INDEPENDENT AUDITOR'S REPORT ON THE AUDIT OF THE ANNUAL CONSOLIDATED FINANCIAL STATEMENTS

To the Shareholders Meeting and Supervisory Board of PGE Polska Grupa Energetyczna S.A.

The audit report on the annual consolidated financial statements

We have audited the accompanying annual consolidated financial statements for the year ended 31 December 2017 of PGE Polska Grupa Energetyczna S.A. Group ('the Group'), for which the holding company is PGE Polska Grupa Energetyczna S.A. ('the Company') located in Warsaw at Mysia 2 Street, containing the consolidated statement of financial position as at 31 December 2017, the consolidated statement of comprehensive income, the consolidated statement of changes in equity, the consolidated statement of cash flow for the period from 1 January 2017 to 31 December 2017 and general information, basis for preparation of financial statements and other explanatory information, and other explanatory notes ('the accompanying consolidated financial statements').

Responsibilities of the Company's Management and members of the Supervisory Board for the consolidated financial statements

The Company's Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Accounting Standards, International Financial Reporting Standards and related interpretations announced in the form of European Commission decrees and other applicable laws, as well as the Company's Statute. The Company's Management is also responsible for such internal control as determined is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In accordance with the Accounting Act of 29 September 1994 (the 'Accounting Act'), the Company's Management and the members of the Company's Supervisory Board are required to ensure that the accompanying consolidated financial statements meet the requirements of the Accounting Act.

Auditor's responsibility

Our objective was to express an opinion on whether the accompanying consolidated financial statements give a true and fair view[1] of the financial position and results of the operations of the Group in accordance with International Accounting Standards, International Financial

[1] Translation of the following expression in Polish is 'rzetelny i jasny obraz'.

Reporting Standards and related interpretations announced in the form of European Commission regulations and adopted accounting policies.

We conducted our audit of the accompanying consolidated financial statements in accordance with:

- Act of 11 May 2017 on Statutory Auditors, Audit Firms and Public Oversight (‘Act on Statutory Auditors’),
- National Auditing Standards in the wording of the International Auditing Standards adopted by the resolution no. 2783/52/2015 of the National Council of Statutory Auditors of 10 February 2015 with subsequent amendments,
- Regulation (EU) No. 537/2014 of the European Parliament and of the Council of 16 April 2014 on specific requirements regarding statutory audit of public-interest entities and repealing Commission Decision 2005/909/EC (“Regulation 537/2014”).

Those regulations require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement.

The purpose of the audit is to obtain reasonable assurance as to whether the consolidated financial statements as a whole were prepared based on properly maintained accounting records and are free from material misstatement due to fraud or error, and to issue an independent auditor's report containing our opinion. Reasonable assurance is a high level of assurance, but it is not guarantee that an audit conducted in accordance with the above mentioned standards will always detect material misstatements. Misstatements may arise as a result of fraud or error and are considered material if it can reasonably be expected that individually or in aggregate, they could influence economic decisions of the users taken on the basis of these consolidated financial statements. The risk of not detecting a material misstatement due to fraud is higher than the risk of not recognizing a material misstatement due to an error, as fraud may involve collusion, falsification, deliberate omissions, misleading or circumventing internal control and may affect every area of law and regulation, not just this directly affecting the consolidated financial statements.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor’s judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company’s preparation of the consolidated 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 Company’s internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the presentation of the consolidated financial statements.

The scope of the audit does not include assurance on the future profitability of the audited Group nor effectiveness of conducting business matters of the Group now and in the future by the Company’s Management Board.

In accordance with International Auditing Standard 320 section 5 the concept of materiality is applied by the auditor both in planning and performing the audit, and in evaluating the effect of identified misstatements on the audit and of uncorrected misstatements, if any, on the consolidated financial statements and in forming the opinion in the auditor's report. Hence all auditor's assertions and statements contained in the auditor's report, including those on other information or regulatory requirements, are made with the contemplation of the qualitative and quantitative materiality levels established in accordance with auditing standards and auditor's professional judgement.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion. The opinion is consistent with the additional report to the audit committee issued on the date of this report.

