

Auditor's report

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Independent Auditor's Report

on the annual financial statements of
Polskie Górnictwo Naftowe i Gazownictwo S.A.
with its registered office in Warsaw
for the financial year from January 1 to December 31, 2019

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INDEPENDENT AUDITOR'S REPORT ON THE ANNUAL FINANCIAL STATEMENTS

For the General Meeting of Shareholders of Polskie Górnictwo Naftowe i Gazownictwo S.A.

Report on the audit of the financial statements

Opinion on the financial statements

We have audited the accompanying annual financial statements of Polskie Górnictwo Naftowe i Gazownictwo S.A with its registered office at Marcina Kasprzaka 25, hereinafter referred to as the "Company", for the financial year from January 1 to December 31 2019, which comprise the statement of financial position as of December 31, 2019, the statement of profit and loss, the statement of other comprehensive income, the statement of changes in equity and the statement of cash flows for the financial year then ended December 31, 2019 and related notes including significant accounting principles (policies) and other explanatory information.

The financial statements have been prepared in an electronic format as a file entitled *Sprawozdanie_jednostkowe_PGNiG_Y2019 PL.pdf*, and have been signed with electronic signatures by the Management Board of the Company on March 10, 2020.

The annual financial statements have been prepared in accordance with the financial reporting framework of the International Accounting Standards, International Financial Reporting Standards and related interpretations published as a Commission Regulation, hereinafter referred to as "IFRS EU".

In our opinion, the accompanying annual financial statements of Polskie Górnictwo Naftowe i Gazownictwo S.A.:

- give true and fair view of the financial position of the Company as of December 31, 2019, and of its financial performance and its cash flows for the financial year then ended in accordance with IFRS EU and applied accounting principles (policies),
- comply, in all material respects, as to the form and content, with the Regulation of the Minister of Finance of 29 March 2018 on current and periodic information to be published by issuers of securities and conditions for recognizing as equivalent the information required by laws of non-EU member states (Dz.U. [Journal of Laws] of 2018, item 757 as amended), hereinafter referred to as the "Regulation on Current and Periodic Information", the Accounting Act of 29 September 1994 (Dz.U. [Journal of Laws] of 2019, item 351 as amended), hereinafter referred to as the "Accounting Act", IFRS EU as well as with provisions of the Company's articles of association—that affect its content have been prepared, in all material respects, based on the properly kept accounting records in accordance with the provisions of Chapter 2 of the Accounting Act.

Basis for Opinion

We conducted our audit of the financial statements in accordance with the National Standards on Auditing being International Standards on Auditing as adopted in Poland by the National Chamber of Statutory Auditors, hereinafter referred to as “National Standards on Auditing”, applicable to audit of financial statements prepared for the periods ended on 31 December 2018, and the Act of 11 May 2017 on Statutory Auditors, Audit Firms and the Public Oversight (Dz.U. [Journal of Laws] of 2019, item 1421, as amended), hereinafter referred to as the “Act on Statutory Auditors”, and also 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 (OJ L 158 of 27 May 2014, p. 77 and OJ L 170, of 11 June 2014, p. 66), hereinafter referred to as “Regulation 537/2014”.

Our responsibilities under those standards are further described in the “*Statutory Auditor’s Responsibilities for the Audit of the Financial Statements*” section of our report.

We are independent of the Company in accordance with the Code of Ethics of Professional Accountants of the International Federation of Accountants, hereinafter referred to as the “IFAC Code”, adopted by a resolution of the National Chamber of Statutory Auditors and the independence requirements specified in the Act on Statutory Auditors and Regulation 537/2014. We have also fulfilled our other ethical responsibilities required by the Act on Statutory Auditors, Regulation 537/2014 and IFAC Code.

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

Key audit matters, including most significant assessed risks of material misstatement presented in accordance with the requirements of Regulation 537/2014

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. They are determined from:

- a) areas of higher assessed risk of material misstatement,
- b) significant risks,
- c) significant auditor judgments relating to areas in the financial statements that involved significant management judgments,
- d) the effect on the audit of significant events and transactions that occurred during the period.

