

# Auditor's report

passion

teamwork



quality

clarity

# Independent Auditor's Report

on annual consolidated financial statements  
of the PGNIG Capital Group  
for the financial year from January 1 to December 31, 2019

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## **INDEPENDENT AUDITOR'S REPORT ON THE ANNUAL CONSOLIDATED FINANCIAL STATEMENTS**

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

### **Report on the audit of annual consolidated financial statements**

#### **Opinion on the annual consolidated financial statements**

We have audited the accompanying annual consolidated financial statements of PGNIG Capital Group, hereinafter referred to as the "Group", where the parent company is Polskie Górnictwo Naftowe i Gazownictwo S.A. with its registered office at Marcina Kasprzaka 25, hereinafter referred to as the "Parent Company", for the financial year from January 1 to December 31, 2019, which comprise the consolidated statement of financial position as of December 31, 2019, the consolidated profit and loss account and the consolidated statement of other comprehensive income, the consolidated statement of changes in equity, the consolidated 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\_skonsolidowane\_GKPGNiG\_Y2019\_PL.pdf*, and have been signed with electronic signatures by the Management Board of the Parent Company on March 10, 2020.

The annual consolidated 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 consolidated financial statements of PGNIG Capital Group:

- give true and fair view of the financial position of the Group 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 Parent Company's articles of association.

## Basis for Opinion

We conducted our audit of the annual consolidated 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 Annual Consolidated Financial Statements*” section of our report.

We are independent of the Group 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 consolidated 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 matter a significant risk: YES**

Description of the key audit matter	How the matter was addressed in the audit
<p>As at December 31, 2019 net book value of property, plant and equipment amounted to PLN 40,002 million, representing 67,6% of the Group's assets. Accumulated impairment on property, plant and equipment as at that date was estimated at PLN 4,144 mln 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 that property, plant and equipment may be impaired 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 the value of this item, 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 6.1.3 to the consolidated financial statements prepared for the financial year ended December 31, 2019 contains disclosures on the impairment tests carried out, key assumptions made and on impairment charges.</p>	<p>Our procedures included in particular:</p> <ul style="list-style-type: none"> <li>– understanding the process, including the internal control environment, of identification of indications and assessment of impairment of property, plant and equipment,</li> <li>– evaluation of appropriateness of the applied accounting policies for property, plant and equipment with the relevant financial reporting standards,</li> <li>– critical assessment of the valuation model based on future cash flows,</li> <li>– critical assessment of the assumptions and estimates made by the Parent Company's management; in particular, verification of the input data for the model against the source documents and analysis of reasonableness of the assumptions,</li> <li>– mathematical verification of the calculations in the model as to their correctness and reconciliation of the resulting impairment charges with the books and financial statements,</li> <li>– evaluation of the adequacy of disclosures on impairment of property, plant and equipment in the light of financial reporting standards.</li> </ul>

**Key audit matter: *Impairment of investments in equity-accounted investees***

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

Description of the key audit matter	How the matter was addressed in the audit
<p>As at December 31, 2019 investments in equity-accounted investees amounted to PLN 1,564 million. They are initially recognized at the acquisition price and thereafter adjusted by the post-acquisition changed in Group's share of their net assets and impairment charges.</p> <p>At the end of each reporting period the Management Board of the Parent Entity 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 on investments in equity-accounted investees 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 significant risk of material misstatement due to its the value , as well as due to the element of professional judgment of the management of the Parent Entity, and complex assumptions and estimates in the impairment tests carried out on investments in equity-accounted investees.</p> <p>Note 2.4 to the consolidated financial statements discloses impairment of investments in equity-accounted investees.</p>	<p>Our procedures included in particular:</p> <ul style="list-style-type: none"> <li>- understanding the process, including the internal control environment, assessment of impairment of investments in equity-accounted investees,</li> <li>- evaluation of appropriateness of the applied accounting principles (policies) for investments in equity-accounted investees with the relevant financial reporting standards,</li> <li>- critical analysis of key indications of impairment of investments in equity-accounted investees,</li> <li>- discussions with key personnel involved in the impairment assessment process on financial projections and business plans of significant equity-accounted investees,</li> <li>- critical assessment of the assumptions made by the management of the Parent Entity in the valuation model,</li> <li>- critical assessment of the model and the correctness of its design,</li> <li>- mathematical verification of calculations as to their correctness and reconciliation of the value of resulting impairment losses with the financial statements,</li> <li>- evaluation of the adequacy of disclosures on impairment of investments in equity-accounted investees in the consolidated financial statements.</li> </ul>

## Other Matters

The annual consolidated financial statements of the Group 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 opinion on these financial statements on March 13, 2019.