Independence

While conducting our audit, the key certified auditor and the audit firm remained independent of the entities comprising the Group in accordance with the regulations of Act on Statutory Auditors, Regulation 537/2014 and principles of professional ethics adopted by resolutions of the National Council of Statutory Auditors.

Based on our best knowledge and belief, we declare that we have not provided non-audit services, that are prohibited based on article 136 of the Act on Statutory Auditors and article 5, point 1 of Regulation 537/2014, to the Company.

Appointment of the audit firm

We were appointed to audit the consolidated financial statements based on the Company's Supervisory Board resolution dated 20th June 2017. We have been auditing the consolidated financial statements of the Company for the first time for the financial year ended 31 December 2017.

Most significant assessed risks

In the course of our audit we have identified the below described most significant assessed risks of material misstatement (key audit matters), including due to fraud and we designed appropriate audit procedures in response to those risks. Where we considered to be relevant in order to understand the nature of the identified risk and audit procedures performed we have also included key observations arising with respect to those risks.

These matters were addressed in the context of our audit of the accompanying consolidated financial statements as a whole, and in forming our opinion thereon. Therefore we do not provide a separate opinion on these matters.

<table>
<tr><th>Description of the nature of the risk of material misstatement
(key audit matters)</th><th>Audit procedures in response to the identified risk</th></tr>
<tr><td>Assets impairment analysis

Why a matter was determined to be a key audit matter

The Group's net book value of property, plant and equipment amounted to PLN 58,620 million as at 31 December 2017, whilst impairment losses related to these assets recognized in the current year decreased by reversals of impairment allowances recognized in previous periods amounted to PLN 956 million in the year ended 31 December 2017.

As at 31 December 2017, the Group's net assets were higher than its market capitalization.

In accordance with International Accounting Standard 36 Impairment of assets ("IAS 36"), the Group analyzed the indicators for impairment of assets, as described in Note 3 to the Group's consolidated financial statements and, as a result of identifying a number of such indicators, performed impairment tests of these assets.

This issue was identified as the key audit matter of the consolidated financial statements of the Group due to the significant carrying amount of the assets tested by the Group as well as the element of professional judgment of the Group's management and the complexity of the impairment tests. Performing such tests requires to adopt a number of assumptions by the Management Board, such as forecasted</td><td>Audit approach

Our audit procedures related to described key audit matter included among others:

• understanding of the Company's accounting policy and procedures, including control environment, related to assessment process of impairment indicators and impairment tests,
• assessment of the Group's judgement in the area of the identification of cost generating units,
• assessment, with the support of valuations specialists, of the assumptions and estimates adopted by the Group to determine the recoverable amount of assets, including
  - analysis of macroeconomic assumptions for next years (discount rate, growth rate) by comparing them to market data and publically available external data,
  - assessment of the models of discounted cash flows for their mathematical accuracy, and
  - assumptions adopted to determine cash flows and residual values after the period covered by strategy.
• inquiry of the financial department employees and the Management Board of the Parent entity regarding the status of the implementation of the adopted assumptions, including the validity of key estimates,
• analysis of external sources of information such as industry press in relation to potential risks related to the implementation of the assumptions,
• reconciliation of the source data of the impairment test models and assessment of impairment indicators to the current financial</td></tr>
</table>

<table>
<tr>
<td>changes in the prices of fuel, electricity, energy property rights, CO_2 emission allowances and assumptions in terms of revenue, costs and cash flow, weighted average cost of capital ("WACC") that are dependent on future market and macroeconomic conditions. Assumptions also include the impact of anticipated changes in the Polish and European regulatory environment, including environmental protection and solutions related to capacity market.

Reference to related disclosures in the consolidated financial statements

The Group's disclosure on the impairment tests of non-current assets is included in note 3 "The analysis of impairment of property, plant and equipment, intangible assets and goodwill" of the accompanying consolidated financial statements for the year ended 31 December 2017.</td>
<td>forecasts of companies and the realization of budgets,

• assessment of the adequacy of disclosures, in accordance with the International Accounting Standard 36 Impairment of Assets, in the Company's financial statements regarding impairment.</td>
</tr>
<tr>
<td>First year audit

Why a matter was determined to be a key audit matter

The consolidated financial statements for the financial year ended 31 December 2017 were the first being subject to our audit.

