

Auditor's report

passion

teamwork



quality

clarity

Independent Auditor's report

on the annual consolidated financial statements
of the PGNIG Capital Group
for the financial year
from January 1st to December 31st, 2020



This document is a free translation of the independent auditors' report issued in Polish in electronic format. Terminology current in Anglo-Saxon countries has been used where practicable for the purposes of this translation to enhance understanding. The binding Polish original should be referred to in matters of interpretation.

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

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

Report on the audit of the 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 in Warsaw at ul. Marcina Kasprzaka 25, hereinafter referred to as the "Parent Company", for the financial year from January 1st to December 31st, 2020, which comprise of the consolidated profit and loss account and the consolidated statement of comprehensive income for the financial year ended December 31st, 2020, the consolidated statement of financial position as at December 31st, 2020, the consolidated statement of changes in equity, the consolidated statement of cash flows for the financial year ended December 31st, 2020 and related notes including significant accounting principles (policies) and other explanatory information.

The financial statements have been prepared in a single electronic reporting format as a single reporting package entitled esef_pgnig-2020-12-31.zip, and have been signed with electronic signatures by the Management Board of the Parent Company on March 23th, 2021.

The annual consolidated financial statements have been prepared in accordance with applicable financial reporting framework of 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 31st, 2020, 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),
- have been prepared, in all material respects, in accordance with requirements of the Commission Delegated Regulation (EU) 2019/815 of 17 December 2018 supplementing Directive 2004/109/EC of the European Parliament and of the Council with regard to regulatory technical standards on the specification of a single electronic reporting format (OJ L 143 of 29 May 2019, p. 1), hereinafter referred to as the „ESEF Regulation”
- 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 that affect its content.

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 December 31st, 2020, and the Act of 11 May 2017 on Statutory Auditors, Audit Firms and the Public Oversight (Dz.U. [Journal of Laws] of 2020, item 1415, 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 International Code of Ethics of Professional Accountants (including the International Independence Standards), hereinafter referred to as the "IFAC Code", adopted by a resolution of the National Chamber of Statutory Auditors and the requirements of independence 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 misstatements 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 annual consolidated financial statements of the current period. They are determined from:

- areas of higher assessed risk of material misstatement,
- significant risks,
- significant auditor judgments relating to areas in the financial statements that involved significant management judgments,
- 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 required 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 determined as key audit matters.

The key audit matters and material misstatement 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 most significant assessed risks of material misstatements?: YES

Description of the key audit matter	How the matter was addressed in the audit
<p>As at December 31st, 2020, the net book value of property, plant and equipment amounted to PLN 42, 565 million, which represented 67.7% of the Company's assets. Accumulated impairment on property, plant and equipment as at that date were estimated at PLN 5,704 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 value as well as due to complexity of assumptions and estimates in the impairment tests carried out on these assets as at December 31st, 2020.</p> <p>Note 6.1.3 <i>Impairment of non-financial assets</i> and note 6.1.1 <i>Property, plant and equipment and related provisions</i> of the explanatory notes to assets and other liabilities contain disclosures on the principles of estimating impairment of property, plant and equipment, impairment tests, key assumptions adopted in their performance and impairment allowances.</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, - obtaining impairment tests prepared by the Company for property, plant and equipment, - a critical assessment of the assumptions adopted by the Management Board of the Company for impairment tests of cash generating units; in particular, verification and analysis of the rationality of assumptions affecting future cash flows and discount rates, - mathematical verification of the calculation correctness and reconciliation of the recognition of the resulting impairments to the books 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: Impairment of investments in entities accounted for using the equity method

Was the key audit matter a most significant assessed risks of material misstatements?: YES

Description of the key audit matter	How the matter was addressed in the audit
<p>As at December 31st, 2020, investments in entities accounted for using the equity method amounted to PLN 966 million. Initially, they are recognized at cost, and then the Group's share in changes in net assets that occurred from the date of the joint-control to the balance sheet date is taken into account, and decreased by impairment losses.</p> <p>The Management Board of the Parent Entity at the end of each reporting period assesses whether there are any premises for impairment of these assets and performs tests for impairment, if such premises exist.</p> <p>The results of tests for impairment of investments in entities accounted for using the equity method depend on the adopted assumptions regarding future cash flows and the discount rate. These forecasts bear a significant risk of volatility due to changing market conditions.</p> <p>The issue was considered a significant risk of material misstatement due to the value of a given item, as well as due to the element of</p>	<p>Our procedures included in particular:</p> <ul style="list-style-type: none"> - understanding the process, including the internal control environment, assessing the impairment of investments in equity-accounted entities, - assessment of compliance of the adopted accounting principles (policy) with regard to investments in entities accounted for using the equity method with the relevant financial reporting standards, - evaluation of the valuation methodology, - obtaining of impairment tests for these assets prepared by the Parent's Management Board; - analysis of key premises for impairment of investments in entities accounted for using the rights method, - interviews with key persons involved in the impairment assessment process regarding financial projections and business plans of significant entities accounted for using the equity method. - a critical assessment of the assumptions adopted by the Management Board of the Parent Entity used to estimate the value



professional judgment of the Parent's management and the complexity of assumptions and estimates in the tests for impairment of investments in entities measured with the equity method.

