CONSOLIDATED FINANCIAL STATEMENTS OF THE PGNIG GROUP FOR 2020

PREPARED IN ACCORDANCE WITH THE INTERNATIONAL FINANCIAL REPORTING STANDARDS AS ENDORSED BY THE EUROPEAN UNION

2020

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Financial statements

Consolidated statement of profit or loss	Note	2020	2019
Revenue from sales of natural gas*	Note 3.1.	27,715	30,430
Other revenue	Note 3.1.	11,482	11,593
Revenue		**39,197**	**42,023**
Cost of gas	Note 3.2.	(19,808)	(26,686)
Effect of annex executed with PAO Gazprom/OOO Gazprom Export on cost of gas in 2014–2019	Note 3.2.	4,915	-
Other raw materials and consumables used	Note 3.2.	(3,224)	(2,977)
Employee benefits expense	Note 3.2.	(3,381)	(3,168)
Transmission services		(1,048)	(1,053)
Other services	Note 3.2.	(1,888)	(1,828)
Taxes and charges		(911)	(782)
Other income and expenses	Note 3.3.	(159)	(442)
Work performed by the entity and capitalised		1,102	1,076
Recognition and reversal of impairment losses on property, plant and equipment and intangible assets	Note 3.2.	(1,786)	(659)
Operating profit before depreciation and amortisation (EBITDA)	Note 2.2.	**13,009**	**5,504**
Depreciation and amortisation expense	Note 2.2.	(3,424)	(3,056)
Operating profit (EBIT)	Note 2.2.	**9,585**	**2,448**
Net finance costs	Note 3.4	35	(54)
Profit/(loss) from equity-accounted investees	Note 2.4.	(595)	(235)
Profit before tax		**9,025**	**2,159**
Income tax	Note 4.1.	(1,685)	(788)
Net profit		**7,340**	**1,371**
Net profit attributable to:			
Owners of the parent		7,340	1,371
Non-controlling interests		-	-
Weighted average number of ordinary shares (million)		5,778	5,778
Basic and diluted earnings per share (PLN)	Note 3.5.	1.27	0.24

Consolidated statement of comprehensive income	Note	2020	2019
Net profit		**7,340**	**1,371**
Exchange differences on translating foreign operations		(10)	(14)
Hedge accounting	Note 7.1.3	(1,217)	919
Deferred tax**		231	(175)
Share of other comprehensive income of equity-accounted investees		(1)	-
Other comprehensive income subject to reclassification to profit or loss		**(997)**	**730**
Actuarial losses on employee benefits		(69)	(32)
Deferred tax		13	6
Share of other comprehensive income of equity-accounted investees		(2)	(7)
Other comprehensive income not subject to reclassification to profit or loss		**(58)**	**(33)**
Other comprehensive income, net		**(1,055)**	**697**
Total comprehensive income		**6,285**	**2,068**
Total comprehensive income attributable to:			
Owners of the parent		6,285	2,068
Non-controlling interests		-	-

**In the reporting period, the Company changed the presentation of revenue from sales of propane-butane. For details, see Note 2.3.*

***In the reporting period, the Group changed the presentation of deferred tax relative to the comparative period: PLN 19m was reclassified to the consolidated statement of changes in equity and disclosed under ‘Change in equity recognised in net inventories’. For details, see additional information on the consolidated statement of changes in equity.*

(in PLN million, unless stated otherwise)

Consolidated statement of cash flows	Note	2020	2019
Cash flows from operating activities			
Net profit		7,340	1,371
Depreciation and amortisation expense		3,424	3,056
Current tax expense		1,685	788
Net gain/(loss) on investing activities		1,618	433
Other non-cash adjustments	Note 5.5.2.	782	(384)
Income tax paid	Note 4.1.1.	(1,745)	(852)
Movements in working capital	Note 5.5.1.	1,014	526
Net cash from operating activities		**14,118**	**4,938**
Cash flows from investing activities			
Payments for acquisition of tangible exploration and evaluation assets under construction	Note 2.2.	(952)	(1,215)
Payments for other property, plant and equipment and intangible assets	Note 2.2.	(4,843)	(4,854)
Payments for shares in related entities		(2)	(1)
Payments for acquisition of short-term securities		(523)	(10)
Proceeds from sale of short-term securities		134	30
Other items, net		(68)	(102)
Net cash from investing activities		**(6,254)**	**(6,152)**
Cash flows from financing activities			
Increase in debt	Note 5.1.	496	3,851
Decrease in debt	Note 5.1.	(3,605)	(2,868)
Dividends paid	Note 5.3.	(520)	(636)
Other items, net		(24)	(20)
Net cash from financing activities		**(3,653)**	**327**
Net cash flows		**4,211**	**(887)**
Cash and cash equivalents at beginning of the period		3,037	3,925
Foreign exchange differences on cash and cash equivalents	Note 5.5.3.	(148)	(1)
Impairment losses on cash and cash equivalents	Note 5.5.3.	(2)	-
Cash and cash equivalents at end of the period		**7,098**	**3,037**

(in PLN million, unless stated otherwise)

Consolidated statement of financial position	Note	2020	2019
ASSETS			
Property, plant and equipment	Note 6.1.1.	42,565	40,002
Intangible assets	Note 6.1.2.	693	729
Deferred tax assets	Note 4.1.2.	42	32
Equity-accounted investees	Note 2.4.	966	1,564
Derivative financial instruments		143	237
Other assets	Note 8.2.	1,834	1,375
Non-current assets		**46,243**	**43,939**
Inventories	Note 6.2.1.	2,684	4,042
Receivables	Note 6.2.2.	5,288	5,504
Derivative financial instruments	Note 7.2.	1,310	2,390
Other assets	Note 8.2.	217	259
Cash and cash equivalents	Note 5.4.	7,098	3,037
Assets held for sale	Note 8.1.	31	14
Current assets		**16,628**	**15,246**
TOTAL ASSETS		**62,871**	**59,185**
EQUITY AND LIABILITIES			
Share capital and share premium		7,518	7,518
Hedging reserve		(16)	739
Accumulated other comprehensive income		(315)	(246)
Retained earnings		36,939	30,097
Equity attributable to owners of the parent		44,126	38,108
Equity attributable to non-controlling interests		(1)	(1)
TOTAL EQUITY		**44,125**	**38,107**
Financing liabilities	Note 5.1.	3,859	3,507
Derivative financial instruments		285	20
Employee benefit obligations	Note 6.3.1.	1,046	890
Provision for decommissioning, restoration and environmental remediation costs	Note 6.3.2.	3,241	2,510
Other provisions	Note 6.3.3.	135	124
Grants	Note 6.3.4.	695	705
Deferred tax liabilities	Note 4.1.2.	2,228	2,383
Other liabilities	Note 6.3.5.	177	239
Non-current liabilities		**11,666**	**10,378**
Financing liabilities	Note 5.1.	325	3,245
Derivative financial instruments	Note 7.2.	1,113	1,277
Trade and tax payables*	Note 6.2.3.	3,297	3,487
Employee benefit obligations	Note 6.3.1.	468	398
Provision for decommissioning, restoration and environmental remediation costs	Note 6.3.2.	70	61
Other provisions	Note 6.3.3.	789	701
Grants	Note 6.3.4.	49	48
Other liabilities	Note 6.3.5.	969	1,483
Current liabilities		**7,080**	**10,700**
TOTAL LIABILITIES		**18,746**	**21,078**
TOTAL EQUITY AND LIABILITIES		**62,871**	**59,185**

**Including income tax: PLN 168m (2019: PLN 132m)*

(in PLN million, unless stated otherwise)

Consolidated statement of changes in equity

	Equity attributable to owners of the parent										
	Share capital and share premium, including:			Accumulated other comprehensive income:						Equity attributable to non-controlling interests	Total equity
	Share capital	Share premium	Hedging reserve	Translation reserve	Revaluation of financial assets available for sale	Actuarial gains/(losses) on employee benefits	Share of other comprehensive income of equity-accounted investees	Retained earnings	Total		
As at Jan 1 2019	**5,778**	**1,740**	**73**	**(112)**	**-**	**(91)**	**0**	**29,246**	**36,634**	**(2)**	**36,632**
Impact of IFRS 16	-	-	-	-	-	-	-	119	**119**	**-**	**119**
Net profit	-	-	-	-	-	-	-	1,371	**1,371**	-	**1,371**
Other comprehensive income, net*	-	-	744	(14)	-	(26)	(7)	-	**697**	-	**697**
Total comprehensive income	**-**	**-**	**744**	**(14)**	**-**	**(26)**	**(7)**	**1,371**	**2,068**	**-**	**2,068**
Change in equity recognised in net inventories*	-	-	(78)	-	-	-	-	-	**(78)**	-	**(78)**
Dividend	-	-	-	-	-	-	-	(636)	**(636)**	-	**(636)**
Changes in the Group	-	-	-	4	-	-	-	(3)	**1**	1	**2**
As at Dec 31 2019	**5,778**	**1,740**	**739**	**(122)**	**-**	**(117)**	**(7)**	**30,097**	**38,108**	**(1)**	**38,107**
Net profit	-	-	-	-	-	-	-	7,340	**7,340**	-	**7,340**
Other comprehensive income, net	-	-	(986)	(10)	-	(56)	(3)	-	**(1,055)**	-	**(1,055)**
Total comprehensive income	**-**	**-**	**(986)**	**(10)**	**-**	**(56)**	**(3)**	**7,340**	**6,285**	**-**	**6,285**
Change in equity recognised in net inventories	-	-	231	-	-	-	-	-	**231**	-	**231**
Dividend	-	-	-	-	-	-	-	(520)	**(520)**	-	**(520)**
Changes in the Group	-	-	-	-	-	-	-	22	**22**	-	**22**
As at Dec 31 2020	**5,778**	**1,740**	**(16)**	**(132)**	**-**	**(173)**	**(10)**	**36,939**	**44,126**	**(1)**	**44,125**

