

PGE Polska Grupa Energetyczna S.A.

**Opinion and Report
of the Independent Auditor
6-month period ended
30 June 2016**

The opinion contains 5 pages
The supplementary report contains 9 pages
Opinion of the independent auditor
and supplementary report on the audit
of the condensed interim separate financial statements
for the 6-month period ended 30 June 2016



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OPINION OF THE INDEPENDENT AUDITOR

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

Opinion on the condensed interim separate financial statements

Opinion

We have audited the accompanying condensed interim separate financial statements of PGE Polska Grupa Energetyczna S.A., with its registered office in Warsaw, ul. Mysia 2 (“the Company”), which comprise the statement of financial position as at 30 June 2016, the statement of comprehensive income, the statement of changes in equity and the statement of cash flows for the 6-month period then ended and explanatory information to condensed interim separate financial statements.

In our opinion, the accompanying condensed interim separate financial statements of PGE Polska Grupa Energetyczna S.A. as of and for the 6-month period ended 30 June 2016 have been prepared, in all material respects, in accordance with IAS 34 *Interim Financial Reporting* 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 condensed interim separate financial statements and have been prepared from accounting records, that, in all material respects, have been properly maintained.

Basis for Opinion

We conducted our audit in accordance with section 7 of the Accounting Act dated 29 September 1994 (Official Journal from 2013, item 330 with amendments) (“the Accounting Act”) and International Standards on Auditing as adopted by the National Council of Certified Auditors as the National Standards on Assurance („National Standards on Assurance”). We are independent of the Company in accordance with the Code of Ethics for Professional Accountants of the International Ethics Standards Board for Accountants’ (“IFAC Code”), and we have fulfilled our other ethical responsibilities in accordance with the IFAC Code and the impartiality and independence requirements as described in Art. 56 points 3 and 4 of the Act on Certified Auditors and their Self-Governance, Audit Firms authorized to Audit Financial Statements and Public Oversight dated 7 May 2009 (Official Journal from 2016, item 1000). We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

On terms agreed with the Management Board of PGE Polska Grupa Energetyczna S.A., our audit work has been undertaken so that we might state to the Company's shareholders key audit matters that we are required to state to them in an auditor's opinion and, in respect of reporting, as if International Standard on Auditing 700 (Revised January 2015) applied.

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the condensed interim separate financial statements of the current period. These matters were addressed in the context of our audit of the condensed interim separate financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on them.

Impairment of non-current financial assets

The carrying amount of non-current financial assets as at 30 June 2016: PLN 37,785 million, the accumulated impairment loss on non-current financial assets as at 30 June 2016: PLN 6,037 million, including the impairment loss on the investment in PGE Obrót S.A. of PLN 5,536 million and impairment loss on bonds issued by Autostrada Wielkopolska S.A. ("AWSA") of PLN 386 million.

We refer to the financial statements: Note 9.2.1 "Impairment loss of non-current financial assets"

Key audit matter	Our response
<p>The PGE Group operates primarily on the domestic electricity market. Consequently, the projected operating cash flows of the Company's subsidiaries are significantly influenced by long-term assumptions concerning prices of electricity and heat, coal, gas, carbon dioxide emission rights and certificates of origin for electric energy. The price projections are exposed to significant variability due to changing market conditions and significant legislative changes in the energy related regulations, inter alia, on support for renewable energy sources and cogeneration, rules relating to construction and taxation of wind farms and prospects for the capacity market. Therefore, the estimation of future operating cash flows is a complex process and requires subjective judgments. The estimates of the recoverable amount of assets of each of the Company's subsidiaries directly impact the assessment of the recoverable amount of shares in subsidiaries, bonds acquired and loans granted.</p> <p>The Company's analysis of the impairment of bonds acquired, issued by entities not belonging to the PGE Group, is exposed to the inherent uncertainty in assessment of the financial position</p>	<p>Our audit procedures in respect of shares in subsidiaries, acquired bonds issued by these entities and loans granted to these entities included, among others:</p> <ul style="list-style-type: none"> • evaluating the reasonableness of the Company's judgments as to the existence of impairment indicators, and consequently, the requirement to perform related impairment tests; • critically assessing the Company's assumptions and estimates used to determine the recoverable amount of shares in subsidiaries and consequently any impairment losses recognised. This included: <ul style="list-style-type: none"> - testing the Company's discounted cash flow model using our internal valuations specialists, - assessing macroeconomic assumptions (including those relating to discount rates) by comparing them against external sources of data, - challenging assumptions in respect of prices and volumes.

