
- Elektrownia Wiatrowa Kamieńsk Sp. z o.o. - manufacture of electric energy,
- EnBud Sp. z o.o. - construction and renovation services for power industry,
- Zespół Elektrowni Wodnych Porąbka-Żar S.A. - manufacture of electric energy,
- EGO-Odra S.A. - construction of hydroelectric power stations, hydroelectric power stations management services,
- Bio-Energia ESP Sp. z o.o. - management of energy system projects,
- Zespół Elektrowni Wodnych Solina-Myczkowce S.A. - exploitation services,
- Dychowskie Przedsiębiorstwo Eksploatacji Elektrowni ELDEKS Sp. z o.o. - exploitation services of hydroelectric power stations, maintenance of devices' operations and overhauls, current and post-damage repairs,
- ESP Usługi Sp. z o.o. - property management,
- Budownictwo Hydroenergetyka - Dychów Sp. z o.o - manufacture of steel constructions excluding services,
- Przedsiębiorstwo Usługowo-Produkcyjne ELTUR-SERWIS Sp. z o.o. - repair of boilers equipment and auxiliaries,

- Przedsiębiorstwo Produkcji Sorbentów i Rekultywacji ELTUR–WAPORE Sp. z o.o. - manufacture of lime sorbents needed for desulfurization of fumes and fluidal process of lignite combustion in Elektrownia Turów; economic usage of combustion products; manufacture of buildings components,
- Przedsiębiorstwo Transportowe ELTUR-TRANS Sp. z o.o. - transportation services,
- Przedsiębiorstwo Handlowo-Uługowe GLOBAL - TUR sp. z o.o. - hotel management,
- Centrum Medyczne Turów Sp. z o.o. - medical services,
- Energo Invest Broker S.A. - insurance brokerage,
- Przedsiębiorstwo Usługowo-Produkcyjne TOP SERWIS Sp. z o.o. - manufacture of equipment used for production of mechanical energy,
- ENESTA Sp. z o.o. - manufacture and distribution of electric energy, manufacture of gas, distribution of fuel gas,
- NOM Sp. z o.o. - telecommunication services,
- Energo-Tel SA - design and construction of technical infrastructure of buildings and communication centers,
- E-Telbank S.A. - data transmission and data communications,
- PEC Gorzów Sp. z o.o. - sale, transmission, distribution and production of heat,
- Towarzystwo Gospodarcze BEWA Sp. z o.o. - manufacture and sale of mineral water and carbonated soft drinks,
- RAMB Sp. z o.o. - technical construction works not classified elsewhere,
- BESTUR Sp. z o.o. - hotels, camping sites and restaurants management,
- Przedsiębiorstwo Transportowo Sprzętowe BETRANS Sp. z o.o. - road transport, forwarding trade,
- Górniczy Klub Sportowy Bełchatów S.A. - operating of stadiums and other sport facilities, management of a football sports club of 1st league,
- ELECTRA Deutschland GmbH - sale of electric energy,
- ELECTRA Bohemia s.r.o. - sale of electric energy,
- MEGAZEC Sp. z o.o. - renovation, installation, engine, boiler and turbine repair services, transportation services,
- Zakład Energetyczny Białystok Przedsiębiorstwo Transportowo-Uługowe ETRA Sp. z o.o. - transportation services,
- Zakład Energetyczny Białystok Przedsiębiorstwo Produkcyjno-Handlowe EKTO Sp. z o.o. - manufacture of machines and electric equipment,
- Energetyczne Systemy Pomiarowe Sp. z o.o. - services connected with measurement devices for electric dimensions (including repair, design, legalization, verifying, rating, production, distribution and technical advisory services),
- Zakład Energetyczny Białystok Pracownia Projektowa ENSPRO Sp. z o.o. - preparing of technical documentation of network installation and energy equipment,
- Przedsiębiorstwo Energetyki Ciepłej Sp. z o.o. - distribution and transmission of heat,
- Zakład Usług Medycznych Dolna Odra Sp. z o.o. - medical services,
- EPO Sp. z o.o. - wholesale of waste and metal scrap,
- Przedsiębiorstwo Wielobranżowe Agtel Sp. z o.o. - services and manufacture of equipment for power industry,
- Centrum Szkolenia i Rekreacji „Energetyk” Sp. z o.o. - organization of conferences, trainings and recreation,
- Zakład Obsługi Energetyki Sp. z o.o. PGE Serwis Sp. z o.o. - exploitation and repair services on security and automation, data transmission,

- PGE Serwis Sp. z o.o. - management and sale of properties on own account, construction services.

