

# Auditor's report

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Accountants &  
business advisers

# 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<sup>st</sup> to December 31<sup>st</sup>, 2021



*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 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 in Warsaw at Marcina Kasprzaka 25, hereinafter referred to as the "Company", for the financial year from January 1<sup>st</sup> to December 31<sup>st</sup>, 2021, which comprise the profit and loss account, the statement of comprehensive income for the financial year from ended December 31<sup>st</sup>, 2021, the statement of financial position as of December 31<sup>st</sup>, 2021, the statement of changes in equity and the statement of cash flows for the financial year then ended December 31<sup>st</sup>, 2021 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_Y2021_PL.xhtml`, and have been signed with electronic signatures by the Management Board of the Company on March 22<sup>nd</sup>, 2022.

The annual 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 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<sup>st</sup> 2021, 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 2021, item 217 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 December 31<sup>st</sup> 2021, 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 Financial Statements" section of our report.

We are independent of the Company 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 (issues), including material risks of 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:

- 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, 2021, the net book value of property, plant and equipment amounted to PLN 11 961 million, which represented 17,1% of the Company's assets. Accumulated impairment on property, plant and equipment as at that date were estimated at PLN 3,763 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, 2021.</p> <p>Note 5.1.4 Impairment of non-financial assets and note 5.1.1 Property, plant and equipment 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"> <li>- understanding the process, including the internal control environment, 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>- obtaining impairment tests prepared by the Company for property, plant and equipment,</li> <li>- 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,</li> <li>- mathematical verification of the calculation correctness and reconciliation of the recognition of the resulting impairments to 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: Impairments of shares

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

Description of the key audit matter	Description of the key audit matter
<p>As at December 31st, 2021, shares amounted to PLN 10,514 million, which represented 15% of the Company's assets. Shares are measured at acquisition price less impairment losses.</p> <p>In accordance with IAS 36 Impairment of Assets at the end of each reporting period, the Management Board of the Company assesses</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 the impairment of shares and stocks,</li> <li>- compliance assessment of the adopted accounting principles (policy) in terms of shares and stocks with the relevant financial reporting standards,</li> </ul>



whether there are any premises for impairment of these assets and conducts a test for impairment, if such premises exist.

The results of tests for the impairment of shares and stocks depend on the adopted assumptions regarding future cash flows and the discount rates. These forecasts bear a significant risk of volatility due to changing market conditions.

The issue was considered a significant risk of material misstatement due to the significant value of shares and stocks, as well as due to the element of professional judgment of the Management Board of the Company and the complexity of assumptions and estimates in the conducted impairment test of value of shares and shares.

Note 7.1 Shares and note 7.2 Impairment losses on shares of the explanatory notes to assets and other liabilities contain disclosures on the principles of valuation and impairment of shares and stocks.

- evaluation of the impairment losses estimation methodology,
- obtaining of asset impairment tests prepared by the Company;
- analysis of key premises for impairment of shares and stocks,
- interviews with key employees regarding financial projections and business plans of significant entities in which the Company holds shares or stocks.
- a critical assessment of the assumptions adopted by the Management Board of the Company used to estimate the value 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 recognition of the resulting write-offs to the books and financial statements.
- assessment of the adequacy of disclosures in the financial statements with regard to the impairment of shares and stocks required in the financial reporting standards..

### 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 thereon. Other information comprises inter alia the report on the management report for the year ended on December 31<sup>st</sup>, 2021 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 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 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.

In connection with the audit of the financial statements, in accordance with the National Standards on Auditing, we are obliged to read other information while conducting the audit, examine whether the other information is not materially inconsistent with the 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 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.

In preparing financial statements, the Management Board is responsible for assessing the Company'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 the Company or to cease operations, or has no realistic alternative but to do so.

The Supervisory Board members are responsible for overseeing the financial reporting process.

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 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 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 required to express in the audit report an opinion on whether financial statements comply, as to 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 legal obligations on the financial statements

Regulatory requirements of Article 44 of the Act of 10 April 1997 on Energy Law (Dz.U. [Journal of Laws] of 2021, item 718 as amended), hereinafter referred to as the "Energy Law"

The selected financial data of the company disclosed in note 8.3 Selected financial figures of the Company, disclosed under Art. 44.2 of the Polish Energy Law in the other explanatory notes, the relevant items of the balance sheet and the profit and loss account, prepared separately for each business activity in the field of trade in gaseous fuels and other activities, meet, in all material respects, the requirements for ensuring equal treatment of customers and eliminating cross-subsidization between these activities specified in Art. 44 sec. 2 of the Energy Law.

### The management report

The management report and the consolidated management report have been prepared as a single document in electronic format as a file entitled `Sprawozdanie_Zarzadu_z_dzialalnosci_GK_PGNiG_i_PGNiG_SA_za_2021_r.xhtml`, signed with electronic signatures the Management Board of the Company on March 22<sup>nd</sup>, 2022.

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

### Responsibilities of the Management Board and the Supervisory Board

The Management Board of the Company is responsible for preparation of the management report in compliance with the law. The Management Board of the Company and members of the Supervisory Board are required to ensure that the management report 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 management report has been prepared in accordance with 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 course of the audit, we have not identified material misstatements in the 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 management report, includes certain information enlisted in the Regulation on Current and Periodic Information, and with reference to certain information enlisted in this Regulation, whether it complies with applicable law and the information included in the annual financial statements.

We have read the 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 financial statements. With reference to certain information included in the corporate governance statement, we have examined whether it complies with the law. Reading the management report 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 management report

In our opinion, based on the work undertaken in the course of the audit of the annual financial statements, the accompanying management report of Polskie Górnictwo Naftowe i Gazownictwo S.A. for the financial year ended on December 31<sup>st</sup>, 2021:

- 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 management report.

#### 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) letter c)-f), h) and i) of this Regulation and included in the statement is consistent

signed digitally on the Polish original

Mariusz Kuciński  
Statutory auditor no. 9802

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 management report 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 separate report on the non-financial information and we do not express any form of assurance conclusion thereon.

#### Other information and statements 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 to audit the annual financial statements of the Company under a resolution of Polskie Górnictwo Naftowe i Gazownictwo S.A. no 23/VIII/2020 dated January 23<sup>rd</sup>, 2020 We have been engaged to audit financial statements of the Company, as a public interest entity, including previous renewals and reappointments, for a period of 3 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

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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Warszaw, March 22th, 2022