** In the reporting period, the Group changed the presentation of deferred tax disclosed in the consolidated statement of comprehensive income relative to the presentation for the period ended December 31st 2019. The change consisted in the reclassification of deferred tax calculated on hedge accounting to the extent recognised in inventories, previously presented in the consolidated statement of comprehensive income, directly to the consolidated statement of changes in equity, where it was disclosed under 'Change in equity recognised in net inventories'. As a result, the line item 'Change in equity recognised in inventories' is presented on a net basis, i.e. including deferred tax. The comparative data for the period ended December 31st 2019 was adjusted for PLN 19m.*

(in PLN million, unless stated otherwise)

1. General information

1.1 Key information about the PGNiG Group and basis of preparation of the financial statements

1.1.1 The Group

Company name	Polskie Górnictwo Naftowe i Gazownictwo Spółka Akcyjna
Address of registered office	ul. Marcina Kasprzaka 25, 01-224 Warsaw, Poland
Court of registration	District Court for the Capital City of Warsaw, 13th Commercial Division of the National Court Register, Poland
KRS	0000059492
Industry Identification Number (REGON)	012216736
Tax Identification Number (NIP)	525-000-80-28
Principal place of business	Poland

Polskie Górnictwo Naftowe i Gazownictwo Spółka Akcyjna is the parent ("PGNiG S.A.", "Company", "Parent") of the PGNiG Group ("PGNiG Group", "Group"). PGNiG is a joint-stock company, the company's shares are listed on the Warsaw Stock Exchange ("WSE"). In the reporting period, there were no changes in the entity's name or other identification details.

As at the date of issue of these consolidated financial statements for 2020, the State Treasury, represented by the minister competent for energy matters, was the only shareholder holding 5% or more of total voting rights in PGNiG S.A. As at December 31st 2020, there was no parent of the PGNiG Group that would prepare publicly available consolidated financial statements (nor the ultimate parent that would prepare such statements).

The PGNiG Group plays a key role in the Polish gas sector. It is responsible for national energy security, ensuring diversification of gas supplies by developing domestic deposits and sourcing gas from abroad. The Group's principal business comprises exploration for and production of natural gas and crude oil, as well as import, storage, distribution and sale of gas and liquid fuels, as well as heat and electricity generation and sale.

The PGNiG Group is a market leader in many areas of its business. In Poland, the Group is the largest importer of gas fuel (mainly from Russia and Germany), the main producer of natural gas from Polish deposits, and a significant producer of heat and electricity in Poland. The Group's upstream business is one of the key factors ensuring PGNiG's competitive position on the Polish gas market.

For further information on the Group's operating segments and consolidated entities, see Note 2.

1.1.2 Basis of preparation

These consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRS) as endorsed for application in the European Union (EU).

Rules followed in the preparation of the consolidated financial statements

These consolidated financial statements include data of the Parent, its subsidiaries, associates and joint arrangements (joint ventures and joint operations).

The financial statements of the equity-accounted consolidated entities have been prepared for the same reporting period, except for the financial statements of the Polimex-Mostostal Group, which in the consolidated financial statements of the Group is accounted for with the equity method; for more information, see Note 2.4.1.

These consolidated financial statements have been prepared based on uniform accounting policies adopted by the entities which are consolidated or accounted for with the equity method. Where necessary, adjustments are made to separate financial statements to ensure consistency between the accounting policies applied by a given entity and those applied by the Group.

Associates are accounted for in accordance with the policies presented in Note 2.4.

Joint arrangements are accounted for in accordance with the policies presented in Notes 2.4 and 8.5.

Subsidiaries are consolidated with the full method from the acquisition date (the date of assuming control of the company) until the date the control is lost. Control is exercised when the parent is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over that entity.

Acquisition of control of an entity representing a business is accounted for with the acquisition method. Identifiable acquired assets and assumed liabilities of an acquiree which is a business within the meaning of IFRS 3 are recognised as at the acquisition date and are measured at fair value. The excess of the acquisition cost (the consideration transferred (at fair value), any non-controlling interest in the acquiree measured in accordance with IFRS 3, and − in a business combination achieved in stages − the acquisition-date fair value of the acquirer's previously held equity interest in the acquiree) over the net of the acquisition-date fair value of the identifiable assets acquired and the liabilities assumed, is recognised as goodwill. If the acquisition cost is lower than the net of the acquisition-date fair value of the identifiable assets acquired and the liabilities assumed, the difference is recognised as gain in profit or loss as at the acquisition date (gain on bargain purchase). The transaction costs are recognised in profit or loss when incurred. Non-controlling interests are initially measured at the non-controlling interest's proportionate share of net assets of the acquiree or at fair value.

If the Parent loses control of a subsidiary in a reporting period, the consolidated financial statements account for the subsidiary's results for such part of the reporting year in which control was held by the Parent.

These consolidated financial statements have been prepared on the assumption that the Group companies will continue as going concerns in the foreseeable future. In view of the stable financial results and good liquidity position, as at the date of authorisation of these financial statements for issue, no circumstances were identified which would indicate any threat to the Group's continuing as a going concern.

These consolidated financial statements have been prepared in accordance with the historical cost convention, except with respect to financial assets and liabilities measured at fair value, which are discussed in Note 7.

The Polish złoty (PLN) is the functional currency of PGNiG S.A. and the presentation currency of these consolidated financial statements.

Accounting policies

Items denominated in foreign currencies

Transactions denominated in foreign currencies are initially disclosed at the exchange rate of the functional currency as at the transaction date.

At the end of a reporting period:

- Monetary items denominated in foreign currencies are translated at the exchange rate of the functional currency quoted by the National Bank of Poland for the reporting date.
- Non-cash items measured at historical cost in a foreign currency are translated at the exchange rate as at the date of the transaction.

Foreign currency differences arising on settlement of monetary items or on translating monetary items at rates different from those at which they were translated on initial recognition are taken to profit or loss. Exchange differences which are part of the portion of the gain or loss on a hedging instrument in hedge accounting are recognised in other comprehensive income.

The financial data of all foreign operations and branches which are accounted for in consolidated financial statements must be translated into the Group's presentation currency, i.e. into PLN. For this purpose, their data from the statement of financial position is translated at the mid-rate quoted for the given currency by the National Bank of Poland for the end of the reporting period, and data from the statement of profit or loss – at the rate equal to the arithmetic mean of mid rates quoted for the given currency by the National Bank of Poland for the last day of each month of the financial year.

Foreign currency differences arising on translation of assets and liabilities of foreign operations are recognised in other comprehensive income and accumulated as a separate item of equity. Upon disposal of a foreign operation, foreign exchange differences accumulated in equity are transferred to the statement of profit or loss and disclosed as part of the overall net gain/(loss) on the disposal.

To hedge against foreign currency risk, the Group enters into currency derivative contracts (for a description of the accounting policies applied by the Group to derivative financial instruments, see Note 7.2).

The date of issue of these financial statements is March 25th 2021.

1.2 Effect of new standards on the financial statements of the PGNiG Group

1.2.1 New and amended standards and interpretations

The following new and amended standards and interpretations effective as of January 1st 2020 had an effect on these consolidated financial statements:

Amendments to IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors – definition of the term 'material'.

The Group applied the amendments to IAS 1 and IAS 8 as of January 1st 2020.

Description	Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity. Materiality depends on the nature or magnitude of information, or both. An entity assesses whether information, either individually or in combination with other information, is material in the context of its financial statements taken as a whole. Information is obscured if it is communicated in a way that would have a similar effect for primary users of financial statements to omitting or misstating that information.
Effect of the standard	The change in the definition of "material" did not have a significant impact on the Group's financial statements.

Amendments to IFRS 9 Financial Instruments, IAS 39 Financial Instruments: Recognition and Measurement and IFRS 7 Financial Instruments: Disclosures – Interest Rate Benchmark Reform

The Group applied the amendments to IFRS 9, IAS 39 and IFRS 7 as of January 1st 2020.