1.5 Prior period consolidated financial statements

The consolidated financial statements, prepared in accordance with the Accounting Act, for the financial year ended 31 December 2007 were audited by Deloitte Audyt Sp. z o.o. and received an unqualified opinion with the following emphasis of matter:

- „1. As described in detail in note VI.37 ”Information on revenues, expenses and financial results of the discontinued operations in the financial year or of the operations to be discontinued in the following year” of the supplementary information and explanations, the Company PGE Polska Grupa Energetyczna S.A. was subject to demerger in the current financial year.

Within the demerger, the following took place:

- split of the Demerged Entity’s tangible and intangible assets required to run the Transmission System Operator activity, constituting a separate entity (the TSO enterprise) in the meaning of article 551 of the Civil Code (“CC”),
- split of the liabilities related to the TSO Enterprise,
- transfer of assets and liabilities to the Taking over Entity.

The above mentioned transfer was executed on 31 December 2007, i.e. at the date of registration of the increase in share capital of the Taking over Entity. The Demerger did not constitute for decrease of the share capital of the Demerged Company, but of other equity.

2. As described in detail in note VI.41 „Long-term Contracts” of the supplementary information and explanations, until 31 December 2007, PGE Polska Grupa Energetyczna S.A. signed Termination Agreements with all producers that were parties to Long-term Contracts (LTC). As a result, the producers were granted right to receive compensations for the stranded costs. Long-term Agreements expired on 1 April 2008. Simultaneously to signing the Termination Agreements, the parties concluded so-called “Final Annexes” to Long-term Agreements which specified rules on settlements and appropriate settlement values for the period from 1 January 2008 to 31 March 2008. The above annexes entirely satisfy and settle all mutual liabilities of the hitherto parties LTC. ”

The consolidated financial statements were approved at the Shareholders’ Meeting on 8 October 2008.

The consolidated financial statements were submitted to the Register Court on 16 October 2008 and published in Monitor Polski B no. 401 of 13 March 2009.

As described in the note 10 of the explanatory notes to the consolidated financial statements for the year ended 31 December 2008, PGE Capital Group prepared the consolidated financial statements in accordance with International Financial Reporting Standards (“IFRS”) as adopted by the European Union. The first consolidated financial statement of the PGE Capital Group which contained unconditional statement of compliance with IFRS, were the consolidated financial statements for the year ended 31 December 2007 while the date of transition to IFRS was 1 January 2006.

The consolidated financial statements, prepared in accordance with International Financial Reporting Standards as adopted by the European Union, for the financial year ended 31 December 2007 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 fact that, as described in the note 22 to the consolidated financial statements, the impairment analysis of the PGE Capital Group’s cash generating units was based on a number of fundamental assumptions, some of which are outside the control of the PGE Capital Group. Any significant change in these assumptions will impact the result of future impairment tests which may lead to significant changes to the financial position and results of the PGE Capital Group.”

The consolidated financial statements prepared in accordance with IFRS for the year ended 31 December 2007 were approved at the meeting of the Management Board on 20 August 2008.

The closing balances as at 31 December 2007 have been properly recorded in the consolidation documentation as the opening balances of the audited year.

1.6 Audit scope and responsibilities

This report was prepared for the Shareholders' Meeting of PGE Polska Grupa Energetyczna S.A. seated in Lublin, ul. Garbarska 21A and relates to the consolidated financial statements comprising: the consolidated balance sheet as at 31 December 2008, with total assets and total liabilities and equity of PLN 47,192,261 thousand, the consolidated profit and loss account for the year then ended with a net profit of PLN 2,670,247 thousand, the consolidated statement of changes in equity for the year then ended with an increase in equity of PLN 755,129 thousand, the consolidated cash flow statement for the year then ended with a decrease in cash amounting to PLN 586,190 thousand and supplementary information to the consolidated financial statements, comprising of a summary of significant accounting policies and other explanatory notes.

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 the Extraordinary Meeting of Shareholders dated 18 September 2008.

The consolidated financial statements have been audited in accordance with the contract dated 21 November 2008, concluded on the basis of the resolution of the 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, the professional standards established by the 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 6 February 2009 to 3 April 2009.

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.

Management of the Parent Company and members of the Supervisory Board are obliged to ensure that the consolidated financial statements and the Report of Managements Board on the PGE Capital Group'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.

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 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 the consolidated financial statements fulfil independence requirements from the companies included in the PGE Capital Group. 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.

