



The Polish original should be referred to in matters of interpretation.
Translation of auditor's report originally issued in Polish.

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INDEPENDENT AUDITOR'S REPORT ON THE AUDIT

To the Shareholders Meeting and Supervisory Board of

PGE Polska Grupa Energetyczna S.A.

Audit report on the annual consolidated financial statements

Opinion

We have audited the annual consolidated financial statements 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 2018, the consolidated statement of comprehensive income, the consolidated statement of changes in equity, the consolidated statement of cash flows for the period from 1 January 2018 to 31 December 2018 and additional information to the consolidated financial statements, including a summary of significant accounting policies (the 'consolidated financial statements').

In our opinion, the consolidated financial statements:

- give a true and fair view of the consolidated financial position of the Group as at 31 December 2018 and its consolidated financial performance and its consolidated cash flows for the period from 1 January 2018 to 31 December 2018 in accordance with required applicable rules of International Accounting Standards, International Financial Reporting Standards approved by the European Union and the adopted accounting policies,
- are in respect of the form and content in accordance with legal regulations governing the Group and the Company's Statute.

The opinion is consistent with the additional report to the Audit Committee issued on 11 March 2019.

Basis for opinion

We conducted our audit in accordance with the International Standards on Auditing in the version adopted as the National Auditing Standards by the National Council of Statutory Auditors (“NAS”) and pursuant to the Act of 11 May 2017 on Statutory Auditors, Audit Firms and Public Oversight (the ‘Act on Statutory Auditors’) and the 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 (the ‘Regulation 537/2014’). Our responsibilities under those standards are further described in the ‘Auditor’s responsibilities for the audit of the financial statements’ section of our report.

We are independent of the Group in accordance with the Code of ethics for professional accountants, published by the International Federation of Accountants (the ‘Code of ethics’), adopted by the National Council of Statutory Auditors and other ethical responsibilities in accordance with required applicable rules of the audit of financial statements in Poland. We have fulfilled our other ethical responsibilities in accordance with these requirements and the Code of ethics. While conducting the audit, the key certified auditor and the audit firm remained independent of the Group in accordance with the independence requirements set out in the Act on Statutory Auditors and the Regulation 537/2014.

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

Emphasis of matter

Without qualifying our report, we draw the attention to note 33 of the attached consolidated financial statements, in which the Management Board described the effects of the Act of 28 December 2018 amending the Act on Excise Tax and certain other Acts and its impact on the attached consolidated financial statements.

Our opinion does not include a qualification with respect to this matter.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. They include the most significant assessed risks of material misstatement, including the assessed risks of material misstatement due to fraud. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we have summarized our reaction to these risks and in cases where we deemed it necessary, we presented the most important observations related to these types of risks. We do not provide a separate opinion on these matters.

Key audit matter	How the matter was addressed in our audit
<p>Assets impairment analysis</p> <p><i>Why a matter was determined to be a key audit matter</i></p> <p>The Group's net book value of property, plant and equipment amounted to PLN 62,274 million as at 31 December 2018</p> <p>As at 31 December 2018, the Group's net assets were higher than its market capitalization.</p> <p>In accordance with International Accounting Standard 36 <i>Impairment of assets</i> ("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.</p> <p>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 changes in the prices of fuel, electricity, energy property rights, CO₂ 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.</p> <p><i>Reference to related disclosures in the consolidated financial statements</i></p> <p>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</p>	<p><i>Audit approach</i></p> <p>Our audit procedures related to described key audit matter included among others:</p> <ul style="list-style-type: none"> • 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 <ul style="list-style-type: none"> - 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, particularly the assumptions regarding the functioning of the capacity market in Poland, • 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 forecasts of companies and the realization of budgets, <p>assessment of the adequacy of disclosures, in accordance with the International Accounting Standard 36 <i>Impairment of Assets</i>, in the</p>