Bearing in mind the size and scope of operations of the Company and other entities within the Group, in particular entities comprising sub-level capital groups, the key was to understand the complexity of the Group's</td>
<td>Audit approach

Our audit procedures related to described key audit matter included among others:

• conducting the kick off meeting with key personnel responsible for financial reporting of the Group as well as meetings with members of the audit team responsible for key subsidiaries from the Group perspective, including specialists planned to be involved in the audit procedures,

• Gaining an understanding of the control environment in the Company and entities within the Group and testing of selected controls in relation to individual processes,</td>
</tr>
</table>

organizational structure and its impact on the processes within the Group. During the audit, we performed a number of additional procedures necessary to understand and gain knowledge about: (i) the Group's business profile and its accompanying processes (ii) specific risks related to the business (iii) control mechanisms implemented by the Group entities and adopted policies affecting financial reporting of the Group. These procedures allowed us to assess the risk of the audit, identify the risk of material misstatement, including inherent audit risks and control risks, determine materiality levels and the scope of audit procedures. In addition, as part of the first-year auditing, the purpose of our additional procedures was to determine whether opening balances contain distortions that materially affect the financial statements for the current period and whether the accounting policies applied to the opening balance were applied continuously in the preparation of financial statements for the current period, or whether the changes made therein were correctly accounted for and properly presented in accordance with the applicable financial reporting assumptions. *Reference to related disclosures in the consolidated financial statements* The Group's disclosure on changes in the presentation in the consolidated financial statements are included in	• understanding of the Group's accounting policy and significant values included in financial statements based on professional judgment and estimates, • analysis of changes in the opening balance as identified by the Group entities and the reasons for these changes, • communication with a predecessor auditor, including discussion of key audit matters of the Group audit and review of audit documentation from the previous reporting period, • assessment of the main audit issues from the previous reporting period and their impact on the Group's financial statements for the current financial year and the opening balances, • assessment of the adequacy of disclosures, in accordance with the International Accounting Standard 8 *Accounting Policies, Changes in Accounting Estimates and Errors*, in the consolidated financial statements. The results of our procedures as well as the revised audit strategy based on them have been communicated to the Management Board of the Company and the Audit Committee.

<table>
<tr><td>note 5 "Change in the accounting principles and presentation of data" of the consolidated financial statements of the Group for the year ended 31 December 2017.</td><td></td></tr>
<tr><td>Business combinations

Why a matter was determined to be a key audit matter

During the financial year ended 31 December 2017, the Company acquired control over EDF Polska S.A. Group as a result of settlement of the contract concluded between PGE Polska Grupa Energetyczna S.A. and EDF International SAS and EDF Investment II B.V. related to the sale of assets owned by EDF in Poland on 13 November 2017. The value of the transaction amounted to approximately PLN 4.3 billion.

We have identified that the accounting for the business combination is a key audit matter of the audit due to (i) materiality of the transaction amount and the nature of acquired assets, (ii) the necessity to use management judgement in the identification and measurement of fair value of assets, liabilities and contingent liabilities of acquired business (iii) alignment of accounting policies of newly acquired entities with those in the PGE Group, and (iv) determination of the fair value of the consideration paid.