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

1.7.1 Parent Company

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

1.7.2 Other consolidated entities

Financial statements of significant consolidated entities for the year ended 31 December 2008 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 Energia S.A.	Deloitte Audyt Sp. z o.o.	31.12.2008	Unqualified opinion with emphasis of matter ¹
PGE Zespół Elektrowni Dolna Odra S.A.	KPMG Audyt Sp. z o.o.	31.12.2008	Unqualified opinion with emphasis of matter ²
PGE Zamojska Korporacja Energetyczna S.A.	Deloitte Audyt Sp. z o.o.	31.12.2008	Unqualified opinion with emphasis of matter ¹
PGE Dystrybucja Zamość Sp. z o.o.	Deloitte Audyt Sp. z o.o.	31.12.2008	Unqualified opinion
PGE Rzeszowski Zakład Energetyczny S.A.	Deloitte Audyt Sp. z o.o.	31.12.2008	Unqualified opinion with emphasis of matter ¹
PGE Dystrybucja Rzeszów Sp. z o.o.	Deloitte Audyt Sp. z o.o.	31.12.2008	Unqualified opinion
PGE Elektrociepłownia Rzeszów S.A.	KPMG Audyt Sp. z o.o.	31.12.2008	Unqualified opinion
PGE Lubelskie Zakłady Energetyczne S.A.	Deloitte Audyt Sp. z o.o.	31.12.2008	Unqualified opinion with emphasis of matter ¹
PGE Dystrybucja LUBZEL Sp. z o.o.	Deloitte Audyt Sp. z o.o.	31.12.2008	Unqualified opinion
PGE Elektrociepłownia Lublin - Wrotków Sp. z o.o.	KPMG Audyt Sp. z o.o.	31.12.2008	Unqualified opinion

PGE Polska Grupa Energetyczna S.A. Group
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TRANSLATION

Zakłady Energetyczne Okręgu Radomsko-Kieleckiego S.A.	Deloitte Audyt Sp. z o.o.	31.12.2008	Unqualified opinion with emphasis of matter ¹
PGE ZEORK Dystrybucja Sp. z o.o.	Deloitte Audyt Sp. z o.o.	31.12.2008	Unqualified opinion
PGE Elektrociepłownia Kielce S.A.	KPMG Audyt Sp. z o.o.	31.12.2008	Unqualified opinion
PGE Łódzki Zakład Energetyczny S.A.	Deloitte Audyt Sp. z o.o.	31.12.2008	Unqualified opinion with emphasis of matter ¹
PGE Dystrybucja Łódź Sp. z o.o.	Deloitte Audyt Sp. z o.o.	31.12.2008	Unqualified opinion
PGE Zakład Energetyczny Białystok S.A.	Deloitte Audyt Sp. z o.o.	31.12.2008	Unqualified opinion with emphasis of matter ¹
PGE Dystrybucja Białystok Sp. z o.o.	Deloitte Audyt Sp. z o.o.	31.12.2008	Unqualified opinion
PGE Dystrybucja Łódź-Teren S.A.	Deloitte Audyt Sp. z o.o.	31.12.2008	Qualified opinion ³
PGE ZEŁT Obrót Sp. z o.o.	Deloitte Audyt Sp. z o.o.	31.12.2008	Unqualified opinion
PGE Zakład Energetyczny Warszawa-Teren S.A.	Deloitte Audyt Sp. z o.o.	31.12.2008	Unqualified opinion with emphasis of matter ¹
PGE Dystrybucja Warszawa-Teren Sp. z o.o.	Deloitte Audyt Sp. z o.o.	31.12.2008	Unqualified opinion
PGE Górnictwo i Energetyka S.A.	KPMG Audyt Sp. z o.o.	31.12.2008	Unqualified opinion
PGE KWB Bełchatów S.A.	KPMG Audyt Sp. z o.o.	31.12.2008	Unqualified opinion
PGE Elektrownia Bełchatów S.A.	KPMG Audyt Sp. z o.o.	31.12.2008	Unqualified opinion
PGE Elektrownia Opole S.A.	KPMG Audyt Sp. z o.o.	31.12.2008	Unqualified opinion with emphasis of matter ⁴
PGE Elektrownia Turów S.A.	KPMG Audyt Sp. z o.o.	31.12.2008	Unqualified opinion
PGE KWB Turów S.A.	KPMG Audyt Sp. z o.o.	31.12.2008	Unqualified opinion
Elektrownia Turów BV (FS in accordance with Dutch Accounting Standards)	Ernst & Young Accountants LPP	31.12.2008	Unqualified opinion
PGE Energia Odnawialna S.A. (previously under business name: Elektrownie Szczytowo-Pompowe)	Deloitte Audyt Sp. z o.o.	31.12.2008	Unqualified opinion with emphasis of matter ¹
PGE ZEW Dychów S.A.	Deloitte Audyt Sp. z o.o.	31.12.2008	Unqualified opinion with emphasis of matter ¹
PGE ZEC Bydgoszcz S.A.	KPMG Audyt Sp. z o.o.	31.12.2008	Unqualified opinion ⁵

PGE Polska Grupa Energetyczna S.A. Group
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for the financial year ended 31 December 2008*