<p>equipment, intangible assets and goodwill" of the accompanying consolidated financial statements for the year ended 31 December 2018.</p>	<p>Company's financial statements regarding impairment.</p>
<p>Provision for rehabilitation of post-exploitation mining properties</p> <p><i>Why a matter was determined to be a key audit matter</i></p> <p>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 2018 amounted to PLN 3,338 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. 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.</p> <p><i>Reference to related disclosures in the consolidated financial statements</i></p> <p>The Group's disclosures on provision for rehabilitation of post-exploitation mining properties are included in note 2.4</p>	<p><i>Audit approach</i></p> <p>Our audit procedures related to the Provision for rehabilitation of post-exploitation mining properties included among others:</p> <ul style="list-style-type: none"> • 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.; data on areas and volumes of mines that will be subject to future reclamation, were reconciled to the technical evidence provided by the PGE Górnictwo i Energetyka Konwencjonalna S.A. - in particular volume reports for lignite and excavation pits, • understanding of the process of provision update made by the Management based on works budgets made by the independent experts, level of the provisions utilization, estimates relating to the key economic parameters, as well as we assessed the relevant control processes implemented by the Management, • 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. <p>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.</p>

<p><i>"Professional judgment of management and estimates" and note 20.1 "Rehabilitation provision" of the consolidated financial statements of the Group for the year ended 31 December 2018.</i></p>	
<p>Revenue recognition</p> <p><i>Why a matter was determined to be a key audit matter</i></p> <p>The Group's sales revenue amounted to PLN 25,946 million for the year ended 31 December 2018.</p> <p>Value 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.</p> <p>The method of estimating such revenues requires estimates and assumptions to calculate the volumes of energy consumed by customers and assess the value to be ascribed to that revenue given the range of tariffs. This is related to the complexity of billing systems and other IT systems that process a large amount of data.</p> <p>The assessment is crucial as method of estimating such revenues bases on historical data and assumptions related to consumption patterns.</p> <p><i>Reference to related disclosures in the consolidated financial statements</i></p> <p>The Group's disclosures on revenue recognition are included in note 2.4 <i>"Professional judgment of management and estimates"</i> and note 7.1 <i>"Sales revenue"</i> of the consolidated financial statements of the Group for the year ended 31 December 2018.</p>	<p><i>Audit approach</i></p> <p>Our audit procedures included among others:</p> <ul style="list-style-type: none"> • 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, • analytical procedures (including test of details), including analysis of non-standard transactions, gross margin and correlations between revenues, receivables and cash, • Analysis of the documentation prepared by the Group related to the analysis of the impact of IFRS 15 implementation on the consolidated financial statements with the special emphasis on confirmation of completeness as well as the test on the selected sample of sales contracts. <p>We have assessed the adequacy of disclosures, in accordance with the International Accounting Standard 15 <i>Revenue from contracts with customers</i> in the Company's consolidated financial statements regarding impairment related to sales revenue.</p>



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

The Company's Management is responsible for the preparation, based on properly maintained accounting records, the consolidated financial statements that give a true and fair view of the financial position and the financial performance in accordance with required applicable rules of International Accounting Standards, International Financial Reporting Standards approved by the European Union, the adopted accounting policies and other applicable laws, as well as the Company's Statute, and is also responsible for such internal control as determined is necessary to enable the preparation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

The Company's Management and the members of the Company's Supervisory Board are required to ensure that the consolidated financial statements meet the requirements of the Accounting Act dated 29 September 1994 (the 'Accounting Act'). The members of the Company's Supervisory Board and the Audit Committee are responsible for overseeing the Company's financial reporting process.

Auditor's responsibility for the audit of the consolidated financial statements

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

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 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 are made with the contemplation of the qualitative and quantitative materiality levels established in accordance with auditing standards and auditor's professional judgment.



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

Throughout the audit in accordance with NAS, we exercise professional judgment and maintain professional skepticism and we also:

- identify and assess the risks of material misstatement of the consolidated 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 for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or 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 Group's internal control,
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Company's Management,
- conclude on the appropriateness of the Company's 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 Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our independent auditor's report to the related disclosures in the consolidated 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 independent auditor's report, however, future events or conditions may cause the Group to cease to continue as a going concern,
- evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation,
- we obtain sufficient appropriate audit evidence regarding the financial information of entities and business activities within the Group for the purpose of expressing an opinion on the consolidated financial statements. We are solely responsible for the direction, supervision and performance of the audit of the Group and we remain solely responsible for our audit opinion.