of these entities due to difficulty in obtaining complete and current information on such. In addition, the bonds held in AWSA are exposed to further uncertainty as a result of a dispute between the State Treasury and AWSA, and the outcome of the proceedings before the European Commission on unlawful state aid.

In respect of acquired bonds issued by entities not belonging to the PGE Group, our audit procedures included, among others, evaluating the reasonableness of management's judgments as to the existence of objective evidence that an impairment loss has been incurred, including an analysis of publicly available information concerning financial assets for which the risk of impairment has been identified (e.g. analysis of financial information and information about the status of disputes).

Management's and Supervisory Board's Responsibility

Management of the Company is responsible for the accuracy of the accounting records and the preparation and fair presentation of condensed interim separate financial statements in accordance with IAS 34 *Interim Financial Reporting* as adopted by the European Union and with other applicable regulations. 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.

In preparing the financial statements, management of the Company is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management of the Company either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

According to the Accounting Act, management of the Company and members of the Supervisory Board are required to ensure that the financial statements are in compliance with the requirements set forth in the Accounting Act.

Members of the Supervisory Board are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibility

Our objectives are to obtain reasonable assurance about whether the condensed interim separate financial statements as a whole are derived from properly maintained accounting records and are free from material misstatement, whether due to fraud or error, and to issue an auditor's opinion and report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with National Standards on Assurance will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with National Standards on Assurance, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than the one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management and related disclosures.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with members of the Supervisory Board regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide members of the Supervisory Board with a statement that we have complied with relevant ethical requirements regarding impartiality and independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with members of the Supervisory Board, we determine those matters that were of most significance in the audit of the condensed interim separate financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's opinion unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

On behalf of KPMG Audyt Spółka z ograniczoną odpowiedzialnością sp.k.
Registration No. 3546
ul. Inflancka 4A
00-189 Warsaw

Signed on the Polish original

.....
Marta Zemka
Key Certified Auditor
Registration No. 10427
Limited Liability Partner with power of attorney

9 August 2016

PGE Polska Grupa Energetyczna S.A.

Supplementary report
on the audit of the condensed
interim separate
financial statements
6-month period ended
30 June 2016

The supplementary report contains 9 pages
The supplementary report on the audit
of the condensed interim separate financial statements
for the 6-month period ended
30 June 2016

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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 register of entrepreneurs of the National Court Register

Registration court: District Court for the Capital City of Warsaw in Warsaw,
XII Commercial Department of the National Court Register
Date of entry to the register: 5 November 2001
Registration number: KRS 0000059307
Share capital as at
the end of reporting period: PLN 18,697,608,290.00

1.1.4. Management of the Company

The Management Board is responsible for management of the Company.

As at 30 June 2016, the Management Board of the Company was comprised of the following members:

- Henryk Baranowski – President of the Management Board,
- Bolesław Jankowski – Vice President of the Management Board,
- Marek Pastuszko – Vice President of the Management Board,
- Ryszard Wasilek – Vice President of the Management Board,
- Emil Wojtowicz – Vice President of the Management Board,
- Paweł Śliwa – Vice President of the Management Board,
- Marta Gajęcka – Vice President of the Management Board.

According to the resolution of the Supervisory Board dated 29 January 2016, Mr. Jacek Drozd and Mr. Dariusz Marzec were recalled from the positions of Vice Presidents of the Management Board.