TRANSLATION

PGE Electra S.A.	Deloitte Audyt Sp. z o.o.	31.12.2008	Unqualified opinion with emphasis of matter ¹
PGE Elektrociepłownia Gorzów S.A.	KPMG Audyt Sp. z o.o.	31.12.2008	Unqualified opinion
EXATEL S.A.	Deloitte Audyt Sp. z o.o.	31.12.2008	Unqualified opinion
ELBIS Sp. z o.o.	KPMG Audyt Sp. z o.o.	31.12.2008	Unqualified opinion
ELBEST Sp. z o.o.	Instytut Studiów Podatkowych Modzelewski i Wspólnicy AUDYT Sp. z o.o.	31.12.2008	Unqualified opinion
Energoserwis - Kleszczów Sp z o.o.	U-FIN Biuro Audytorskie i Księgowe Stowarzyszenia Księgowych w Polsce Sp. z o.o.	31.12.2008	Unqualified opinion
Niepubliczny Zakład Opieki Zdrowotnej MegaMed Sp. z o.o.	Agencja Usług Księgowo-Prawnych "Biegli Rewidenci" Sp. z o.o.	31.12.2008	Unqualified opinion
ELMEN Sp. z o.o.	U-FIN Biuro Audytorskie i Księgowe Stowarzyszenia Księgowych w Polsce Sp. z o.o.	31.12.2008	Unqualified opinion
Energetyka Boruta Sp. z o.o.	U-FIN Biuro Audytorskie i Księgowe Stowarzyszenia Księgowych w Polsce Sp. z o.o.	31.12.2008	Unqualified opinion
Elektrownia Wodna Żarnowiec S.A.	Deloitte Audyt Sp. z o.o.	31.12.2008	Unqualified opinion
Elektrownia Wiatrowa Kamieńsk Sp. z o.o.	Zespół Ekspertów Finansowych "Fin-Ex" sp. partnerska Danuta Grygiel-Wąs, Barbara Skomorow and partners	31.12.2008	Unqualified opinion
EnBud Sp. z o.o.	Not subject to audit	31.12.2008	-
Zespół Elektrowni Wodnych Porąbka-Żar S.A.	"ForBiznes Audyt - Libsz Kęпка Zielińska - biegli rewidenci" sp. partnerska seated in Łódź	31.12.2008	Unqualified opinion
EGO-Odra S.A.	"ForBiznes Audyt - Libsz Kęпка Zielińska - biegli rewidenci" sp. partnerska seated in Łódź	31.12.2008	Unqualified opinion
Bio-Energia ESP Sp. z o.o.	"ForBiznes Audyt - Libsz Kęпка Zielińska - biegli rewidenci" sp. partnerska seated in Łódź	31.12.2008	Unqualified opinion

Zespół Elektrowni Wodnych Solina- Myczkowce S.A.	"ForBiznes Audyt - Libsz Kępka Zielińska - biegli rewidenci" sp. partnerska seated in Łódź	31.12.2008	Unqualified opinion
Dychowskie Przedsiębiorstwo Eksploatacji Elektrowni ELDEKS Sp. z o.o.	PKF Consult Sp. z o.o.	31.12.2008	Unqualified opinion
ESP Usługi Sp. z o.o.	PTE Profit Sp. z o.o.	31.12.2008	Unqualified opinion
Budownictwo Hydroenergetyka - Dychów Sp. z o. o	PKF Consult Sp. z o.o.	31.12.2008	Unqualified opinion
Przedsiębiorstwo Usługowo- Produkcyjne ELTUR-SERWIS Sp. z o.o.	KPMG Audyt Sp. z o.o.	31.12.2008	Unqualified opinion
Przedsiębiorstwo Produkcji Sorbentów i Rekultywacji ELTUR-WAPORE Sp. z o.o.	Zespół Biegłych Rewidentów FABER Sp. z o.o.	31.12.2008	Unqualified opinion
Przedsiębiorstwo Transportowe ELTUR-TRANS Sp. z o.o.	DORADCA Zespół Doradców Finansowo- Księgowych Sp. z o.o.	31.12.2008	Unqualified opinion
Przedsiębiorstwo Handlowo-Usługowe GLOBAL - TUR Sp. z o.o.	Zespół Biegłych Rewidentów FABER Sp. z o.o.	31.12.2008	Unqualified opinion
Centrum Medyczne Turów Sp. z o.o.	DORADCA Zespół Doradców Finansowo- Księgowych Sp. z o.o.	31.12.2008	Unqualified opinion
Energo Invest Broker S.A.	Hartwich Audytor Sp. z o.o.	31.12.2008	Unqualified opinion
Przedsiębiorstwo Usługowo- Produkcyjne TOP SERWIS Sp. z o.o.	Not subject to audit	31.12.2008	-
ENESTA Sp. z o.o.	Moore Stephens Józef Król Sp. z o.o.	31.12.2008	Unqualified opinion
NOM Sp. z o.o	BDO Numerica International Auditors & Consultants Sp. z o.o.	31.12.2008	Unqualified opinion
Energo-Tel S.A.	BDO Numerica International Auditors & Consultants Sp. z o.o.	31.12.2008	Unqualified opinion
E-Telbank S.A.	Polskie Towarzystwo Ekonomiczne - PROFIT sp. z o.o.	31.12.2008	Unqualified opinion
PEC Gorzów Sp. z o.o.	DGA Audyt Sp. z o.o.	31.12.2008	Unqualified opinion
Towarzystwo Gospodarcze BEWA Sp. z o.o.	"Accord'ab" Biegli Rewidenci Sp. z o.o.	31.12.2008	Unqualified opinion
RAMB Sp. z o.o.	"Accord'ab" Biegli Rewidenci Sp. z o.o.	31.12.2008	Unqualified opinion
BESTUR Sp. z o.o.	"Accord'ab" Biegli Rewidenci Sp. z o.o.	31.12.2008	Unqualified opinion