Description	The amendments to the standards provide for temporary derogations from the application of specific hedge accounting requirements that allow hedge accounting to continue in the period of uncertainty prior to the change of the current benchmark interest rate to an alternative interest rate close to the risk free (RFR). The amendments contain a number of derogations for all hedging relationships directly affected by the benchmark interest rate reform. A hedging relationship is directly affected by the interest rate benchmark reform only if the reform gives rise to uncertainties about: • the interest rate benchmark (contractually or non-contractually specified) designated as a hedged risk; or • the timing or the amount of interest rate benchmark-based cash flows of the hedged item or of the hedging instrument. The application of the derogations is obligatory. The derogations concern: • assessment whether a proposed transaction (or a component thereof) is highly probable, • assessment whether the hedged future cash flows are expected to occur, with a view to reclassifying them to profit or loss, • assessment of the economic relationship between the hedged item and the hedging instrument, for each of the above, assuming that the benchmark interest rate on which the hedged cash flows are based (whether contractually specified or specified otherwise) does not change as a result of the benchmark interest rate reform, • designation of a component of an item as a hedged item. If the IBOR reform affects the interest rate risk component of the benchmark, the requirement to isolate the risk component need only be met at the time the hedging relationship is established. If hedging instruments and hedged items can be added to or removed from the open portfolio as part of the hedging strategy, the requirement for separation need only be met if the hedged items are designated when the hedging relationship is initially recognised. To the extent that the hedging instrument is modified so that the cash flows are based on RFR and the hedged item continues to be based on IBOR (or vice versa), there is no derogation from the need to measure and recognise the ineffective portion of the hedge that arises from differences in the change in their fair value. In the absence of any of the events described in the amendments to the standards, the derogations continue indefinitely. If an entity designates a group of items as a hedged item, the requirements for non-application of the derogation shall be applied individually to each item in the group.
Effect of the standard	In the first stage of implementation, the reform of reference rates focuses on the hedge accounting process for interest rate hedging instruments. As the Group does not have hedging relationships for such instruments as at December 31st 2020, the IBOR reform will have no impact on the Group's financial statements in this respect.

(in PLN million, unless stated otherwise)

In the next stage of reform, as IBOR rates are replaced by risk-free rates, the Group may see a marginal impact on the measurement of financial instruments based on IBOR rates. Table A presents the totals of net holdings of financial instruments indexed to a floating rate by current reference rate.

Amendments to IFRS 16 Leases – COVID-19-Related Rent Concessions

The Group applied the amendments to IFRS 16 as of June 1st 2020.

Description	The amendment to IFRS 16 *Leases* relates to the treatment of rent concessions granted to lessees as a result of the COVID-19 pandemic. As a practical expedient, a lessee may elect not to assess whether a rent concession occurring as a result of the COVID-19 pandemic is a lease modification. A lessee that makes this election accounts for any change in lease payments resulting from the rent concession in the same way it would account for the change if the change were not a lease modification. The practical expedient applies only to rent concessions occurring as a direct consequence of the COVID-19 pandemic and only if all of the following conditions are met: • the change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change; • any reduction in lease payments affects only payments originally due on or before June 30th 2021, • there is no substantive change to other terms and conditions of the lease.
Effect of the standard	The Group did not receive rent concessions related to the COVID-19 pandemic in the year ended December 31st 2020, therefore, the amendments to IFRS 16 have no impact on the Group's consolidated financial statements.

Table A – Net holdings of financial instruments indexed to a floating rate by current reference rate

	Reference rate	Exposure	
		Non-current	Current
Financial assets		**405**	**114**
	1M WIBOR	-	102
	3M WIBOR	35	5
	6M WIBOR	370	7
Financial liabilities		**1,854**	**250**
	1M WIBOR	239	44
	EONIA	-	113
	1M EURIBOR	-	92
	3M EURIBOR	845	-
	3M LIBOR	770	1
Derivative financial instruments		**45**	**-**
	3M WIBOR	45	-

2. Description of the Group and its reportable segments

2.1 Key information on the Group and its reportable segments.

These consolidated financial statements include financial information of the Parent and of:

- 14 direct subsidiaries of PGNiG, and
- 9 indirect subsidiaries of PGNiG.

PGNiG S.A. holds 100% of shares in the consolidated subsidiaries, with the exception of PGNiG GAZOPROJEKT S.A., in which PGNiG holds 93.73% of shares.

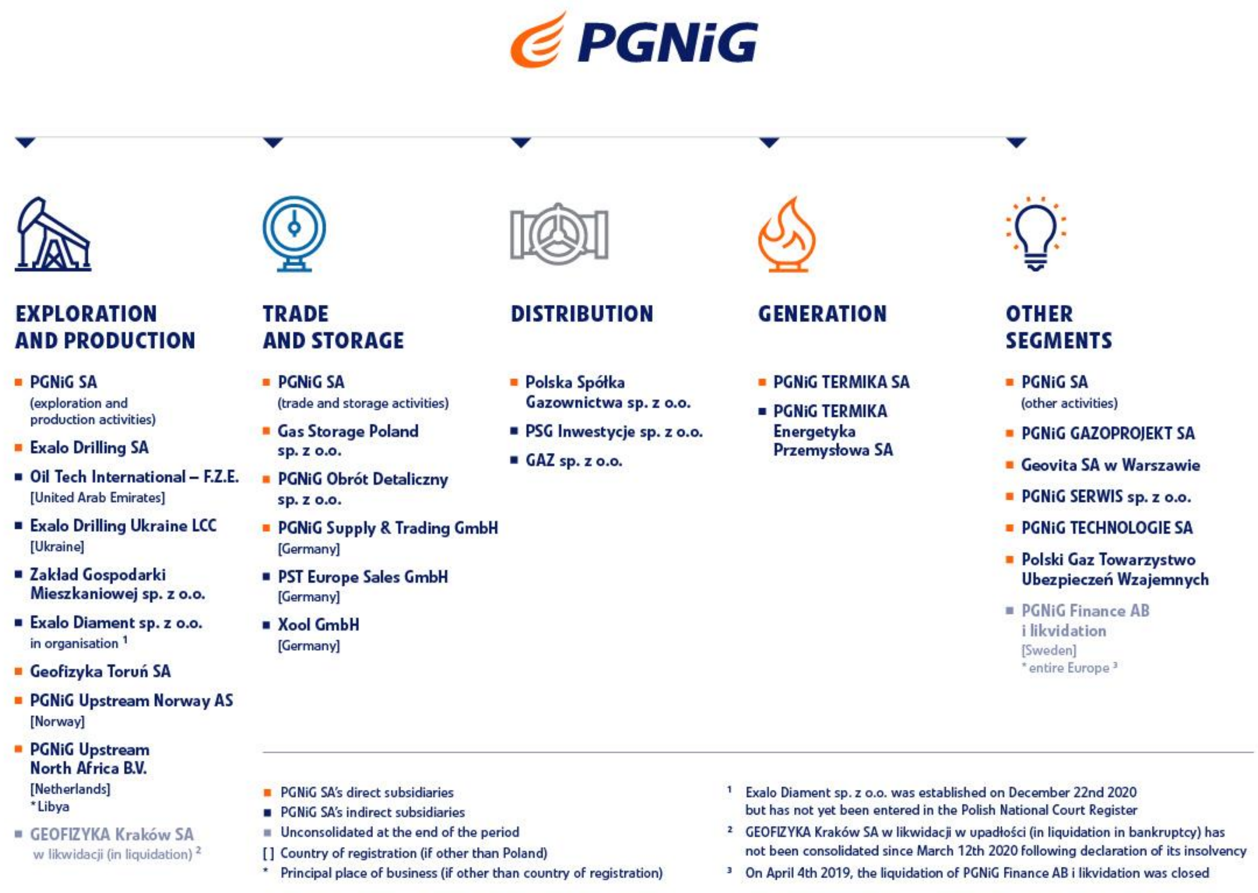
In the case of Polski Gaz Towarzystwo Ubezpieczeń Wzajemnych, PGNiG is that company's sole equity holder holding 100% of its share capital, while the remaining members hold shares in the company's reserve capital.

Non-controlling interests at subsidiaries are not material.

The Group identifies five reportable segments.

Below is presented a classification of the Group's fully-consolidated entities by reportable segment. For more information on the Group structure, see the Directors' Report on the operations of PGNiG S.A. and the PGNiG Group.

Figure 1 Group structure by reportable segments



The reportable segments have been identified based on the type of business conducted by the Group companies. The individual operating segments were aggregated into reportable segments according to the aggregation criteria presented in the table below. The parent's Management Board is the chief operating decision maker (CODM).

Segment	Description	Operating segments and aggregation criteria
Exploration and Production	The segment's business focuses on extracting hydrocarbons from deposits and preparing them for sale. It involves the process of exploration for and production of natural gas and crude oil, from geological surveys and geophysical research, through to drilling, development of gas and oil fields, and production of hydrocarbons. The segment sells natural gas to customers outside the Group and to other segments of the PGNiG Group. It also sells crude oil and other products in Poland and abroad.	This reportable segment comprises the operating segments of PGNiG S.A. (the exploration and production business) as well as the Group companies specified in Figure 1. The key aggregation criteria were similarity of products and services; similar characteristics of the production process and of the customer base; and economic similarities (exposure to the same market risks, as reflected in the correlation of results (margins) generated by the aggregated operating segments).
Trade and Storage	The segment's principal business activities are sale of natural gas (imported, produced or purchased on gas exchanges), operation of underground gas storage facilities for trading purposes (Mogilno, Wierzchowice, Kosakowo, Husów, Brzeźnica, Strachocina, Swarzów and the storage system in Ukraine), and electricity trading.	This reportable comprises the operating segments of PGNiG S.A. related to the gas fuel and electricity trading business, as well as the Group companies specified in Figure 1. The segment operates underground gas storage facilities in Poland to ensure Poland's energy security and to build a gas portfolio that meets the market demand which is subject to seasonal fluctuations. The key aggregation criteria were similarity of products and services, similarity of the customer base, and similar economic characteristics.
Distribution	The segment's principal business activity consists in distribution of natural gas via distribution networks to retail, industrial and wholesale customers, as well as operation, maintenance (repairs) and expansion of gas distribution networks.	This operating segment overlaps with the reportable Distribution and comprises Polska Spółka Gazownictwa Sp. z o.o. and its subsidiaries specified in Figure 1.
Generation	The segment's principal business activities consist in generation and sale of electricity and heat.	This reportable segment comprises the following operating segments: PGNiG TERMIKA S.A. and its subsidiaries. The key aggregation criteria were similarity of products and services, similarity of the customer base, and similar economic characteristics.
Other segments	This segment comprises operations which cannot be classified into any of the segments listed above, i.e. the functions performed by the PGNiG Corporate Centre, engineering design and construction of structures, machinery and equipment for the extraction and energy sectors, as well as catering and hospitality and insurance services.	It includes PGNiG S.A.'s activities related to corporate support for other reportable segments, and the Group entities which do not qualify to be included in the other reportable segments, specified under Other Segments in Figure 1.