According to the resolution of the Supervisory Board dated 29 January 2016, Mr. Marek Pastuszko, Member of the Supervisory Board, was temporarily delegated to perform the duties of Member of the Management Board.

According to the resolution of the Supervisory Board dated 25 February 2016, Mr. Marek Pastuszko was appointed to the position of Vice President of the Management Board.

According to the resolution of the Supervisory Board dated 26 February 2016, Mr. Emil Wojtowicz and Mr. Ryszard Wasilek were appointed to the positions of Vice Presidents of the Management Board.

On 2 March 2016, Mr. Marek Woszczyk resigned from the position of President of the Management Board, effective 30 March 2016.

On 2 March 2016, Mr. Grzegorz Krystek resigned from the position of Vice President of the Management Board, effective 30 March 2016.

According to the resolution of the Supervisory Board dated 22 March 2016, Mr. Henryk Baranowski was appointed to the position of President of the Management Board, and Mr. Bolesław Jankowski, Mr. Paweł Śliwa and Ms. Marta Gajęcka were appointed to the positions of Vice Presidents of the Management Board, effective 31 March 2016.

1.2. Key Certified Auditor and Audit Firm Information

1.2.1. Key Certified Auditor information

Name and surname: Marta Zemka
Registration number: 10427

1.2.2. Audit Firm information

Name: KPMG Audyty Spółka z ograniczoną odpowiedzialnością sp.k.
Address of registered office: ul. Inflancka 4A, 00-189 Warsaw
Registration number: KRS 0000339379
Registration court: District Court for the Capital City of Warsaw in Warsaw,
XII Commercial Department of the National Court Register
NIP number: 527-26-15-362

KPMG Audyty Spółka z ograniczoną odpowiedzialnością sp.k. is entered into the register of audit firms, maintained by the National Council of Certified Auditors, under number 3546.

1.3. Prior period separate financial statements

The separate financial statements for the financial year ended 31 December 2015 were audited by KPMG Audyty Spółka z ograniczoną odpowiedzialnością sp.k. and received an unmodified opinion.

The separate financial statements were approved at the General Meeting on 28 June 2016 where it was resolved to distribute the net profit for the prior financial year of PLN 1,767,999,316.86 as follows:

- PLN 467,440,207.25 to be paid as a dividend,
- PLN 1,300,559,109.61 to reserve capital.

The separate financial statements were submitted to the Registry Court on 4 July 2016.

1.4. Audit scope and responsibilities

This report was prepared for the General Meeting of PGE Polska Grupa Energetyczna S.A. with its registered office in Warsaw, ul. Mysia 2 and relates to the condensed interim separate financial statements comprising: the statement of financial position as at 30 June 2016, the statement of comprehensive income, the statement of changes in equity and the statement of cash flows for the period from 1 January 2016 to 30 June 2016 and notes and other explanatory information.

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

The condensed interim separate financial statements were audited in accordance with the annex dated 2 August 2016 to the contract dated 4 November 2014, concluded on the basis of the resolution of the Supervisory Board dated 9 September 2014 on the appointment of the auditor.

We conducted our audit in accordance with section 7 of the Accounting Act dated 29 September 1994 (Official Journal from 2016, item 1047) ("the Accounting Act") and International Standards on Auditing as adopted by the National Council of Certified Auditors as the National Standards on Assurance.

We audited the condensed interim separate financial statements at the Company during the period from 18 July 2016 to 9 August 2016.

Management of the Company is responsible for the accuracy of the accounting records and the preparation and fair presentation of the condensed interim separate 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 supplementary report on the audit of the condensed interim 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 as at the same date as this report as to the true and fair presentation of the accompanying condensed interim separate financial statements, which confirmed that there were no undisclosed matters which could significantly influence the information presented in the condensed interim separate financial statements.

All required statements, explanations and information were provided to us by Management of the Company and all our requests for additional documents and information necessary for expressing our opinion and preparing the report have been fulfilled.

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 the Audit Firm.