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Przedsiębiorstwo Transportowo Sprzętowe BETRANS Sp. z o.o.	"Accord'ab" Biegli Rewidenci Sp. z o.o.	31.12.2008	Unqualified opinion
Górnicy Klub Sportowy Belchatów .S.A.	"Accord'ab" Biegli Rewidenci Sp. z o.o.	31.12.2008	Unqualified opinion with emphasis of matter ⁶
ELECTRA Deutschland GmbH	Deloitte & Touche GmbH	31.12.2008	Unqualified opinion
ELECTRA Bohemia s.r.o.	Not subject to audit	31.12.2008	-
MEGAZEC Sp. z o.o.	Global Audit Partner Sp. z o.o. (review 01.01.2008 - 31.12.2008)	31.12.2008	Review report with unqualified opinion
Zakład Energetyczny Białystok Przedsiębiorstwo Transportowo-Usługowe ETRA Sp. z o.o.	Justan Audytor sp. z o.o.	31.12.2008	Unqualified opinion
Zakład Energetyczny Białystok Przedsiębiorstwo Produkcyjno-Handlowe EKTO Sp. z o.o.	Justan Audytor sp. z o.o.	31.12.2008	Unqualified opinion
Energetyczne Systemy Pomiarowe Sp. z o.o.	Justan Audytor sp. z o.o.	31.12.2008	Unqualified opinion
Zakład Energetyczny Białystok Pracownia Projektowa ENSPRO Sp. z o.o.	Justan Audytor sp. z o.o.	31.12.2008	Unqualified opinion
Przedsiębiorstwo Energetyki Ciepłej Sp. z o.o.	Biuro Biegłych Rewidentów EKSPERT s.c.	31.12.2008	Unqualified opinion
Zakład Usług Medycznych Dolna Odra Sp. z o.o.	Zachodniopomorska Kancelaria Audytorska "BUR" Sp. z o.o.	31.12.2008	Unqualified opinion
EPO Sp. z o.o.	Agencja Biegłych Rewidentów "Badex" Sp. z o.o.	31.12.2008	Unqualified opinion
Przedsiębiorstwo Wielobranżowe Agtel Sp. z o.o.	DORADCA Zespół Doradców Finansowo-Księgowych Sp. z o.o.	31.12.2008	Qualified opinion ⁷
Centrum Szkolenia i Rekreacji „Energetyk” Sp. z o.o.	Not subject to audit	31.12.2008	-
Zakład Obsługi Energetyki Sp. z o.o.	U-FIN Biuro Audytorskie i Księgowe Stowarzyszenia Księgowych w Polsce Sp. z o.o.	31.12.2008	Unqualified opinion
PGE Serwis Sp. z o.o.	Biuro Usług Finansowo-Księgowych "CEDAN" Danuta Cebulska	31.12.2008	Unqualified opinion

¹ the emphasis of matter: „Without qualifying our opinion, we draw attention to the fact that the presented financial statements are statutory financial statements and should only serve for statutory purposes. These cannot be the only

basis for evaluation of the Company's financial position, as it is the Parent Company within the PGE Capital Group. Apart from the statutory financial statements, the Company also prepares the consolidated financial statements of the PGE Capital Group of which it is a Parent Company."