(in PLN million, unless stated otherwise)

2.2 Key data on the reportable segments

2020	Exploration and Production	Trade and Storage	Distribution	Generation	Other Segments	Total	Reconciliation with consolidated data*	Total
Sales to external customers	2,754	29,850	4,603	1,844	146	**39,197**		
Inter-segment sales	1,858	793	81	929	338	**3,999**		
Total revenue	4,612	30,643	4,684	2,773	484	**43,196**	(3,999)	**39,197**
EBITDA	927	9,580	2,157	930	(546)	**13,048**	(39)	**13,009**
Depreciation and amortisation expense	(1,248)	(223)	(1,094)	(795)	(64)	**(3,424)**	-	**(3,424)**
Operating profit (EBIT)	(321)	9,357	1,063	135	(610)	**9,624**	(39)	**9,585**
Recognition and reversal of impairment losses on property, plant and equipment, intangible assets, and rights of use assets	(1,683)	(5)	(5)	(7)	(86)	**(1,786)**	-	**(1,786)**
Profit/(loss) from equity-accounted investees	(609)	-	-	-	14	**(595)**	-	**(595)**
Purchase of property, plant and equipment and intangible assets – cash outflows	(2,397)	(49)	(2,763)	(507)	(116)	**(5,832)**	37	**(5,795)**
Property, plant and equipment	14,994	3,153	18,588	5,476	651	**42,862**	(297)	**42,565**
Employment**	6,534	3,026	11,517	1,817	1,714	**24,608**		

**Inter-company eliminations and consolidation adjustments*

***Excluding employees of equity-accounted investees.*

2019	Exploration and Production	Trade and Storage	Distribution	Generation	Other Segments	Total	Reconciliation with consolidated data*	Total
Sales to external customers	3,351	32,415	4,481	1,606	170	**42,023**		
Inter-segment sales	2,471	835	106	959	330	**4,701**		
Total revenue	5,822	33,250	4,587	2,565	500	**46,724**	(4,701)	**42,023**
EBITDA	3,360	(470)	1,995	856	(258)	**5,483**	21	**5,504**
Depreciation and amortisation expense	(1,056)	(214)	(1,015)	(707)	(64)	**(3,056)**	-	**(3,056)**
Operating profit (EBIT)	2,304	(684)	980	149	(322)	**2,427**	21	**2,448**
Recognition and reversal of impairment losses on property, plant and equipment, intangible assets, and rights of use assets	(613)	(5)	6	-	(47)	**(659)**	-	**(659)**
Profit/(loss) from equity-accounted investees	(239)	-	-	-	4	**(235)**	-	**(235)**
Purchase of property, plant and equipment and intangible assets – cash outflows	(2,446)	(79)	(2,265)	(1,074)	(146)	**(6,010)**	(59)	**(6,069)**
Property, plant and equipment	14,576	3,325	16,455	5,239	653	**40,248**	(246)	**40,002**
Employment**	6,746	3,061	11,482	1,833	1,663	**24,785**		

**Inter-company eliminations and consolidation adjustments*

***Excluding employees of equity-accounted investees.*

The segment information has been prepared in accordance with the accounting policies applied in these consolidated financial statements.

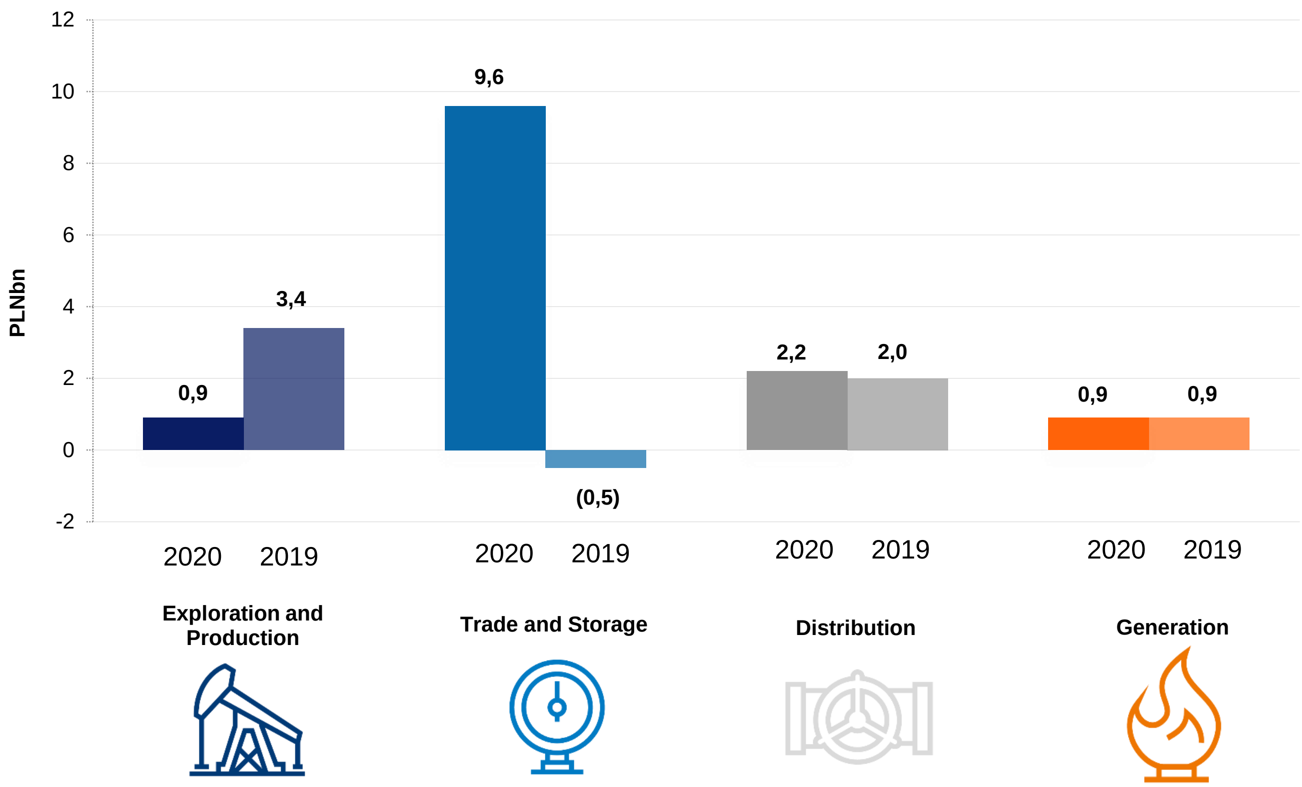
The Management Board analyses the segments' results using basic performance measures, such as segment's net profit, as well as key efficiency indicators such as EBITDA, which is not a standardised measure.

The definition of EBITDA and how it is calculated by the Group are presented below.

Definition adopted by the Group:

EBITDA – *profit before tax, less net finance costs, share of profit/(loss) of equity-accounted investees, and depreciation and amortisation*.

Chart 1 Segments' contributions to the Group's EBITDA (PLNbn)



For more information on the operations of each segment, see the Directors' Report on the operations of PGNiG S.A. and the PGNiG Group.

(in PLN million, unless stated otherwise)

2.3 Revenue by segment

2020	Exploration and Production	Trade and Storage	Distribution	Generation	Other Segments	Reconciliation with consolidated data*	Total
Revenue from sales of natural gas, including:**	**2,512**	**27,135**	**-**	**-**	**-**	**(1,932)**	**27,715**
High-methane gas	1,437	25,175	-	-	-	(1,493)	**25,119**
Nitrogen-rich gas	1,053	776	-	-	-	(432)	**1,397**
LNG	22	72	-	-	-	(9)	**85**
CNG	-	50	-	-	-	2	**52**
Adjustment to gas sales due to hedging transactions	-	1,062	-	-	-	-	**1,062**
Other revenue, including:**	**2,100**	**3,508**	**4,684**	**2,773**	**484**	**(2,067)**	**11,482**
Gas and heat distribution	-	-	4,389	78	-	(73)	**4,394**
Crude oil and natural gasoline	1,412	-	-	-	-	-	**1,412**
NGL	79	-	-	-	-	-	**79**
Sale of heat	-	-	-	1,469	-	-	**1,469**
Sales of electricity	-	2,858	-	1,053	-	(1,110)	**2,801**
Revenue from rendering of services:							
- drilling and oilfield services	108	-	-	-	-	(5)	**103**
- geophysical and geological services	119	-	-	-	-	-	**119**
- construction and assembly services	31	2	-	-	100	(81)	**52**
- connection charge	-	-	234	-	-	-	**234**
- other	53	145	38	18	359	(281)	**332**
Other**	298	503	23	155	25	(517)	**487**
Total revenue	**4,612**	**30,643**	**4,684**	**2,773**	**484**	**(3,999)**	**39,197**