The Key Certified Auditor and the Audit Firm fulfill the independence requirements as described in Art. 56 points 3 and 4 of the Act on Certified Auditors and their Self-Governance, Audit Firms authorized to Audit Financial Statements and Public Oversight dated 7 May 2009 (Official Journal from 2016, item 1000).

2. Financial analysis of the Company

2.1. Summary analysis of the condensed interim separate financial statements

2.1.1. Statement of financial position

	30.06.2016		31.12.2015		30.06.2015	
	PLN '000 000	% of total	PLN '000 000	% of total	PLN '000 000	% of total
	(audited)		(audited)		(reviewed)	restated*
Non-current assets						
Property, plant and equipment	185	0.5	189	0.5	190	0.5
Intangible assets	7	-	7	-	7	-
Financial receivables	7,948	19.2	6,053	15.3	4,649	11.4
Derivatives	197	0.5	43	0.1	24	0.1
Available-for-sale financial assets	3	-	3	-	3	-
Shares in subsidiaries	29,637	71.5	29,469	74.5	29,110	71.2
Deferred tax assets	13	-	24	0.1	3	-
	<u>37,990</u>	<u>91.7</u>	<u>35,788</u>	<u>90.5</u>	<u>33,986</u>	<u>83.2</u>
Current assets						
Inventories	92	0.2	191	0.5	541	1.3
Trade and other receivables	1,306	3.2	1,043	2.6	986	2.4
Derivatives	16	-	7	-	19	-
Other current assets	1,191	2.9	419	1.1	1,754	4.3
Income tax receivables	-	-	79	0.2	-	-
Cash and cash equivalents	843	2.0	2,013	5.1	3,582	8.8
	<u>3,448</u>	<u>8.3</u>	<u>3,752</u>	<u>9.5</u>	<u>6,882</u>	<u>16.8</u>
TOTAL ASSETS	<u>41,438</u>	<u>100.0</u>	<u>39,540</u>	<u>100.0</u>	<u>40,868</u>	<u>100.0</u>
	30.06.2016		31.12.2015		30.06.2015	
	PLN '000 000	% of total	PLN '000 000	% of total	PLN '000 000	% of total
	(audited)		(audited)		(reviewed)	restated*
Equity						
Share capital	18,698	45.1	18,698	47.3	18,698	45.8
Hedging reserve	15	-	(17)	0.1	2	-
Reserve capital	14,310	34.5	13,009	32.9	13,009	31.8
Retained earnings	1,348	3.3	1,764	4.5	1,388	3.4
	<u>34,371</u>	<u>82.9</u>	<u>33,454</u>	<u>84.6</u>	<u>33,097</u>	<u>81.0</u>
Non-current liabilities						
Non-current provisions	21	0.1	21	-	19	-
Loans, borrowings, bonds, cash pooling	4,808	11.6	4,216	10.7	3,685	9.0
Derivatives	41	0.1	43	0.1	37	0.1
	<u>4,870</u>	<u>11.8</u>	<u>4,280</u>	<u>10.8</u>	<u>3,741</u>	<u>9.1</u>
Current liabilities						
Current provisions	31	0.1	34	0.1	28	0.1
Loans, borrowings, bonds, cash pooling	1,475	3.6	1,255	3.2	2,205	5.4
Derivatives	-	-	34	0.1	41	0.1
Trade and other liabilities	186	0.4	307	0.8	145	0.4
Income tax liabilities	9	-	-	-	121	0.3
Other current non-financial liabilities	496	1.2	176	0.4	1,490	3.6
	<u>2,197</u>	<u>5.3</u>	<u>1,806</u>	<u>4.6</u>	<u>4,030</u>	<u>9.9</u>
Total liabilities	<u>7,067</u>	<u>17.1</u>	<u>6,086</u>	<u>15.4</u>	<u>7,771</u>	<u>19.0</u>
TOTAL EQUITY AND LIABILITIES	<u>41,438</u>	<u>100.0</u>	<u>39,540</u>	<u>100.0</u>	<u>40,868</u>	<u>100.0</u>