² the emphasis of matter: „Without qualifying our opinion, we draw attention to the note 44 of the explanatory notes to the financial statements. In accordance with information provided, the Company received a decision of the Mayor of Gryfino City and Commune increasing the Company's real estate tax liabilities for the years 2002-2003 and 2007 by the total amount of PLN 81.2 million plus interest. The Company filed an appeal from the above decisions and the appeal proceedings have not finished yet. In 2008, the Mayor of Gryfino City and Commune issued decisions on commencement of tax proceedings to determine the value of real estate tax liabilities for the years 2004-2006, in which the Company calculated the tax liabilities in the similar manner as in years 2002-2003 and 2007. The Management assesses that an unfavorable decision in these proceedings is not probable, therefore in the accompanying financial statements the Company did not create a provision for potential real estate outstanding payments."

³ the qualification: "Article 32 of the Accounting Act specifies rules of determining the economic useful life of fixed assets, which is the basis for depreciation charges. In our opinion the depreciation periods used by the Company do not reflect the economic useful life of fixed assets and in particular when determining these periods, the Company did not take into account external experts' estimations specifying the value and the economic useful life of items of tangible assets. As a result, we were not able to confirm the correctness of used economic useful lives of assets, and as a consequence, the value of depreciation charges recorded."

⁴ the emphasis of matter: „Without qualifying our opinion we draw attention to note 39 to the financial statements. In accordance with the information provided, the Company received a decision issued by the Mayor of Dobrzeń Wielki Commune specifying the additional real estate tax liability for the year 2003 in the value of almost PLN 67 million plus interest. The method of calculating the real estate tax liability for 2003 was used by the Company to determine real estate tax liabilities for the years 2004-2008, however these were not subject to proceedings of self-government authorities. The Company filed an appeal from the above decision to the Self-Government Appeal Court. Currently, it is difficult to assess the final result of the proceedings and as a result the accompanying financial statements of the Company does not include any provisions created to cover possible real estate tax outstanding payments."

⁵ The opinion relates to the Reporting Package prepared in accordance with IFRS; the financial statements in accordance with the Accounting Act will be prepared as at 31.12.2009 and will encompass the period of 22 months.

⁶ the emphasis of matter: „Without qualifying our opinion, we inform that the Company is a party to legal proceedings against the Football Arbitration Court by Polish Football Association related to compensation in the amount of PLN 858 thousand resulting from termination of an agreement on training, marketing and advertising services concluded with the coach of the football team. The Management of the Company assesses that the future possible liability will not exceed the threefold remuneration as specified in the dissolved agreement. In relation to the above, the Company created a provision in the value of PLN 168 thousand."

⁷ the qualification: "In explanatory notes, the Management informed about irregularities in the settlement of the merger with ZELKON Spółka z o.o. which took place in December 2007. The merger was concluded in respect of art. 462 of the Commercial Code and was settled in respect of art. 44b of the Accounting Act. According to the Management's assessment, these irregularities relate to an improper measurement of the fair value of the following assets and liabilities of the taken over Company: inventory of materials, production in progress, finished goods and products, liabilities, deferred tax asset or liability and an error in measurement of the company's goodwill.

In accordance with art. 44b, passage 8 of the Accounting Act: "The carrying amount of assets and liabilities determined as at the business combination date is adjusted in subsequent reporting periods, if, as a result of events that occurred or information obtained, it is revealed that the fair value as at the business combination date was determined incorrectly. In such cases, it is necessary to adjust goodwill or negative goodwill, on condition that the entity expects to recover the adjustment from future economic benefits, and such an adjustment is made during the financial year in which the business combination was carried out. Otherwise, such an adjustment is recognized as other operating revenues or expenses."

Having such a knowledge, the Management did not adjust the value of the taken over assets and liabilities in the audited period.

In such a situation we are not able to obtain a reasonable assurance on the correctness of the opening balance figures for the audited period from 1 January 2008 to 31 December 2008, and furthermore we cannot assess the influence on the financial statements of the adjustment of the taken over assets and liabilities to the fair value, if such adjustments have been recorded in the audited period.

Until the end of the audit, the Company did not assess nor recorded in books of the audited period the provisions for future liabilities related to retirement and pension benefits. As there were no estimates performed by the Company, it is impossible for us to assess a significance of a potential influence on the balance sheet and financial result in the audited period."