Note 2.4 *Equity-accounted investees* and note 2.4.1 *Material restrictions of the ability to transfer earnings from interests in joint ventures to the Group* in the notes to the statement of financial position of the consolidated financial statements include disclosures on the principles of measurement and impairment of investments in joint ventures. entities accounted for using the equity method.

of tested assets, in particular verification and analysis of the rationality of assumptions affecting future cash flows and discount rates,

- mathematical verification of the calculation correctness and reconciliation of the value of impairment resulting from it to the financial statements.
- assessment of the adequacy of disclosures in the consolidated financial statements in terms of impairment of investments in entities accounted for using the equity method required in financial reporting standards.

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 thereon. Other information comprises *inter alia* the consolidated management report for the year ended on December 31st 2020 along with the corporate governance statement referred to in Article 49(2a) of the Accounting Act, which are separate parts of this management report and the non-financial information report referred to in Article 49b(9) of the Accounting Act, for the year then ended.

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 our assurance are exclusively as we have described.

In connection with the audit of the annual consolidated financial statements, in accordance with the National Standards on Auditing, we are required to read other information while conducting the audit, examine whether the other information is not materially inconsistent with the annual consolidated financial statements or our knowledge gained during the audit or if it does not otherwise seem 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 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.

In preparing consolidated financial statements, the Management Board of the Parent Company is responsible for assessing the Group's ability to continue as a going concern, disclosing, as

applicable, matters related to going concern and using the going concern basis of accounting unless management wither intends to liquidate or to cease operations, or has no realistic alternative but to do so

The members of the Parent Company's Supervisory Board are responsible for overseeing the financial reporting process of the Group.

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 that we have complied with the relevant ethical requirements regarding independence and have communicated with the Committee all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

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 required to express in the audit report an opinion on whether the annual consolidated financial statements comply, at to 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.

As regards the preparation of consolidated financial statements in accordance with the requirements of the ESEF Regulation, our procedures included, among others:

- assessment of compliance with the technical requirements for the specification of a single electronic reporting format,
- reconciliation of tagged data and information into the human-readable layer of that financial statement audited.
- checking the completeness of labelling data and information using XBRL tags,
- assessment of the correctness of the applied XBRL tags from the basic taxonomy,
- verification of the correct application and anchoring of the extended taxonomy tags.

Report on Other Legal and Regulatory Requirements

Report on the consolidated management report

The report on the consolidated management report and the consolidated report on the operations of Company Polskie Górnictwo Naftowe i Gazownictwo S.A. have been prepared as a single document in electronic format as a file entitled *Sprawozdanie Zarządu Działalności GKGPNiGza2020.xhtml*, signed with electronic signatures the Management Board of the Parent Company on March 23th 2021.

Responsibilities of the Management Board and the Supervisory Board of the Parent Company

The Management Board of the Parent Company is responsible for preparation of the consolidated management report 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.

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 consolidated management report has been prepared in accordance with 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 course of the audit, we have not identified material misstatements in the consolidated management report, 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 consolidated financial report, includes certain information enumerated in the Regulation on Current and Periodic Information, and with reference to certain information enumerated in this Regulation, whether it complies with applicable law and the information included in the annual consolidated financial statements.

We have read the consolidated management report, 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 consolidated management report 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 consolidated management report

In our opinion, based on the work undertaken in the course of the audit of the annual consolidated financial statements, the accompanying consolidated management report of PGNIG Capital Group for the financial year ended on December 31st 2020:

- was 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 operations

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) letter c)-f), h) and i) 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 operations 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 engagement

We were selected to audit the annual consolidated financial statements of the Group under a resolution of Polskie Górnictwo Naftowe i Gazownictwo S.A. No. 100 / VIII / 2018 on dated December 20, 2018.. We have been engaged to audit financial statements of the Group, for a period of 2 subsequent years.

Non-audit services

To the best of our knowledge and belief, we declare that we did not provide any non-audit services 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 23th 2021