2019	Exploration and Production	Trade and Storage	Distribution	Generation	Other Segments	Reconciliation with consolidated data*	Total
Revenue from sales of natural gas, including:**	**3,117**	**30,008**	**-**	**-**	**-**	**(2,695)**	**30,430**
High-methane gas	1,929	28,455	-	-	-	(2,099)	**28,285**
Nitrogen-rich gas	1,157	879	-	-	-	(589)	**1,447**
LNG	31	60	-	-	-	(8)	**83**
CNG	-	44	-	-	-	1	**45**
Adjustment to gas sales due to hedging transactions	-	570	-	-	-	-	**570**
Other revenue, including:**	**2,705**	**3,242**	**4,587**	**2,565**	**500**	**(2,006)**	**11,593**
Gas and heat distribution	-	-	4,208	75	-	(40)	**4,243**
Crude oil and natural gasoline	2,017	-	-	-	-	-	**2,017**
NGL	95	-	-	-	-	-	**95**
Sale of heat	-	-	1	1,330	-	-	**1,331**
Sales of electricity	-	2,488	-	997	-	(1,027)	**2,458**
Revenue from rendering of services:							
- drilling and oilfield services	133	-	-	-	-	(4)	**129**
- geophysical and geological services	144	-	-	-	-	-	**144**
- construction and assembly services	46	2	-	-	96	(71)	**73**
- connection charge	-	-	208	-	-	-	**208**
- other	26	222	28	36	377	(280)	**409**
Other**	244	530	142	127	27	(584)	**486**
Total revenue	**5,822**	**33,250**	**4,587**	**2,565**	**500**	**(4,701)**	**42,023**

**Inter-company eliminations and consolidation adjustments.*
*** In the reporting period, the Company changed the presentation of revenue from sales of propane-butane: sales of propane-butane was transferred from 'Revenue from sale of natural gas' (previously: 'Revenue from sales of gas') to 'Other revenue'. The comparative data for the period ended December 31st 2019 was adjusted for PLN 66m.*

2.4 Equity-accounted investees

Accounting policies

Joint arrangements

Joint arrangements include:

- Joint operations (see Note 8.5),
- Joint ventures.

As a partner in a joint venture, in the consolidated financial statements the Group recognises its interest in the joint venture as an investment and accounts for that investment with the equity method.

According to the equity method, investments are initially recognised at cost, and subsequently adjusted for the Group's share in changes of their net assets which occurred in the period from the date joint control was assumed to the reporting date, less impairment. When the Group's share of losses of a jointly controlled entity exceeds the Group's interest in that entity, the Group discontinues recognising its share of further losses. Unrealised gains and losses on transactions between the Group and a jointly controlled entity are eliminated on consolidation proportionately to the Group's interest in the jointly controlled entity. The equity method is also applied in the PGNiG Group's consolidated financial statements to recognise interests in associates over which the PGNiG Group has significant influence.

Significant influence

If an entity holds, directly or indirectly (e.g. through subsidiaries), 20% or more of the voting power of the investee, it is presumed that the entity has significant influence, unless it can be clearly demonstrated that this is not the case. Conversely, if the entity holds, directly or indirectly (e.g. through subsidiaries), less than 20 per cent of the voting power of the investee, it is presumed that the entity does not have significant influence, unless such influence can be clearly demonstrated. A substantial or majority ownership by another investor does not necessarily preclude an entity from having significant influence.

Significant estimates

Impairment of investment in joint venture SGT EUROPOL GAZ S.A.

As at the end of each reporting period, the Parent tests its investment in SGT EUROPOL GAZ S.A. (a jointly controlled entity accounted for with the equity method) for impairment and measures the investment's value in use using the discounted cash flow (DCF) method. The valuation was based on the Inter-Governmental Protocol of October 29th 2010, which specified the company's expected net profit.

The company's value estimated with the DCF method as at December 31st 2020 was PLN 840m.

The calculations were based on the assumption that in each year in 2011−2021 net profit earned by SGT EUROPOL GAZ S.A. (EUROPOL GAZ) will be PLN 21m. The discounted cash flows include all cash flows generated by EUROPOL GAZ, including cash flows related to the servicing of interest-bearing borrowings (interest expense and principal repayments) and other risks known to the issuer. The cash flows were discounted using a discount rate of 5.35% (in real terms).

As at the end of 2020, the value of the Parent's interest in EUROPOL GAZ determined using the equity method was PLN 1,788m. Therefore, a PLN 31m impairment loss was recognised in the current reporting period to align the equity method valuation of the interest with the DCF valuation of the interest.

The impairment test result is sensitive to the adopted assumptions regarding future cash flows (which depend on whether the provisions of the Inter-Governmental Protocol with respect to net profit to be earned in each of the years are implemented by the company) and discount rate. Changes in those assumptions following from updates of the company's financial forecasts and changes in the discount rate due to general or company-specific factors, may have a material effect on the company's future value.

Impairment of investment in Polska Grupa Górnicza S.A., a joint venture

The PGNiG Group's joint control of Polska Grupa Górnicza S.A. (PGG), a joint venture, is exercised through the equity interest held by PGNiG TERMIKA S.A. (a subsidiary of PGNIG S.A.) in PGG. During 2020, the equity interest in PGG was tested for impairment; the main considerations were:

- the key assumptions of Poland's energy policy,
- lower expected future cash flows due to lower coal production forecasts,
- employment at the company continued above the planned level,
- impact of the Covid-19 pandemic on the company's results.

As a result of the test, the value in use of the Group's equity interest in PGG as at the end of 2020 was determined at PLN 0, which means that the impact of the test on the 2020 financial result of the PGNIG Group will be negative at PLN -260m (in 2019, the impairment impact on the PGNiG Group's financial result was PLN -143m). The value of the holding in PGG was determined with the discounted cash flow method. For more information on the recognised impairment loss, see Note 2.4.1.

The result of the impairment test is sensitive to the assumptions made with respect to future cash flows (planned coal production levels, correlated with Poland's energy policy objectives, employment levels and related labour costs) and discount rates. Changes in those assumptions following from updates of the company's financial forecasts and changes in the discount rate due to general or company-specific factors, may have a material effect on the company's future value.

2.4.1 Material restrictions of the ability to transfer earnings from interests in joint ventures to the Group

Polska Grupa Górnicza S.A.

Under Polska Grupa Górnicza S.A.'s (PGG) note programme agreement, dividends may be paid only when all of the following conditions are met:

- A part of notes of individual tranches maturing in the period for which the dividend is to be paid are redeemed before dividend can be distributed;
- The following ratios are maintained within the permitted limits: net debt/EBITDA less replacement capital expenditure (for the last quarter), DSCR (ratio of cash available for debt servicing to mature debt – for the last year) and the Future Cash Flow Ratio (for the last quarter);
- The forecast values of the ratios will not exceed the permitted limits by the note redemption date as a result of the payment;
- The dividend will be paid to the shareholders and to the holders of participation notes in the proportion defined in the terms and conditions of participation notes.

Elektrociepłownia Stalowa Wola S.A. (ECSW)

On March 8th 2018, Elektrociepłownia Stalowa Wola S.A. signed a facility agreement with Bank Gospodarstwa Krajowego (BGK) and PGNiG to refinance its debt and finance the construction of a CCGT unit in Stalowa Wola. The CCGT unit was commissioned on September 30th 2020. The facility is due for repayment by June 14th 2030.

The loan agreement with BGK and PGNiG which is binding on ECSW, as well as the Subordination Agreement between ECSW and PGNiG, PGNiG Termika S.A., Tauron Polska Energia S.A., Tauron Wytwarzanie S.A. and BGK, have the effect of precluding ECSW from:

- declaring or paying any compensation, dividend, fee or other distribution (or interest on any unpaid compensation, dividend, fee or other distribution, whether in cash or in kind) in respect of the shares held;
- repaying or distributing any dividend or retained earnings until the loan to BGK and PGNiG S.A. (senior debt) is repaid.