The Group accounted provisionally for the business combination of EDF Group in the year ended 31 December 2017.</td><td>Audit approach

Our audit procedures related to described key audit matter included among others:
understanding of business substance of the transaction and its legitimacy as part of discussions with the management of the Company,
analysis of acquisition agreements and their conditions, including deferred or contingent payments, and assessment of the Group's recognition of financial settlements between the acquirer and the seller by reconciling, among others, cash flows to the source documentation,
discussion of the method of identification and measurement at fair value of the acquired assets, liabilities and contingent liabilities of the acquired businesses, where such identification and measurement has been completed, including the assessment of the assumptions and estimates adopted by the Group, such as discount and growth rates, among others by comparing assumptions with source data and market data,
analysis of adjustments made by the Group in order to determine the fair value of the acquired assets and liabilities as of the acquisition date.
We have assessed the adequacy of disclosures, in accordance with the International Financial Reporting Standard 3 Business Combinations in the Company's financial statements regarding provisional accounting of shares acquisition.</td></tr>
</table>

<table>
<tr>
<td>Reference to related disclosures in the consolidated financial statements

The Group's disclosure on acquisition of EDF Polska business is included in note 1.4 "Accounting for new acquisition" of the Group's consolidated financial statements of the for the year ended 31 December 2017.</td>
<td></td>
</tr>
<tr>
<td>Provision for rehabilitation of post-exploitation mining properties

Why a matter was determined to be a key audit matter

As part of its lignite mining activities in its opencast mines, the Group is obliged to restore the original state or to rebuild the destruction of surface mines areas caused by mining plant operations. The carrying amount of the Provision for rehabilitation of post-exploitation mining properties disclosed in the Group's consolidated financial statements as at 31 December 2017 amounted to PLN 2,693 million. The provision is recognized in operating expenses for the portion attributable to mined lignite or capitalized to the value of the corresponding component of property, plant and equipment in the part attributable to stripping cost.

The estimation of the provision was considered as key audit matter as estimations of future costs requires significant judgments and assumptions regarding the methods of rehabilitation, the timing of execution, anticipated costs and the inflation and discount rates used to determine the present value of provisions.</td>
<td>Audit approach

Our audit procedures related to the Provision for rehabilitation of post-exploitation mining properties included among others:
testing of mathematical accuracy of the calculations prepared in order to determine of provision amount,
assessment of assumptions made by the Management Board of PGE Górnictwo i Energetyka Konwencjonalna S.A. regarding the method of rehabilitation, timing of execution and estimation of expected costs to be incurred, based on reports of external independent experts prepared for the Management Board of PGE Górnictwo i Energetyka Konwencjonalna S.A.,
analysis of key assumptions used to estimate the discounted value of future costs, including, but not limited to, the inflation rate and the discount rate,
assessment of the competence and objectivity experts involved in the estimation process.
In addition, we have assessed the adequacy of recognition and presentation of provisions for rehabilitation of post-exploitation mining properties in the Group consolidated financial statements.</td>
</tr>
</table>

<table>
<tr>
<td>While determining the amount of reserves, the Group used services of external specialists, in particular in the area of estimating the costs of restoration and management of excavations and post-mining areas.

Reference to related disclosures in the consolidated financial statements

The Group's disclosures on provision for rehabilitation of post-exploitation mining properties are included in note 2.4 "Professional judgment of management and estimates" and note 21.1. "Rehabilitation provision" of the consolidated financial statements of the Group for the year ended 31 December 2017.</td>
<td></td>
</tr>
<tr>
<td>Revenue recognition

Why a matter was determined to be a key audit matter

The Group's sales revenue amounted to PLN 23,100 million for the year ended 31 December 2017.

Accuracy of recognized revenues from energy services within the Group and their presentation in the statement of comprehensive income depends on the complex estimates methodologies and algorithms used to assess the volume of energy sales between the date of the last meter reading and the year end, where data is collected in many billing systems.

The method of estimating such revenues requires estimates and assumptions to calculate the volumes of energy consumed by customers and</td>
<td>Audit approach

Our audit procedures included among others:
understanding of the Company's accounting policy and procedures, including control environment related to sales process,
testing of operating effectiveness of controls related to key revenues streams,
analysis of assumptions related to the estimated revenues and an of estimation algorithm in billing systems,
reconciliation of the results of the additional estimation of sales to the accounting record including, checking the completeness of this procedure,
tests of logical access, manage changes application control mechanisms of the IT accounting system performed with the support of internal specialists from the IT risk management department,</td>
</tr>
</table>

assess the value to be ascribed to that revenue given the range of tariffs. The assessment is crucial as method of estimating such revenues bases on historical data and assumptions related to consumption patterns. *Reference to related disclosures in the consolidated financial statements* The Group's disclosures on revenue recognition are included in note 2.4 *"Professional judgment of management and estimates"* and note 7.1. *"Sales revenue"* of the consolidated financial statements of the Group for the year ended 31 December 2017.	• analytical procedures (including test of details), including analysis of non-standard transactions, gross margin and correlations between revenues, receivables and cash. We have assessed the adequacy of disclosures, in accordance with the International Accounting Standard 18 *Revenue* in the Company's consolidated financial statements regarding impairment related to sales revenue.