2 Financial analysis of the Group

2.1 Summary of the consolidated financial statements

2.1.1 Consolidated balance sheet

ASSETS	31.12.2008	% of total	31.12.2007	% of total
	PLN '000		PLN '000	
Non-current assets				
Property, plant and equipment	37 811 569	80,1	36 282 606	80,1
Investment property	26 612	-	15 933	-
Intangible assets	142 025	0,3	138 590	0,3
Loans and receivables originated by the Company	370 630	0,8	324 481	0,7
Available-for-sale financial assets	206 979	0,4	181 169	0,4
Shares in associates accounted for under the equity method	1 479 066	3,1	726 082	1,6
Other long-term assets	216 683	0,5	395 417	0,9
Deferred tax assets	447 647	1,0	355 639	0,8
Total non-current assets	40 701 211	86,2	38 419 917	84,8
Current assets				
Inventories	1 127 965	2,4	798 917	1,8
Income tax receivables	95 855	0,2	93 479	0,2
Short term financial assets at fair value through profit and loss	-	-	318 586	0,7
Held-to-maturity short-term investments	134 180	0,3	69 660	0,2
Trade receivables	1 792 607	3,8	2 335 199	5,1
Other loans and financial assets	785 334	1,7	232 682	0,5
Available-for-sale short-term financial assets	97 770	0,2	84 823	0,2
Other current assets	313 044	0,7	226 562	0,5
Cash and cash equivalents	2 140 837	4,5	2 726 378	6,0
Total current assets	6 487 592	13,8	6 886 286	15,2
Non-current assets classified as held for sale	3 458	-	3 147	-
TOTAL ASSETS	47 192 261	100,0	45 309 350	100,0

LIABILITIES AND EQUITY	31.12.2008	% of total	31.12.2007	% of total
	PLN '000		PLN '000	
Equity				
Share capital	14 705 765	31,2	14 705 765	32,5
Revaluation reserve	30 154	-	6 214	-
Foreign exchange differences from translation of foreign entity	(1 343)	-	(1 392)	-
Reserve capital	2 100 156	4,5	1 945 841	4,3
Other capital reserves	414 017	0,9	202 311	0,4
Retained earnings	5 560 908	11,8	4 393 675	9,7
Total equity attributable to equity holders of the parent	22 809 657	48,4	21 252 414	46,9
Minority interests	7 365 921	15,6	8 168 035	18,0
Total equity	30 175 578	64,0	29 420 449	64,9
Liabilities				
Interests bearing loans and borrowings	4 470 791	9,4	5 739 395	12,7
Other liabilities	15 474	-	7 456	-
Provisions	2 924 503	6,2	2 807 271	6,2
Deferred tax liabilities	1 089 148	2,3	1 013 961	2,2
Deferred income and government grants	1 019 972	2,2	901 741	2,0
Total long-term liabilities	9 519 888	20,1	10 469 824	23,1
Trade and other liabilities	1 012 111	2,2	1 553 996	3,5
Financial liabilities at fair value through profit or loss	62 639	0,1	17 817	-
Interests bearing loans and borrowings	3 038 077	6,4	1 312 089	2,9
Other short-term financial liabilities	628 452	1,3	520 251	1,1
Other short-term non financial liabilities	1 026 261	2,2	1 073 028	2,4
Income tax liabilities	163 666	0,4	188 066	0,4
Deffered income	32 768	0,1	28 389	0,1
Accruals	624 892	1,3	352 152	0,8
Short-term provisions	907 929	1,9	373 289	0,8
Total short-term liabilities	7 496 795	15,9	5 419 077	12,0
Total liabilities	17 016 683	36,0	15 888 901	35,1
TOTAL LIABILITIES AND EQUITY	47 192 261	100,0	45 309 350	100,0

2.1.2 Consolidated profit and loss account

	01.01.2008 - 31.12.2008 PLN '000	% of total sales	01.01.2007 - 31.12.2007 PLN '000 (restated data*)	% of total sales
CONTINUING OPERATIONS				
Operating activities				
Sales of finished goods and merchandise with excise tax	19 738 891	95,8	23 571 840	102,1
Excise tax	<u>(1 093 457)</u>	5,3	<u>(1 056 550)</u>	4,6
<i>Net revenues from sale of finished goods and merchandise</i>	<i>18 645 434</i>	<i>90,5</i>	<i>22 515 290</i>	<i>97,5</i>
Revenues from sale of services	608 897	3,0	547 555	2,4
Revenues from lease	21 108	0,1	27 813	0,1
Revenues from LTC compensations	1 322 318	6,4	-	-
Revenue	20 597 757	100,0	23 090 658	100,0
Cost of goods sold	(15 552 433)	75,5	(19 041 023)	82,5
Gross profit on sales	5 045 324	24,5	4 049 635	17,5
Other operating revenues	747 124	3,6	572 441	2,5
Selling expenses	(909 844)	4,4	(1 058 272)	4,5
General and administrative expenses	(987 537)	4,8	(948 454)	4,1
Other operating expenses	(632 772)	3,1	(481 036)	2,1
Financial revenues	505 120	2,5	630 898	2,7
Financial expenses	(836 441)	4,1	(1 026 851)	4,4
Share of profit of associates	238 561	1,2	239 156	1,0
Profit before tax	3 169 535	15,4	1 977 517	8,6
Corporate income tax expense	(499 288)	2,4	948 111	4,1
Net profit from continuing operations	2 670 247	13,0	2 925 628	12,7
DISCONTINUED OPERATIONS				
Profit from discontinued operations, net of tax	-	-	1 845 284	8,0
Profit for the period	2 670 247	13,0	4 770 912	20,7
Attributable to:				
Equity holders of the parent	1 920 171	9,3	3 967 881	17,2
Minority interest	750 076	3,7	803 031	3,5
Profit for the period				
Basic earnings (PLN)	1,31	-	2,70	-
Basic earnings from the continuing operations (PLN)	1,31	-	1,44	-