(in PLN million, unless stated otherwise)

The table below presents equity-accounted investees

	2020				2019			
	Equity-accounted entities				Equity-accounted entities			
	SGT EUROPOL GAZ S.A.	Polska Grupa Górnicza Sp. z o.o.	Elektrociepłownia Stalowa Wola S.A.	Polimex-Mostostal S.A. Group	SGT EUROPOL GAZ S.A.	Polska Grupa Górnicza Sp. z o.o.	Elektrociepłownia Stalowa Wola S.A.	Polimex-Mostostal S.A. Group
At beginning of the period	**840**	**612**	**-**	**112**	**840**	**858**	**-**	**108**
Changes accounted for in profit/(loss) from equity-accounted investees, including:								
Share of net profit/(loss)	26	(375)	(158)	16	28	(87)	(192)	4
Elimination of unrealised profits between the Group and the joint venture	5	27	42	(2)	-	4	-	-
Goodwill write-off	-	(1)	-	-	-	(13)	-	-
Reversal of negative value of equity-accounted interests*	-	-	116	-	-	-	192	-
Impairment losses	(31)	(260)	-	-	(28)	(143)	-	-
Changes accounted for in other comprehensive income from equity-accounted investees	-	(3)	-	-	-	(7)	-	-
At end of the period	**840**	**-**	**-**	**126**	**840**	**612**	**-**	**112**

** Reversal due to the share in the entity's losses being higher than the value of the interest in the jointly controlled entity as disclosed in the PGNiG Group's accounts (IAS 28.38). As at December 31st 2020, the PGNiG Group did not accept any legal or constructive obligation or make any payment on behalf of Elektrociepłownia Stalowa Wola S.A.*

	2020			2019		
	SGT EUROPOL GAZ S.A.*	Polska Grupa Górnicza Sp. z o.o.**	GK Polimex-Mostostal S.A.***	SGT EUROPOL GAZ S.A.*	Polska Grupa Górnicza Sp. z o.o.**	GK Polimex-Mostostal S.A.***
PGNiG Group's ownership interest	**51.18%**	**20.43%**	**16.48%**	**51.18%**	**20.43%**	**16.48%**
Description of business	Transmission of natural gas	Production of coal	Construction	Transmission of natural gas	Production of coal	Construction
Key financial data****						
Non-current assets	1,039	9,423	765	1,453	10,220	809
Current assets	3,064	1,770	1,390	2,490	2,226	964
including cash and cash equivalents	318	259	408	2,284	555	276
Non-current liabilities	10	2,704	214	13	4,695	316
including non-current financial liabilities	-	331	134	-	2,510	388
Current liabilities	117	6,626	1,175	66	4,040	780
including current financial liabilities	-	2,414	305	-	476	22
Net assets	**3,976**	**1,863**	**766**	**3,864**	**3,711**	**677**
Revenue	893	7,476	1,498	875	9,012	1,477
Depreciation and amortisation expense	(328)	(2,043)	(38)	(327)	(2,246)	(32)
Interest income	16	24	3	42	34	3
Interest expense	-	(130)	(24)	-	(137)	(23)
Income tax	(16)	373	(10)	(13)	55	(1)
Net profit/(loss)	43	(1,838)	91	46	(427)	(4)
Other comprehensive income	-	(11)	(4)	-	(36)	3
Carrying amount of the investment						
Share of net assets	**2,035**	**381**	**126**	**1,978**	**758**	**112**
Adjustment to ensure consistency of accounting policies with those of the Group	(70)	-	(14)	(39)	-	(16)
Elimination of unrealised profits between the Group and the joint venture	(177)	23	(3)	(182)	(3)	(1)
Goodwill	6	13	17	6	13	17
Goodwill write-off	(6)	(13)	-	(6)	(13)	-
Impairment losses	(948)	(404)	-	(917)	(143)	-
Carrying amount of the investment in the consolidated statement of financial position	**840**	**-**	**126**	**840**	**612**	**112**

**Resolutions are passed by a majority of three quarters of voting rights represented at the General Meeting. The General Meeting has the authority to pass resolutions if all founding shareholders (each holding 30% or more shares) are represented.*

***Indirect interest held through PGNiG TERMIKA S.A., which has the right to appoint one member of the Supervisory Board and can block material decisions.*

****PGNiG S.A.'s interest held indirectly through PGNiG Technologie S.A. which, under the agreement relating to the investment in Polimex-Mostostal S.A., assumes that the parties will reach, by voting, common positions when making key decisions on matters falling within the powers of the Polimex-Mostostal General Meeting and the Supervisory Board, including on the composition of the Polimex-Mostostal Management Board.*

*****Financial data for the Polimex-Mostostal Group for 11 months of the year. Since 2020, for the 11 months of a given year and December of the previous year.*

3. Notes to the statement of profit or loss

3.1 Revenue

Accounting policies

Revenue from contracts with customers

The Group's revenue comes primarily from trade in high-methane and nitrogen-rich natural gas, generation and sale of electricity and heat, as well as sale of produced crude oil.

The Group's business also includes services, such as distribution of gas fuels, storage of gas fuels, geophysical and geological services, gas service connection, drilling and oilfield services, construction and assembly services, and other services.

The Group recognises revenue in line the five-step model:

1. Identifying the contract;
2. Identifying the performance obligations in the contract;
3. Determining the transaction price (consideration);
4. Allocating the transaction price to each performance obligation;
5. Recognising revenue when (or as) a contractual performance obligation is satisfied.

In accordance with IFRS 15, when a third party is involved in providing goods or services to the customer, the nature of the relationship with the customer should be determined: whether that entity is a principal or an agent. The main criterion for identifying the performance obligations is the assessment of the role that a Group company plays in the performance. The role (whether a principal or an agent) is assessed based e.g. on an analysis of who controls the promised goods or services before their final transfer to the customer. The Group companies assessed whether they were principals or agents with respect to particular goods or services by determining who controlled them before their transfer to the customer.

The Group companies that have identified their role with respect to specific goods or services as that of an agent present revenue in the amount of net consideration to which they will be entitled in exchange for arranging the supply of goods or services by another party.

In respect of gas transmission and electricity distribution services, the Group has no control over the main features or price of such services, acting solely as an agent. When entering into comprehensive service agreements with their customers, the Group companies do not bear the main responsibility for the performance of transmission and distribution services, have no control over the main features of such services, and cannot freely determine their prices, which means that they act as agents in their sale. The obligation to perform transmission and distribution services is satisfied upon delivery of gas or electricity.

The Group recognises revenue when it satisfies the performance obligation by transferring to the customer the goods or services promised (i.e. when the customer takes control of the goods or services).

The Group recognises revenue in the amount of the transaction price (excluding estimated elements of variable consideration which are subject to limitations) which was allocated to the given performance obligation.

The transaction price is the contractually agreed amount of consideration that the entity expects to obtain in exchange for the transfer of the goods and services promised in the contract. The transaction price is adjusted for the time value of money if the contract includes a significant financing arrangement, and in the case of any consideration payable to the client. If the consideration is variable, the Group estimates the amount of consideration to which it will be entitled in exchange for the promised goods or services. The estimated amount of variable consideration will be included in the transaction price only if, and to the extent that, it is highly probable that its inclusion will not result in a significant revenue reversal in the future when the uncertainty relating to variable consideration has been subsequently resolved.

In accordance with IFRS 15, refunds due to customers are presented as contractual liabilities.

Significant estimates

Estimating natural gas sales

In order to correctly allocate gas sales revenue to the appropriate reporting period, at the end of the reporting period sales are re-estimated with respect to the volume and value of gas delivered but not invoiced to retail customers (in small off-take tariff groups: 1-4).

The value of gas supplied but not invoiced to customers in tariff groups 1-4 is estimated based on the "Procedure for determining the sale of gas fuel at PGNiG Obrót Detaliczny Sp. z o.o.". There is a risk that the actual final volume of gas fuel sold (invoiced in accordance with actual metre readings) may differ from the estimate. Accordingly, profit or loss for a given period may account for a portion of the estimated sales volume which will never be realised.

As at the end of 2020, revenue from sales of gas was increased by an amount of PLN 37m, while as at the end of 2019, the revenue included an amount of PLN 19m of estimates as an adjustment reducing the value of invoiced revenue.

Generally, goods are transferred at a specific point in time.

Revenue from sales of crude oil

With regard to sales of crude oil produced from the Norwegian Continental Shelf, where the Group holds interests in licences together with other entities, the revenue from sale of crude oil is recognised based on crude volumes produced and sold to customers. However, the volume of crude oil sold to customers may differ from the volume of crude which is attributable to the Group in a given period based on its interest in a given licence. If the production volume attributable to the Group is higher than the sales volume, an asset (underlift) is recognised in the consolidated financial statements. Conversely, if in a given reporting period the volume of crude oil sold exceeds the production volume the Group is entitled to, a liability (overlift) is recognised in the consolidated financial statements.

As at the end of 2020, the volume of crude oil sold was higher than the Group's share in production, which in the consolidated statement of financial position for 2020 was recognised under Other liabilities (Other deferred income, current portion) in the amount of PLN 23m. As at the end of 2019, the volume of crude oil sold was also higher than the Group's share in production, which in the consolidated statement of financial position for 2019 was recognised under Other liabilities (Other deferred income, current portion) in the amount of PLN 23m.

The change is recognised under Other income and expenses for the reporting period.

In 2020, Other liabilities were also affected by an increase following the acquisition of a producing field.

Revenue from sales of services provided over time

Revenue from rendering of services which are provided over time is recognised in proportion to the stage of contract completion as at the reporting date if the outcome of the transaction involving the provision of the service can be measured reliably.

To measure the stage of contract completion, the Group uses the method based on expenditure incurred. The stage of contract completion is determined based on contract costs incurred so far in relation to the estimated total costs of the contract (cumulatively).

Where such method of measurement fails to reflect the actual stage of completion of the service, the stage of completion is determined by measuring the work performed so far or by comparing the work actually performed with the scope of work specified in the contract.

When the outcome of a transaction involving the provision of service cannot be estimated reliably, revenue from the transaction is recognised only to the extent of costs incurred that are likely to be recovered.