At the same time, under Regulation 537/2014, we are obliged to present in the audit report most significant assessed risks of material misstatements, including those which we did not assess as the key audit matter. Significant risks of material misstatement are identified and assessed risks of material misstatement that, in the auditor’s judgment, require special audit consideration.

The key audit matters presented below comprise all most significant assessed risks of material misstatement referred to in Regulation 537/2014 as well as other matters regarded by the auditor as key audit matters.

The key audit matters and significant risks were addressed in the context of our audit of the annual financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter: *Impairment of property, plant and equipment*

Was the key audit assessed as a significant risk?: YES

Description of the key audit matter	How the matter was addressed in the audit
<p>As at December 31, 2019, the net book value of of property, plant and equipment amounted to PLN 12,423 million, representing 30.3% of the Company's assets. Accumulated impairment on property, plant and equipment as at that date were estimated at PLN 3,564 million.</p> <p>In accordance with IAS 36 Impairment of Assets, at the end of each reporting period an entity assesses whether there is any indication of impairment of property, plant and equipment and tests these assets for impairment if any such indication exists. Impairment tests are carried out on assets, grouped into cash-generating units.</p> <p>The matter was identified as significant risk of material misstatement due to its the value as well as due to complexity of assumptions and estimates in the impairment tests carried out on these assets as at 31 December 2019.</p> <p>Note 5.1.4 to the separate financial statements prepared for the financial year ended December 31, 2019 contains disclosures on the impairment tests carried out, key assumptions made when carrying them out and on impairment c.</p>	<p>Our procedures included in particular:</p> <ul style="list-style-type: none"> – understanding the process, including the internal control environment, of identification of indications and assessment of impairment of property, plant and equipment, – evaluation of appropriateness of the applied accounting policies for property, plant and equipment with the relevant financial reporting standards, – critical assessment of the valuation model based on future cash flows, – critical assessment of the assumptions and estimates made by the Company's management; in particular, verification of the input data for the model against the source documents and analysis of reasonableness of the assumptions, – verification of mathematical accuracy of the model and reconciliation of the resulting impairment losses with the accounting records and financial statements, – evaluation of the adequacy of disclosures on impairment of property, plant and equipment in the light of financial reporting standards.

Key audit matter: *Impairments of shares*

Was the key audit matter assessed as a significant risk?: **YES**

Description of the key audit matter	How the matter was addressed in the audit
<p>As at December 31, 2019, shares amounted to PLN 10,285 million, representing 25.1% of the Company's assets. Shares are measured at acquisition price less impairment losses.</p> <p>At the end of each reporting period the Company's Management Board assesses whether there is any indication of impairment of these assets and tests them for impairment if any such indication exists.</p> <p>The results of impairment tests depend on the assumptions made about future cash flows and the discount rate. These projections are subject to uncertainty due to the changing market conditions.</p> <p>The matter was identified as a significant risk of material misstatement due to the materiality of equity instruments, as well as the element of professional judgment of the Company's Management Board, and complex assumptions and estimates in the impairment tests.</p> <p>Notes 7.1 and 7.2 to the separate disclose information on on impairment of shares.</p>	<p>Our procedures included in particular:</p> <ul style="list-style-type: none"> – understanding the process, including the internal control environment, of assessment of impairment of shares, – evaluation of appropriateness of the applied accounting principles (policies) for shares with the relevant financial reporting standards, – critical analysis of key indications of impairment of shares, – discussions with key personnel on financial projections and business plans of significant entities in which the Company holds shares, – critical assessment of the assumptions made by the Company's management in the valuation model, – critical assessment of the model and the correctness of its design, – verification of the mathematical accuracy and reconciliation of the resulting impairment charges with the accounting records and financial statements, – evaluation of the adequacy of disclosures on impairment of shares in the financial statements in the light of financial reporting standards.

Other Matters

The financial statements of the Company for the year ended on 31 December 2018 were audited by a statutory auditor acting on behalf of another audit firm, who expressed an unqualified on these financial statements on March 13, 2019.

Other information included in the annual report

Other information comprises the financial and non-financial information included in the annual report, other than the financial statements or the audit report. Other information comprises *inter alia* the report on the Company's activities for the year ended on 31 December 2019 along with the corporate governance statement referred to in Article 49(2a) of the Accounting Act.