## Other information included in the annual consolidated report

Other information comprises the financial and non-financial information included in the annual consolidated report, other than the annual consolidated financial statements or the audit report. Other information comprises *inter alia* the report on the Group's 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 and members of the Supervisory Board of the Parent Company respectively are responsible for the preparation of other information.

Our opinion on the annual consolidated financial statements does not cover the other information and, unless this is clearly 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.

Auditing, our responsibility is to read the other information, and doing so, consider whether the other information is not materially inconsistent with the consolidated 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 of the Parent Company for the annual consolidated financial statements

The Management Board of the Parent Company is responsible for the preparation of the annual consolidated financial statements that give true and fair view in accordance with IFRS EU, their compliance with applicable to the Group laws and regulations and the Parent Company’s articles of association.

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

The Management Board of the Parent Company is responsible for assessing the Group’s ability to continue as a going concern, disclosing in the annual consolidated financial statements, as applicable, matters related to going concern. While choosing the Group’s accounting principles and policies and preparing the annual consolidated financial statements, the Parent Company’s Management Board is also responsible for assuming that the Group will continue as a going concern in the foreseeable future with its business not materially curtailed, unless the Parent 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 members of the Parent Company’s Supervisory Board are responsible for supervising the process of the Group’s financial reporting.

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

### Statutory Auditor’s Responsibilities for the Audit of the Annual Consolidated Financial Statements

Our objectives are to obtain reasonable assurance as to whether the annual consolidated 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 annual consolidated 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 annual 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 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 annual consolidated 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 Group's internal control;
- evaluate the appropriateness of accounting principles (policies) used and the reasonableness of accounting estimates and related disclosures made by the Parent Company's Management Board;
- conclude on the appropriateness of use by the Parent 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 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 audit report to the related disclosures in the annual consolidated financial statements or, if such disclosures are inadequate, to modify our opinion about the annual consolidated 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 Group to cease to continue as a going concern.
- evaluate the overall presentation, structure and content of the annual consolidated financial statements, including the disclosures, and whether the annual consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation;
- obtain audit evidence that is sufficient and appropriate with respect to the financial information of entities and business activities within the Group to express our opinion on the annual consolidated financial statements. We are responsible for the direction, supervision and performance of the audit of the annual consolidated financial statements and remain solely responsible for our audit opinion.

We communicate with the Supervisory Board and the Audit Committee of the Parent Company 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 of the Parent Company 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 Group nor the efficiency nor effectiveness with which the Parent Company's Management Board has conducted or will conduct the affairs of the Group.

From the matters communicated with the Supervisory Board of the Parent Company, we determine those matters that were of most significance in the audit of the annual consolidated 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 the annual consolidated financial statements comply, in terms of their form and content, with the provisions of law applicable to the Group as well as the Parent Company's articles of association. We report on these matters based on the work undertaken in the course of the audit.

## Report on Other Legal and Regulatory Requirements

### Report on Group's Activities

The report on the Group's activities 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 Parent Company on March 10, 2020.

#### *Responsibilities of the Management Board and the Supervisory Board of the Parent Company for the Consolidated Financial Statements*

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

#### *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements*

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 the Group's 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 consolidated financial statements.

Furthermore, we are also required to state, whether, in the light of the knowledge of the Group and its environment obtained during the audit, we have not identified material misstatements in the report on the Group's 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 the Group's 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 consolidated financial statements.

We have read the report on the Group's 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 consolidated 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 of the Group and its environment, it does not include material misstatements.

#### *Opinion on the Report on the Group's Activities*

In our opinion, based on the work undertaken in the course of the audit of the annual consolidated financial statements, the accompanying report on activities of PGNiG Capital Group 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 information in the audited annual consolidated financial statements.

In the light of the knowledge of the Group and its environment obtained during the course of the audit, we have not identified material misstatements in the report on the Group'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 consolidated 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 annual 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 Parent Company has included in the report on the Group's 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 Parent Company has prepared such a separate report. This report was 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 annual consolidated financial statements with the additional report to the audit committee

Our opinion on the annual consolidated 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 audit 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 auditing the annual consolidated financial statements of the Parent Company for the 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

Mariusz Kuciński  
Statutory auditor no. 9802

signed digitally on the Polish original

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