



PGE Polska Grupa Energetyczna S.A.

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

The opinion contains 2 pages
The report supplementing the auditor's opinion
contains 13 pages
Opinion of the independent auditor
and report supplementing the auditor's opinion
on the financial statements
for the financial year ended
31 December 2008



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 financial statements of PGE Polska Grupa Energetyczna S.A. seated in Lublin, ul. Garbarska 21A (“the Company”), which comprise the introduction to the financial statements, the balance sheet as at 31 December 2008, with total assets and total liabilities and equity of PLN 21,762,091,330.62, the profit and loss account for the year then ended with a net profit of PLN 553,461,763.75, the statement of changes in equity for the year then ended with an increase in equity of PLN 4,937,763.75, the cash flow statement for the year then ended with a decrease in cash amounting to PLN 261,677,189.43 and the supplementary information and explanations. The corresponding figures presented are based on the financial statements of the Company as of and for the year ended 31 December 2007, which were audited by another auditor who expressed an unqualified opinion on those financial statements on 10 April 2008.

Management’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 the Accounting Act dated 29 September 1994 (Official Journal from 2002, No. 76, item 694 with amendments) (“the Accounting Act”) and related bylaws, 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, 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 and the accounting records from which they are derived are free of 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 2008 and of 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, are in compliance with the respective regulations and the provisions of the Company's Statute that apply to the Company's financial statements and have been prepared from accounting records that in all material respects have been properly maintained.

Other Matters

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

Signed on the Polish original

.....
Certified Auditor No. 90116/8168
Renata Dobersztyn-Hamerska

Signed on the Polish original

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

17 March 2009
Warsaw, Poland



TRANSLATION

PGE Polska Grupa Energetyczna S.A.

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

The report supplementing the auditor's opinion
contains 13 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. Garbarska 21A
20-340 Lublin

1.1.3. Registration 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. 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 Statute dated 2 August 1990.

The share capital of the Company amounted to PLN 14,705,765,000.00 as at 31 December 2008 divided into 1,470,576,500 ordinary shares with 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 (%)	Nominal value of shares of PLN '000	Percentage of share capital (%)
State Treasury	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 has 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 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 in 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.

1.3.2. 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.

The composition of the Management Board of the Company, as at 31 December 2008, was as follows:

- Tomasz Zadroga – President of the Management Board,
- Wojciech Topolnicki – Vice President of the Management Board,
- Henryk Majchrzak – Vice President of the Management Board,
- Adam Cichocki – Vice President of the Management Board,
- Piotr Szymanek – Vice President of the Management Board,
- Marek Trawiński – Vice President of the Management Board.

On 28 January 2008 the Supervisory Board dismissed Mr. Lech Suchcicki from the position of the Member of the Management Board.

On 30 June 2008 the term of office of the hitherto existing Management Board comprising the following members 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 in the Management Board took 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 responsible for Corporate and Legal Matters,
- On 23 July 2008 Mr. Marek Trawiński was appointed to the position of Vice President responsible for Trade and Distribution,
- On 1 August 2008 Mr. Tomasz Zadroga was appointed for the position of the President of the 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.

1.3.4. Scope of activities

The business activities listed in the Company's Statute 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 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 matters:

„1. As described in detail in Note VI.34 of the additional information and explanations to the financial statement – „Information on revenues, expenses and result on activity discontinued in the financial year or planned to be discontinued in the following year” – PGE Polska Grupa Energetyczna S.A. was divided in the current reporting period.

As part of the split:

- tangible and intangible assets required for conducting business activities of the Transmission System Operator were separated from the assets of the Divided Company and constitute a separate enterprise (the TSO), within the meaning of Article 551 of the Civil Code („CC”);
- liabilities of the spun off TSO were separated;
- assets and liabilities were transferred to the Acquiring Company.

The aforementioned transfer was conducted on 31 December 2007, i.e. at the date of registering the increase in the share capital of the Acquiring Company. The separation did not entail decreasing the share capital of the Divided Company but other equity.

2. As described in detail in Note VI.38 of the additional information and explanations to the financial statements – „Long-Term Contracts” – by 31 December 2007 the Company had concluded Termination Agreements with all energy producers being parties to the long-term contracts (LTCs). Therefore, energy producers were entitled to receive funds for covering stranded costs. The LTCs shall expire on 1 April 2008. In parallel to the conclusion of Termination Agreements, the so called Final Annexes to the LTCs were signed, regulating the principles of settlements as well as settlement amounts for the period from 1 January 2008 to 31 March 2008. The aforementioned Annexes exhaust totally and cancel all mutual obligations of the parties to the LTCs.