Opinion

In our opinion, accompanying consolidated financial statements:

- give a true and fair view of the financial position of the Group as at 31 December 2017 and its financial performance for the year from 1 January 2017 to 31 December 2017 in accordance with International Accounting Standards, International Financial Reporting Standards and related interpretations announced in the form of regulations of the European Commission and other applicable laws and the adopted accounting policies,
- are in respect of the form and content in accordance with legal regulations governing the Company and the Company's Statute.

Other matters

The consolidated financial statements for the prior financial year ended 31 December 2016 were subject to an audit by a key certified auditor acting on behalf of another authorized audit firm, who issued an unqualified opinion on these financial statements, dated 7 March 2017.

Report on other legal and regulatory requirements

Opinion on the Directors' Report

Our opinion on the consolidated financial statements does not include the Directors' Report.

The Company's Management is responsible for preparation of the Directors' Report in accordance with the Accounting Act and other applicable laws. In addition, the Company's Management and members of the Company's Supervisory Board are required to ensure that the Directors' Report meets the requirements of the Accounting Act.

Our responsibility in accordance with the Act on Statutory Auditors was to issue an opinion on whether the Director's Report was prepared in accordance with relevant laws and that it is consistent with the information contained in the accompanying consolidated financial statements.

Our responsibility was also to make a statement, on whether based on our knowledge about the Company and its environment obtained during the audit of the financial statements we have identified in the Director's Report any material misstatements and to indicate the nature of each of material misstatement.

In our opinion the Directors' Report was prepared in accordance with the relevant regulations and reconciles with the information derived from the accompanying financial statements. Moreover, based on our knowledge of the Company and its environment obtained during the audit of the financial statements, we have not identified material misstatements in the Directors' Report.

Opinion on the corporate governance application representation

The Company's Management and members of the Company's Supervisory Board are responsible for preparation of the representation on application of corporate governance in accordance with the applicable laws.

In connection with the conducted audit of the consolidated financial statements, our responsibility in accordance with the Act on Statutory Auditors was to issue an opinion on whether the issuer, obliged to present a representation on application of corporate governance, constituting a separate part of the Director's Report, included in the representation information required by applicable laws and whether the related information is in accordance with applicable regulations and with the information included in the accompanying consolidated financial statements.

In our opinion, in the representation on application of corporate governance, the Company has included information stipulated in paragraph 91, section 5, point 4, letter a, b, g, j, k and l of the Regulation of the Minister of Finance of 19 February 2009 on current and periodic information provided by issuers of securities and conditions of deeming information required by the regulations of a non-member country equal ('Regulation'). Information stipulated in paragraph 91, section 5, point 4 letter c-f, h and i of the Regulation included in the representation on application of corporate governance is in accordance with applicable laws and information included in the accompanying consolidated financial statements.

Information on preparation of the statement on non-financial information

In accordance with the requirements of the Act on Statutory Auditors, we inform that the Company has published information on the preparation of a separate report on non-financial information, referred to in art. 49b par. 9 of the Accounting Act and that the Company has prepared such a separate report.

We have not performed any attestation services in respect to the separate report on non-financial information and do not express any assurance in its respect.

Warsaw, 6th March 2018

Key Certified Auditor

/s/

Artur Żwak
certified auditor
No. 9894

on behalf of
Ernst & Young Audyt Polska spółka
z ograniczoną odpowiedzialnością sp. k.
Rondo ONZ 1, 00-124 Warsaw
Reg. No 130