We communicate with the members of the Company's Supervisory Board and the Audit Committee 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 provide the members of the Company's Supervisory Board and the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence, and communicate to 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 to the members of the Company's Supervisory Board and the Audit Committee, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report 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.

Other information, including the Directors' Report

The other information comprises the Directors' Report for the period from 1 January 2018 to 31 December 2018, the representation on the corporate governance and the representation on preparation of the statement on non-financial information, mentioned in article 55, section 2b of the Accounting Act as a separate element of the Directors' Report.

Responsibilities of the Company's Management and members of the Supervisory Board

The Company's Management is responsible for the preparation the Other Information in accordance with the law.

The Company's Management and members of the Company's Supervisory Board are required to ensure that the Directors' Report (with separate elements) meets the requirements of the Accounting Act.

Auditor's responsibility

Our opinion on the consolidated financial statements does not include the Other Information.

In connection with our audit of the consolidated financial statements, our responsibility is to read the Other Information and, in doing so, consider whether it is materially inconsistent with the consolidated financial statements or our knowledge obtained during the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this Other Information, we are required to report that fact in our independent auditor's report. Our responsibility in accordance with the Act on Statutory Auditors is also to issue an opinion on whether the

Directors' Report was prepared in accordance with relevant laws and that it is consistent with the information contained in the consolidated financial statements.

In addition, we are required to inform whether the Company has prepared the representation on non-financial information and to issue an opinion on whether the Company has included the required information in the representation on application of corporate governance.

Opinion on the Directors' Report

Based on the work performed during our audit, in our opinion, the Directors' Report:

- has been prepared in accordance with the article 49 of the Accounting Act and paragraph 71 of the Decree of the Minister of Finance dated 29 March 2018 on current and periodic information published by issuers of securities and conditions for recognition as equivalent the information required by laws of non-EU member states (the 'Decree on current and periodic information'),
- is consistent with the information contained in the consolidated financial statements.

Moreover, based on our knowledge of the Group and its environment obtained during our audit, we have not identified material misstatements in the Directors' Report.

Opinion on the corporate governance application representation

In our opinion, in the representation on application of corporate governance, the Group has included information stipulated in paragraph 70, section 6, point 5 of the Decree on current and periodic information.

Moreover, in our opinion, the information stipulated in paragraph 70, section 6, point 5 letter c-f, h and i of the Decree included in the representation on application of corporate governance is in accordance with applicable laws and information included in the consolidated financial statements.

Information on non-financial information

In accordance with the requirements of the Act on Statutory Auditors, we inform that the Company has included in Directors' Report information on the preparation of a separate report on non-financial information, referred to in art. 55 par. 2c of the Accounting Act and that the Company has prepared such a separate report.

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

Report on other legal and regulatory requirements

In addition, we have concluded that the presented in note 25 balance sheet and profit and loss account, prepared separately for each type of business activity in the transmission or distribution of electricity, transmission, distribution or storage of gas, fuel gas trading, natural gas liquefaction or regasification of liquefied natural gas comply, in all material respects, with the requirements referred to in Article 44 of the Act dated 10 April 1997 Energy Law ("Energy Law").

The scope of regulatory financial information contained in the explanatory note 25 is specified in art. 44 of the Energy Law. Our audit did not include an assessment on whether the information required to be disclosed by the law are sufficient to ensure equal treatment of customers and elimination of cross-subsidization between activities.

Representation on the provision of non-audit services

To the best of our knowledge and belief, we represent that services other than audits of the financial statements, which have been provided to the Group, are compliant with the laws and regulations applicable in Poland, and that we have not provided non-audit services, which are prohibited based on article 5 item 1 of Regulation 537/2014 and article 136 of the Act on Statutory Auditors. The non-audit services, which we have provided to the Group in the audited period, have been disclosed in the Directors' Report.

Appointment of the audit firm

We were appointed for the audit of the Group's consolidated financial statements initially based on the resolution of Supervisory Board from 20 June 2017 and reappointed based on the resolution from [date]. The consolidated financial statements of the Group have been audited by us uninterruptedly starting from the financial year ended on 31 December 2017, i.e. for the past 2 consecutive years.

Warsaw, 11 March 2019

Key Certified Auditor

Artur Żwak
certified auditor
no in the register: 9894

on behalf of:
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