3. The presented financial statements referred to in this opinion are stand alone financial statements and should be used primarily for statutory purposes. These financial statements may not constitute the sole basis for evaluating the financial and economic position of the Company which is the Parent Entity of the Capital Group. In addition to the stand alone financial statements, the Company also prepares consolidated financial statements of the Capital Group in which it acts as the Parent Entity. “

The financial statements were approved at the General Meeting of Shareholders on 30 June 2008 where it was resolved to distribute the profit for the prior financial year of PLN 826,336,231.23 in the following manner:

- PLN 300,000,000.00 as a cash dividend to State Treasury,
- PLN 66,106,900.00 to the reserve capital,
- PLN 460,005,331.23 to capital reserve from 2007 profit,
- PLN 224,000.00 to Social Fund.

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

The financial statements were submitted to the Registry Court on 17 July 2008 and were published in Monitor Polski B No. 1402 on 8 October 2008.

1.5. Audit scope and responsibilities

This report was prepared for the General Meeting of PGE Polska Grupa Energetyczna S.A. seated in Lublin, ul. Garbarska 21A and relates to the financial statements comprising: the introduction to the financial statements, the balance sheet as at 31 December 2008, with total assets and total liabilities and equity of PLN 21,762,091.3 thousand, the profit and loss account for the year then ended with a net profit of PLN 553,461.8 thousand, the statement of changes in equity for the year then ended with an increase in equity of PLN 4,937.8 thousand, the cash flow statement for the year then ended with a decrease in cash amounting to PLN 261,677.2 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 date 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 financial statements in the Company's head office during the period from 26 January 2009 to 27 February 2009.

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 the accounting principles as set out in the Accounting Act and in compliance with the respective bylaws.

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	31.12.2008 PLN '000	% of total	31.12.2007 PLN '000	% of total
Non-current assets				
Intangible assets	2,974.7	-	4,234.3	-
Tangible fixed assets	75,941.7	0.3	109,095.8	0.5
Long term receivables	2,367.6	-	2,796.6	-
Long term investments	20,149,674.4	92.6	18,216,250.3	89.5
Long term prepayments and deferred expenses	188,752.5	0.9	198,838.6	1.0
	<u>20,419,710.9</u>	<u>93.8</u>	<u>18,531,215.6</u>	<u>91.0</u>
Current assets				
Inventories	166.8	-	40.5	-
Short term receivables	777,312.5	3.6	1,045,561.6	5.1
Short term investments	519,441.9	2.4	770,161.1	3.8
Short term prepayments and deferred expenses	45,459.2	0.2	13,141.4	0.1
	<u>1,342,380.4</u>	<u>6.2</u>	<u>1,828,904.6</u>	<u>9.0</u>
TOTAL ASSETS	<u>21,762,091.3</u>	<u>100.0</u>	<u>20,360,120.2</u>	<u>100.0</u>
EQUITY AND LIABILITIES				
	31.12.2008 PLN '000	% of total	31.12.2007 PLN '000	% of total
Equity				
Share capital	14,705,765.0	67.6	14,705,765.0	72.2
Reserve capital	2,100,155.6	9.7	1,945,841.1	9.6
Revaluation reserve	3,696.2	-	91,903.8	0.4
Other capital reserves	414,017.0	1.9	202,311.7	1.0
Accumulated profit from previous years	18,644.2	0.1	18,644.2	0.1
Net profit	553,461.8	2.5	826,336.2	4.1
	<u>17,795,739.8</u>	<u>81.8</u>	<u>17,790,802.0</u>	<u>87.4</u>
Liabilities and provisions for liabilities				
Provisions for liabilities	343,648.2	1.6	149,129.2	0.7
Long term liabilities	-	-	1,532,129.3	7.5
Short term liabilities	3,613,369.5	16.6	882,928.0	4.4
Accruals and deferred income	9,333.8	-	5,131.7	-
	<u>3,966,351.5</u>	<u>18.2</u>	<u>2,569,318.2</u>	<u>12.6</u>
TOTAL EQUITY AND LIABILITIES	<u>21,762,091.3</u>	<u>100.0</u>	<u>20,360,120.2</u>	<u>100.0</u>