The Management Board of the Company and members of the Supervisory Board respectively are responsible for preparing other information.

Our opinion on the financial statements does not cover the other information and, unless otherwise stated in the “*Report on Other Legal and Regulatory Requirements*” section, we do not express any form of assurance conclusion thereon. Additionally, the scope of our work and the character of our assurance are exclusively as we have described.

In connection with the audit of the financial statements, in accordance with the National Standards on Auditing, our responsibility is to read the other information, and doing so, consider whether the other information is not materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appear to be materially misstated.

If based on the work that we performed on the other information we obtained prior to the date of this audit report, we conclude that there is a material misstatement of this other information, we are required to report the fact. We have nothing to report with this regard.

Responsibilities of the Management Board and the Supervisory Board for the financial statements

The Management Board of the Company is responsible for the preparation of the annual financial statements that give true and fair view in accordance with IFRS EU, their compliance with applicable laws and regulations and the Company’s articles of association, as well as for keeping the accounting records in accordance with the Accounting Act.

The Management Board is also responsible for such internal control as management deems necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The Management Board is responsible for assessing the Company’s ability to continue as a going concern, disclosing in the financial statements, as applicable, matters related to going concern. While choosing the accounting principles and policies and preparing the financial statements, the Company’s Management Board is also responsible for assuming that the entity will continue as a going concern in the foreseeable future with its business not materially curtailed, unless the Company’s Management Board intends to effect liquidation or discontinue operation or when there is no other realistic possibility that the operation will continue.

The Supervisory Board members are responsible for supervising the process of the Company’s financial reporting.

Under the Accounting Act, the Company’s Management Board and members of the Supervisory Board are obliged to ensure that the annual financial statements meet the requirements of the Accounting Act.

Statutory Auditor’s Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance as to whether the financial statements as a whole are free from material misstatement, whether 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 is not a guarantee that an audit conducted in accordance with the above mentioned standards 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.

While carrying out the audit, in compliance with the National Standards on Auditing:

- we exercise professional judgment and maintain professional skepticism and
- 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 or other irregularities is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control and may relate to any area of law and regulations, not only the one that directly impacts the financial statements.
- 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 principles (policies) used and the reasonableness of accounting estimates and related disclosures made by the Company's Management Board;
- conclude on the appropriateness of use by the Company's Management Board of the going concern basis while applying the adopted accounting principles (policies) 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 audit report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion about the financial statements. Our conclusions are based on the audit evidence obtained up to the date of our audit 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 accurately.

We communicate with the 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 have submitted to the Audit Committee a statement confirming our observance of the relevant standards of ethics relating to independence and that we will inform the Committee of any relations and other matters that could be rationally regarded as posing a threat to our independence, and where applicable, we inform about the safeguards applied.

Our audit does not involve any assurance on the future viability of the Company nor the efficiency nor effectiveness with which the Company's Management Board has conducted or will conduct the affairs of the Company.

From the matters communicated with the Supervisory Board, 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 audit report in the "*Key audit matters (issues) and material risks of misstatement presented in accordance with Regulation 537/2014*" section, with the exception of matters in case of which law or regulation preclude 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.

Under the Act on Statutory Auditors, we are also obliged to express in the audit report an opinion on whether financial statements comply, in terms of their form and content, with applicable laws as well as the Company's articles of association and whether they have been prepared based on the properly kept accounting records. We report on these matters based on the work undertaken in the course of the audit.

Report on Other Legal and Regulatory Requirements

Information on other obligations related to financial statements

Regulatory requirements of Article 44 of the Act of 10 April 1997 on Energy Law (Dz.U. [Journal of Laws] of 2019, item 755 as amended), hereinafter referred to as the "Energy Law".

Relevant separate items of the balance sheet and the profit and loss account for each business activity conducted, such as trading in gas fuel and other activities, disclosed in Note 8.3 of other explanatory information, comply, in all material respects, with requirements related to avoidance of discrimination of customers and cross-subsidisation between these activities defined in Article 44.2 of the Energy Law.