* For more details on change in financial data for the year 2007 please refer to notes 12.37 and 20 of the consolidated financial statements

2.1.3 Selected financial ratios

	2008	2007 (restated data*)
1. Return on sales		
<u>net profit x 100%</u> net revenues	13,0%	20,6%
2. Return on equity		
<u>net profit x 100%</u> equity - net profit	9,7%	19,4%
3. Debtors turnover		
<u>average trade receivables (gross) x 365 days</u> net revenues	41 days	40 days
4. Debt ratio		
<u>liabilities x 100%</u> equity and liabilities	36,1%	35,1%
5. Current ratio		
<u>current assets</u> current liabilities	0,9	1,3

*For more details on change in financial data for the year 2007 please refer to notes 12.37 and 20 of the consolidated financial statements

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

2.2 Interpretation of selected financial ratios

Return on sales and return on equity decreased as compared to the prior year due to lower net profit achieved by the PGE Capital Group. The decrease of the financial result is related mainly to the fact that the parent company discontinued rendering services related to the lease of transmission system assets and to a lower margin realized on sales of energy.

Debt ratio and debtors turnover remained at the similar level as compared to the prior year.

Current ratio decreased as compared to the prior year. The decrease results mainly from the fact that the hitherto long-term liabilities related to issue of bonds have been presented as short-term liabilities due to the final buy-out term specified in the bonds' issue programme.

3 Detailed report

3.1 Accounting principles

The Parent Company maintains current documentation describing the accounting principles applied by the PGE Capital Group, 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.

The subsidiaries prepare financial statements in accordance with the Accounting Act, however for the purpose of the consolidation the subsidiaries prepare financial information in accordance with the accounting principles applied by the Parent Company.

The financial information of the entities included in the consolidated financial statements was prepared at the same balance sheet date 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 of the Decree of the Ministry of Finance dated 12 December 2001 on principles for the preparation of financial statements of related entities by entities other than banks and insurance companies (Official Journal from 2001, No. 152, item 1729).

3.3 Method of consolidation

The method of consolidation is described in note 12.1 of the explanatory notes to the consolidated financial statements.

3.4 Goodwill arising on consolidation

The method of calculating goodwill arising on consolidation is described in note 27 of the explanatory notes to the consolidated financial statements.

3.5 Consolidation of equity and calculation of minority interest

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

The value of the revaluation reserve and foreign exchange differences from translation of PGE Capital Group was calculated as the total of the revaluation reserve and foreign exchange differences from translation of the parent company and the 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 subsidiaries were added to retained earnings of the parent company with regards to the parent company's share in the subsidiaries' equity as at the balance sheet date.

Minority interests in subsidiaries included in the consolidated financial statements were calculated based on the minority shareholders' share in the subsidiaries' equity as at the balance sheet date.

3.6 Consolidation eliminations

Intercompany balances within the Group were eliminated on consolidation.

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

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

3.7 Supplementary information to the consolidated financial statements

All information included in the supplementary information to the consolidated 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 consolidated financial statements taken as a whole.

3.8 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 the information is consistent with the consolidated financial statements.

3.9 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 2008, we have issued 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 note 22 of the explanatory notes to the consolidated financial statements, the impairment analysis of the PGE Capital Group's cash generating units was based on a number of fundamental assumptions, some of which are outside the control of the group. Any significant change in these assumptions will impact the result of future impairment tests which may lead to significant changes to the financial position and results of the PGE Capital Group.

2) to the fact that, as described in the note 46 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 Capital Group were based on the PGE Capital 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 Capital Group. Possible changes in the interpretation of the LTC Act and changes in assumptions used may impact the estimates and as a consequence may lead to significant changes to the financial position and results of the PGE Capital Group."

Signed on the Polish original

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Certified Auditor No. 90047/7420
Zbigniew Libera

28 April 2009
Warsaw, Poland

Signed on the Polish original

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For KPMG Audyt Sp. z o.o.
ul. Chłodna 51; 00-867 Warsaw
Certified Auditor No. 9451/7175
Leszek Dubicki,
Member of the Management Board