2.1.2. Profit and loss account

	1.01.2008 - 31.12.2008 PLN '000	% of total sales	1.01.2007 - 31.12.2007 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	871,862.0	9.0	4,055,874.3	36.0
Net revenues from the sale of merchandise and raw materials	8,832,538.9	91.0	7,203,274.5	64.0
	9,704,400.9	100.0	11,259,148.8	100.0
Cost of finished products, merchandise and raw materials sold				
Cost of finished products sold	(881,147.4)	9.1	(3,561,178.1)	31.6
Cost of merchandise and raw materials sold	(8,362,120.7)	86.1	(6,633,763.1)	58.9
	(9,243,268.1)	95.2	(10,194,941.2)	90.5
<i>Gross profit on sales</i>	461,132.8	4.8	1,064,207.6	9.5
Selling expenses	(79,315.5)	0.8	(220,696.1)	2.0
Administrative and general expenses	(75,984.5)	0.8	(74,319.0)	0.7
<i>Profit on sales</i>	305,832.8	3.2	769,192.5	6.8
Other operating revenues				
Profit on the disposal of non-financial fixed assets	122,782.3	1.3	26,936.3	0.3
Other operating revenues	3,383.4	-	202,564.1	1.8
	126,165.7	1.3	229,500.4	2.1
Other operating expenses				
Revaluation of non-financial assets	(195.3)	0.0	(3,713.0)	0.0
Other operating costs	(291,664.0)	3.1	(132,447.0)	1.2
	(291,859.3)	3.1	(136,160.0)	1.2
<i>Operating profit</i>	140,139.2	1.4	862,532.9	7.7
Financial income				
Dividends received and share in profits	267,156.1	2.8	245,854.8	2.2
Interest	207,471.6	2.1	84,009.8	0.7
Profit on the disposal of investments	88,489.9	0.9	16,483.3	0.2
Revaluation of investments	50,673.0	0.5	888.0	-
Other	76,147.2	0.8	20,616.8	0.2
	689,937.8	7.1	367,852.7	3.3
Financial expenses				
Interest	(78,375.9)	0.8	(26,718.2)	0.2
Revaluation of investments	(1,256.9)	0.0	(27,655.0)	0.3
Other	(18,692.7)	0.2	(28,362.6)	0.3
	(98,325.5)	1.0	(82,735.8)	0.8
<i>Gross profit on business activities</i>	731,751.5	7.5	1,147,649.8	10.2
<i>Gross profit</i>	731,751.5	7.5	1,147,649.8	10.2
Corporate income tax	(78,719.5)	0.8	(180,049.9)	1.6
Other obligatory charges decreasing the profit	(99,570.2)	1.0	(141,263.7)	1.3
<i>Net profit</i>	553,461.8	5.7	826,336.2	7.3

2.2. Selected financial ratios

	2008	2007	2006
1. Return on sales			
<u>net profit x 100%</u> net revenues	5.7%	7.3%	13.1%
2. Return on equity			
<u>net profit x 100%</u> equity - net profit	3.2%	4.9%	42.8%
3. Debtors' days			
<u>average trade receivables (gross) x 365 days</u> net revenues	29days	38 days	40 days
4. Debt ratio			
<u>liabilities and provisions for liabilities x 100%</u> total equity and liabilities	18.2%	12.6%	27.9%
5. Current ratio			
<u>current assets</u> current liabilities	0.3	1.8	1.4

- Current assets exclude receivables due in more than 12 months.
- Current liabilities comprise short-term provisions for liabilities, short-term liabilities (excluding liabilities due in more than 12 months) and other short-term accruals.
- Net revenues comprise 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 decreased in comparison with the prior year as a result of the decrease of the gross margin on sales. The fall of the gross margin on sales results from the drop of margin on sales of electricity and transferring the assets related to the transmission system to PSE-Operator S.A. in the end of 2007, the lease of which constituted for revenues of the Company in the prior year.

Debtors' days

Debtor's days ratio decreased in comparison with the prior year as a result of a change in the structure of business parties. Capital group was formed in the middle of 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 rised in 2008 as a result of increase of liabilities related to issue of debt securities aimed at investments in long-term financial assets.

Current ratio

Decrease of current ratio is a result of shifting long-term liabilities related to issue of debt securities to short-term liabilities due to the final buy-out term specified in the program of issue of bonds.

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 business transactions,
- fairness, accuracy and verifiability of the books of account, including the matching of accounting entries with supporting documentation and the financial statements,
- compliance of the adopted policies relating to safeguarding of accounting records, books of account 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.

Count differences have been recorded in the period covered by the financial statements.

3.3. Introduction to the financial statements

All information included in the introduction to the financial statements is, in all material respects, presented accurately and completely. The introduction to the financial statements should be read in conjunction with the financial statements taken as a whole.

3.4. Supplementary information and explanations

All information included in the supplementary information and explanations is, in all material respects, presented accurately and completely. This information should be read in conjunction with the financial statements taken as a whole.

3.5. 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 the information is consistent with the financial statements.