(in PLN million, unless stated otherwise)

	2020			2019		
	Domestic sales	Export sales*	Total	Domestic sales	Export sales*	Total
Revenue from sales of natural gas, including:**	**24,771**	**2,944**	**27,715**	**26,319**	**4,111**	**30,430**
High-methane gas	22,376	2,743	25,119	24,286	3,999	28,285
Nitrogen-rich gas	1,197	200	1,397	1,335	112	1,447
LNG	84	1	85	83	-	83
CNG	52	-	52	45	-	45
Adjustment to gas sales due to hedging transactions	1,062	-	1,062	570	-	570
Other revenue, including:**	**9,913**	**1,569**	**11,482**	**9,592**	**2,001**	**11,593**
Gas and heat distribution	4,394	-	4,394	4,243	-	4,243
Crude oil and natural gasoline	594	818	1,412	965	1,052	2,017
NGL	-	79	79	-	95	95
Sale of heat	1,469	-	1,469	1,331	-	1,331
Sales of electricity	2,507	294	2,801	1,989	469	2,458
Revenue from rendering of services:						
- drilling and oilfield services	42	61	103	51	78	129
- geophysical and geological services	26	93	119	36	108	144
- construction and assembly services	52	-	52	73	-	73
- connection charge	234	-	234	208	-	208
- other	328	4	332	344	65	409
Other**	267	220	487	352	134	486
Total revenue	**34,684**	**4,513**	**39,197**	**35,911**	**6,112**	**42,023**

By customer's country.
*** In the reporting year, the Company changed the presentation of revenue from sales of propane-butane. For details, see Note 2.3.*

The Group does not have any single external customer who would account for 10% or more of the Group's total revenue. The Group companies did not identify any significant financing component in their contracts, nor did they incur any additional significant cost to obtain contracts. On foreign markets the Group sells its products and services mainly to customers in Germany (33% of export sales), the Netherlands (18%) and the UK (16%).

For further details on revenue by segment, see Note 2.3.

For information on the impact of the COVID-19 pandemic on the gas and oil market in 2020 and, consequently, on revenue generated by the Group, see the Directors' Report on the operations of PGNiG S.A. and the PGNiG Group.

Revenue-generating non-current assets

	2020	2019
Value of non-current assets other than financial instruments located in Poland	36,398	34,772
Value of non-current assets other than financial instruments located abroad*	7,008	6,112
Total	**43,406**	**40,884**
% share of assets located outside of Poland in total assets	**16.15%**	**14.95%**
*Including PGNiG Upstream Norway AS (PUN).	6,274	5,325

3.2 Operating expenses

Accounting policies

Cost of gas

This item comprises the cost of gas purchased on gas exchanges and from trading partners. The cost of purchased gas includes a reasonable portion of costs of system and transaction charges, costs of domestically produced gas, as well as costs of nitrogen rejection and regasification. For further information on accounting for those items, see Note 6.2.1.

Raw materials and consumables used

This item comprises the costs of raw materials and consumables used in principal business activities, in particular fuels for electricity and heat generation. Another material item in this cost group is the cost of electricity for trading.

Employee benefits expense

Employee benefits expense includes in particular salaries, wages, social security contributions and cost of future benefits. For details of employee benefits expense, see Note 6.3.1.

Transmission and distribution services

(in PLN million, unless stated otherwise)

In connection with its transmission and distribution services, the Group incurs costs of services it contracts from third parties (this does not apply to costs related to comprehensive agreements, in which the Group acts as an agent (described in Note 3.1.). The transmission and distribution system operators charge the Group for the cost of transmission services, i.e. the cost of transmission of gas fuel via the network of pipelines, the cost of heat transmission and the cost of electricity distribution.

Other services

This item comprises cost of third-party services, other than transmission services, required for the core activities of the Group companies. These include in particular:

- Regasification services, consisting in converting liquefied natural gas to the gaseous form by heating liquefied gas;
- Repair and construction services and services related to repairs of production machinery and equipment, in particular equipment associated with heat generation;
- Mineral resources production services related to hydrocarbon production;
- Rental services.

Taxes and charges

This item includes in particular property tax expense and royalties for hydrocarbon production.

Recognition and reversal of impairment losses on property, plant and equipment and intangible assets

For details of impairment of non-financial assets, see Note 6.1.3.

Depreciation and amortisation expense

This item comprises depreciation/amortisation expense on property, plant and equipment, right-of-use assets and intangible assets, calculated at the adopted depreciation/amortisation rates (for details, see Note 6.1.1 and Note 6.1.2).

	Note	2020	2019
Cost of gas		**(19,808)**	**(26,686)**
Gas fuel		(19,808)	(26,687)
Cost of transactions hedging gas prices		-	1
Effect of the annex executed with PAO Gazprom/OOO Gazprom Export on cost of gas in 2014–2019		**4,915**	**-**
Other raw materials and consumables used		**(3,224)**	**(2,977)**
Fuels for electricity and heat generation		(909)	(958)
Electricity for trading purposes		(1,810)	(1,483)
Other raw materials and consumables used		(505)	(536)
Employee benefits expense		**(3,381)**	**(3,168)**
Salaries and wages		(2,463)	(2,344)
Social security contributions		(449)	(519)
Long-term employee benefits		(134)	(95)
Other employee benefits expense		(335)	(210)
Transmission services		**(1,048)**	**(1,053)**
Other services		**(1,888)**	**(1,828)**
Regasification services		(388)	(370)
Repair and construction services		(265)	(277)
Mineral resources production services		(190)	(141)
Rental services		(95)	(86)
Other services		(950)	(954)
Taxes and charges		**(911)**	**(782)**
Recognition and reversal of impairment losses on property, plant and equipment and intangible assets	*Note 2.2.*	**(1,786)**	**(659)**
Cost of exploration and evaluation assets written-off		(198)	(259)
Impairment losses on property, plant and equipment		(1,577)	(388)
Impairment losses on intangible assets		(11)	(12)
Depreciation and amortisation	*Note 2.2.*	**(3,424)**	**(3,056)**
Total		**(35,470)**	**(40,209)**

Effect of annex executed with PAO Gazprom/OOO Gazprom Export on cost of gas in 2014–2019

In connection with the performance of the Award and the Annex to the Yamal Contract, in June 2020 the Company received correction invoices for gas supplies. As a result, the amount of operating expenses was reduced by PLN 5,689m, including:

- PLN 4,915m relating to costs of gas in 2014-2019 – presented as the 'Effect of annex executed with PAO Gazprom/OOO Gazprom Export on cost of gas in 2014–2019' in the consolidated statement of profit or loss;
- PLN 774m relating to costs of gas in 2020 – presented as 'Cost of gas' in the consolidated statement of profit or loss.

(in PLN million, unless stated otherwise)

For more information, see the Directors' Report on the operations of PGNiG S.A. and the PGNiG Group in 2020.

Impact of the COVID-19 pandemic on the PGNiG Group's operating expenses

In connection with the COVID-19 pandemic, ongoing since the first quarter of 2020, the PGNiG Group incurred the following operating expenses:

- expenses on the purchase of personal protective equipment and other items, in the amount of PLN 15m, recognised under Employee benefits;
- expenses of PLN 20m incurred on donations made by the PGNiG Group to help combat the COVID-19 pandemic, recognised under Other income and expenses. (Note 3.3).

3.3 Other income and expenses

	Note	2020	2019
Compensation, penalties, and fines received		32	26
Exchange differences related to operating activities		68	(9)
Measurement and exercise of derivative financial instruments		202	239
Change in inventory write-downs	Note 6.2.1.	350	(258)
Change in impairment losses on trade and other receivables		(60)	42
Change in other impairment losses		-	1
Provision for decommissioning, restoration and environmental remediation costs	Note 6.3.2.	(38)	12
Change in provision for certificates of origin and energy efficiency certificates	Note 6.3.3.	(232)	(206)
Change in other provisions		(105)	(39)
Change in underlift/overlift*		16	(12)
Cost of merchandise and materials sold		(242)	(103)
Other income and expenses		(150)	(135)
Total other income and expenses		**(159)**	**(442)**

*For more information, see Note 3.1. in the part concerning revenue from sales of crude oil.

3.4 Net finance costs

	2020	2019
Interest on debt, including valuation (net of leases; including fees on debt incurred)	3	(48)
Interest on lease liabilities	(75)	(69)
Foreign exchange differences	47	15
Measurement and exercise of derivative financial instruments not designated for hedge accounting	12	(7)
Fair value measurement of financial assets	(2)	(1)
Other net finance costs	50	56
Total net finance costs	**35**	**(54)**

3.5 Earnings per share

Accounting policies

Basic earnings per share are calculated by dividing net profit/(loss) attributable to holders of the Parent's ordinary shares for a given reporting period by the weighted average number of outstanding ordinary shares in the reporting period.

Diluted earnings per share are calculated by dividing net profit/(loss) attributable to holders of the ordinary shares for a given reporting period (less interest on redeemable preference shares convertible into ordinary shares) by the weighted average number of outstanding ordinary shares in the reporting period (adjusted for the effect of dilutive options and dilutive redeemable preference shares convertible into ordinary shares).

The Group's diluted earnings per share are equal to basic earnings per share because the Group has no instruments with a dilutive effect.

Earnings per share and the weighted average number of ordinary shares are presented in the consolidated statement of profit or loss.

4. Notes on taxation

4.1 Income tax

Accounting policies

Mandatory increases in loss/decreases in profit include current income tax (CIT) and deferred tax.

Deferred tax is determined using the balance-sheet method, based on temporary differences between the carrying amounts of assets and liabilities for accounting purposes and their tax base, except where temporary differences arise from the initial recognition of an asset or liability in a transaction which is not a business combination and, at the time of the transaction, affected neither profit before tax nor taxable income (tax loss).