*For information regarding restatement of comparative figures please refer to note 3 of the condensed interim financial statements

2.1.2. Statement of comprehensive income

	1.01.2016 - 30.06.2016		1.01.2015 - 30.06.2015	
	PLN '000 000	% of total	PLN '000 000	% of total
	(audited)	sales	(reviewed)	sales
STATEMENT OF PROFIT AND LOSS				
Sales revenues	5,626	100.0	5,027	100.0
Cost of goods sold	(5,192)	92.3	(4,555)	90.6
<i>Gross profit on sales</i>	<i>434</i>	<i>7.7</i>	<i>472</i>	<i>9.4</i>
Distribution and selling expenses	(26)	0.4	(17)	0.3
General and administrative expenses	(71)	1.3	(80)	1.6
Other operating income	2	-	3	0.1
Other operating expenses	(1)	-	(3)	0.1
<i>Operating profit</i>	<i>338</i>	<i>6.0</i>	<i>375</i>	<i>7.5</i>
Financial income	1,191	21.2	1,183	23.5
Financial expenses	(100)	1.8	(124)	2.5
<i>Profit before tax</i>	<i>1,429</i>	<i>25.4</i>	<i>1,434</i>	<i>28.5</i>
Current income tax	(73)	1.3	(29)	0.5
Deferred income tax	(4)	0.1	(15)	0.3
<i>Net profit for the reporting period</i>	<i>1,352</i>	<i>24.0</i>	<i>1,390</i>	<i>27.7</i>
OTHER COMPREHENSIVE INCOME				
Items, which may be reclassified to profit or loss, including:				
Valuation of hedging instruments	40	0.7	77	1.5
Deferred tax	(8)	0.1	(15)	0.3
Items, which will not be reclassified to profit or loss, including:				
Actuarial gains and losses from valuation of provisions for employee benefits	-	-	1	-
<i>Other comprehensive income for the reporting period, net</i>	<i>32</i>	<i>0.6</i>	<i>63</i>	<i>1.3</i>
<i>Total comprehensive income</i>	<i>1,384</i>	<i>24.6</i>	<i>1,453</i>	<i>28.9</i>
Earnings and diluted earnings per share (in PLN)	0.72		0.74	

2.2. Selected financial ratios

	2016	2015
1. Return on sales		
$\frac{\text{profit for the period} \times 100\%}{\text{revenue for the period}}$	24.0%	27.7%
2. Return on equity		
$\frac{\text{profit for the period} \times 100\%}{\text{equity} - \text{profit for the period}}$	4.1%	4.4%
3. Debtors' days		
$\frac{\text{average trade receivables (gross)} \times 180 \text{ days}}{\text{revenue for the period}}$	18 days	18 days
4. Debt ratio		
$\frac{\text{liabilities} \times 100\%}{\text{equity and liabilities}}$	17.1%	19.0%
5. Current ratio		
$\frac{\text{current assets}}{\text{current liabilities}}$	1.6	1.7

- Period for which ratios were calculated covers periods from 1 January to 30 June.
- Revenue includes revenue from sales 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, that is 1 January and 30 June, with no deduction made for allowances.

3. Detailed report

3.1. 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 condensed interim 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 any material irregularities in the accounting system, which have not been corrected and that could have a material effect on the condensed interim 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 its assets in accordance with the requirements and time frame specified in Art. 26 of the Accounting Act, and reconciled and recorded the result thereof in the accounting records.

3.2. Notes to the condensed interim separate financial statements

All information included in the notes to the condensed interim 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 condensed interim separate financial statements.

On behalf of KPMG Audyt Spółka z ograniczoną odpowiedzialnością sp.k.
Registration No. 3546
ul. Inflancka 4A
00-189 Warsaw

Signed on the Polish original

.....
Marta Zemka
Key Certified Auditor
Registration No. 10427
Limited Liability Partner with power of attorney

9 August 2016