Report on activities

The report on activities and the consolidated report on activities of PGNiG Capital Group have been prepared as a single document in electronic format as a file entitled *Sprawozdanie Zarządu z działalności GK PGNiG za 2019 r.pdf*, signed with electronic signatures by the Management Board of the Company on March 10, 2020.

Responsibilities of the Management Board and the Supervisory Board

The Management Board of the Company is responsible for preparation of the report on activities in compliance with the law. The Management Board of the Company and members of the Supervisory Board are required to ensure that the report on activities complies with the Accounting Act.

Responsibilities of the Statutory Auditor

Under the Act on Statutory Auditors and the Regulation on Current and Periodic Information, we are required to express an opinion on whether the report on activities has been prepared in accordance with provisions of this regulation and the Accounting Act and whether it is consistent with the information included in the annual financial statements.

Furthermore, we are also required to state, whether, in the light of the knowledge of the Company and its environment obtained during the audit, we have not identified material misstatements in the report on activities, and report on these misstatements if noted.

We are also required to express an opinion on whether the corporate governance statement, constituting a separate part of the report on activities, includes certain information indicated in the Regulation on Current and Periodic Information, and with reference to certain information included in this Regulation, whether it complies with applicable law and the information included in the annual financial statements.

We have read the report on activities, including the corporate governance statement. We considered whether it discloses the information required by these laws and whether the information included therein is consistent with the information included in the annual financial statements. With reference to certain information included in the corporate governance statement, we have examined whether it complies with the law. Reading the report on activities we also considered whether, in the light of our knowledge and understanding of the Company and its environment, it does not include material misstatements.

Opinion on the Report on Activities

In our opinion, based on the work undertaken in the course of the audit of the annual financial statements, the accompanying report on activities of Polskie Górnictwo Naftowe i Gazownictwo S.A. for the financial year ended on December 31, 2019.

- has been prepared in accordance with Article 49 of the Accounting Act and section 70 of the Regulation on Current and Periodic Information,
- the information presented therein is consistent with the information in the audited financial statements.

In the light of the knowledge of the Company and its environment obtained during the course of the audit, we have not identified material misstatements in the report on the Company's activities.

Opinion on the Corporate Governance Statement

In our opinion, based on the work undertaken in the course of the audit of the annual financial statements:

- the corporate governance statement includes the information specified in section 70(6)(5) of the Regulation on Current and Periodic Information,
- the information specified in section 70(6)(5) of this Regulation and included in the statement is consistent with applicable law and the information in the audited financial statements.

Information on the Preparation of the Non-financial Information

As required by the Act on Statutory Auditors, we report that the Management Board of the Company has included in the report on activities the information on preparation of a separate non-financial information report, referred to in Article 49b(9) of the Accounting Act and that the Management Board of the Company has prepared such a separate report. This report has been prepared together with the non-financial information report of PGNiG Capital Group as a single document.

We have not performed any attestation work relating to the separate report on the non-financial information and we do not express any form of assurance conclusion thereon.

Other information and findings required under Regulation 537/2014

Consistency of the opinion on the financial statements with the additional report to the audit committee

Our opinion on the annual financial statements is consistent with the additional report to the Audit Committee referred to in Regulation 537/2014.

Appointment of the audit firm and the period of total uninterrupted engagement

We were appointed by resolution of the Supervisory Board of Polskie Górnictwo Naftowe i Gazownictwo S.A. No. 100 / VIII / 2018 on dated December 20, 2018. We have been audited the Company for total uninterrupted period of one year.

Services other than statutory audit

To the best of our knowledge and belief, we represent that we did not provide any services other than an audit which are prohibited under the provisions of Article 5(1) of Regulation 537/2014 during the periods indicated therein.

signed digitally on the Polish original

signed digitally on the Polish original

Mariusz Kuciński
Statutory auditor no. 9802

Cezary Bąkiewicz
Statutory auditor no 12 232

Key Statutory Auditors conducting the audit
on behalf of PKF Consult Spółka z ograniczoną odpowiedzialnością Sp.k.
the audit firm number 477

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Warsaw, March 10, 2020