Deferred tax assets and liabilities are measured at tax rates that are expected to apply to the period when the asset is realised, or the liability is settled.

A deferred tax asset is recognised to the extent it is probable that taxable profit will be available against which deductible temporary differences, including tax losses and tax credit, can be utilised. For more information on tax credit, see Note 4.1.1.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries, joint ventures and associates, unless the Group company controls the timing of reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets and liabilities are offset if and only if:

- the Group has a legally enforceable right to set off current tax assets against current tax liabilities; and
- the deferred tax assets and the deferred tax liabilities relate to income taxes levied by the same taxation authority on the same taxable entity.

Deferred and current tax is recognised as income or expense and included in profit or loss, except to the extent that the tax arises from a transaction or event that is credited or charged directly to other comprehensive income or to equity (deferred tax is then recognised in other comprehensive income or charged directly to equity).

Tax Group

Pursuant to an agreement of September 19th 2016, the PGNiG Tax Group (‘PGNiG Tax Group’) was established for the period from January 1st 2017 to December 31st 2020 with respect to the Group’s obligations under the Polish Corporate Income Tax Act (PDOP) and the Tax Legislation, with PGNiG S.A. acting as the PGK’s representative company.

As at December 31st 2020, the PGNiG Tax Group comprised the following companies: PGNiG S.A., PGNiG Obrót Detaliczny Sp. z o.o., Polska Spółka Gazownictwa Sp. z o.o., PGNiG TERMIKA S.A., Gas Storage Poland Sp. z o.o., PGNiG Ventures Sp. z o.o. (until December 30th 2019: PGNiG SPV 5 Sp. z o.o.), PGNiG SPV 6 Sp. z o.o., PGNiG SPV 7 Sp. z o.o., GEOFIZYKA Toruń S.A., PGNiG Technologie S.A. and PGNiG Serwis Sp. z o.o.

In accordance with the applicable tax laws, the companies included in the PGNiG Tax Group lost their separate status as payers of corporate income tax and such status was acquired by the PGNiG Tax Group, which allowed corporate income tax to be calculated jointly for all members of the PGNiG Tax Group. The PGNiG Tax Group was a separate entity only for corporate income tax purposes and it should not be viewed as a separate legal person. Its tax status did not extend to other types of taxes; in particular, each of the companies forming the PGNiG Tax Group was a separate payer of value-added tax and of tax on civil-law transactions, and a separate remitter of personal income tax withholdings. The other companies of the Group were separate corporate income tax payers.

On July 14th 2020, the Management Board of PGNiG S.A. decided to not establish another tax group.

(in PLN million, unless stated otherwise)

4.1.1 Income tax expense disclosed in the statement of profit or loss

Reconciliation of effective tax rate	Note	2020	2019
Profit before tax		9,025	2,159
Corporate income tax at the 19% statutory rate applicable in Poland		(1,715)	(410)
Differences in tax rates of the Group companies (from 22% to 78% for Norway, 33% for Germany, from 9% to 40% for other)		(205)	(99)
Deductible temporary differences with respect to which no deferred tax was recognised		235	(279)
Income tax expense disclosed in the statement of profit or loss		**(1,685)**	**(788)**
Including:			
Current tax expense		(1,696)	(586)
Deferred tax expense	Note 4.1.2.	11	(202)
Effective tax rate		19%	36%

In the case of PGNiG Upstream Norway AS ("PUN"), the tax rate is 78%. PUN's activities in the Norwegian Continental Shelf in 2020 were subject to taxation under two separate tax regimes:

- income tax system (tax rate of 22%);
- the petroleum tax regime (additional tax rate of 56%).

The high tax rate in Norway is linked to a wide range of investment incentives and additional deductions, which PUN used in recent years:

- For instance, the company may apply a high depreciation/amortisation rate (the annual depreciation/amortisation rate is 16.67%) and commence depreciation/amortisation immediately after capital expenditure is incurred. In the year in which capital expenditure is incurred, the company is entitled to charge depreciation/amortisation for the full year, regardless of the date when it was actually incurred.
- The company may benefit from an investment incentive of 5.2% per annum for four years under the petroleum tax regime. The incentive relates to capital expenditure made in the Norwegian Continental Shelf (excluding exploration expenditure) and amounts to 20.8% of depreciable expenditure (over four years). The incentive is deducted only from income taxable with the petroleum tax (56% rate) and does not apply to income tax. If the incentive amount exceeds income generated in a given year, it becomes deductible in subsequent years.
- Total expenditure on exploration activities may be deducted from revenue. If the company does not generate income from which expenditure on exploration could be deducted, it is entitled to the reimbursement of 78% of the exploration expenditure. The funds are returned in cash by the end of the year following the year covered by the tax return.
- Finance costs may be deducted under both taxation systems.
- under the Norwegian tax system there is no time limit within which tax losses should be used, and interest accrues on losses carried forward. The interest rate applicable to such losses is calculated as a risk-free interest rate, net of income tax.

The above-mentioned elements are a permanent feature of the Norwegian tax system. Additionally, in 2020 the Norwegian Parliament enacted amendments to the tax law to support the oil industry in view of the significant decline in hydrocarbon prices and introduce incentives to invest on the Norwegian Continental Shelf.

The amendments to tax laws have been effective as of January 1st 2020 and include:

- direct expensing of development capital expenditure incurred under the petroleum tax regime (56%) – in the investment year;
- uplift for the directly expensed investments of 24% of the investment – in the investment year;
- the direct expensing and the uplift apply for all costs incurred in income years 2020 and 2021 and for all expenditure on new projects approved by the end of 2022;
- refund to oil producers of the tax value of losses for income years 2020 and 2021. The refund is paid in bi-monthly tranches, starting from August 2020.

These amendments had a significant positive effect on the profitability of development projects in Norway and significantly shortened the payback period. This is due to the fact that PUN is pursuing a very ambitious development programme and made capital expenditure in excess of NOK 3bn in 2020. The amendments have the following effects:

- direct expensing and uplift – with the new tax rules in place, PUN directly expenses the entire amount of development capital expenditure incurred in 2020-2021, and also applies the 24% uplift for the directly expensed investments. These two elements contributed to a NOK 1.1bn tax loss incurred by PUN in 2020, which is refundable by the Norwegian authorities;
- improved liquidity and reduced cash requirements – since August 2020, PUN has received a NOK 0.9bn as a cash refund of the expected tax loss for 2020.

(in PLN million, unless stated otherwise)

The amendments also encourage new development investments in Norway. Under the amended regime, the expenditure expensing rules will apply to all new projects initiated between 2020 and 2022. Direct expensing of such investments may be claimed until and including the year of planned production or operation start-up.

Current income tax	2020	2019
At beginning of the period (tax receivables and payables, net)	(90)	(370)
Income tax expense recognised in profit or loss for the period	(1,696)	(586)
Tax paid in the period	1,745	852
Other changes	(26)	14
At end of the period (tax receivables and payables, net)	**(67)**	**(90)**
including:		
- receivables	101	42
- payables	(168)	(132)

(in PLN million, unless stated otherwise)

4.1.2 Deferred tax expense

		CREDITED/(CHARGED)							CREDITED/(CHARGED)					
	Jan 1 2019	Effect of amended IFRS 9	Net profit/(loss)	Other comprehensive income	Other changes recognised in equity	Currency translation differences	Other changes	Dec 31 2019	Effect of amended IFRS 9	Net profit/(loss)	Other comprehensive income	Other changes recognised in equity	Currency translation differences	Dec 31 2020
Deferred tax assets														
Employee benefit obligations	149	-	10	5	-	-	-	164	-	17	10	-	-	191
Provision for well decommissioning costs	177	-	21	-	-	-	-	198	-	52	-	-	-	250
Other provisions	54	(5)	13	1	-	1	-	64	-	39	3	-	(9)	97
Measurement of derivative instruments	210	-	31	-	-	(1)	-	240	-	62	-	-	9	311
Impairment of property, plant and equipment	110	-	(2)	-	-	-	-	108	-	70	-	-	-	178
Tax loss	68	-	(16)	-	-	-	-	52	-	(11)	-	-	-	41
Other	162	-	87	-	-	-	-	249	-	(74)	-	-	-	175
Total	**930**	**(5)**	**144**	**6**	**-**	**-**	**-**	**1,075**	**-**	**155**	**13**	**-**	**-**	**1,243**
Deferred tax liabilities														
Difference between tax and accounting value of non-current assets	1,924	24	52	-	-	1	-	2,001	-	(32)	-	-	7	1,976
Measurement of derivative financial instruments	230	-	127	175	(19)	(1)	-	512	-	(12)	(231)	54	10	333
Other	748	-	167	-	-	(1)	(1)	913	-	188	-	-	19	1,120
Total	**2,902**	**24**	**346**	**175**	**(19)**	**(1)**	**(1)**	**3,426**	**-**	**144**	**(231)**	**54**	**36**	**3,429**
Set-off of assets and liabilities	**(836)**							**(1,043)**						**(1,201)**
After set-off														
Assets	**94**		**144**					**32**		**155**				**42**
Liabilities	**2,066**		**346**					**2,383**		**144**				**2,228**
Net effect of changes in the period		**(29)**	**(202)**	**(169)**	**19**	**1**	**1**		**-**	**11**	**244**	**(54)**	**(36)**	

(in PLN million, unless stated otherwise)

5. Notes to the statement of cash flows and information on debt

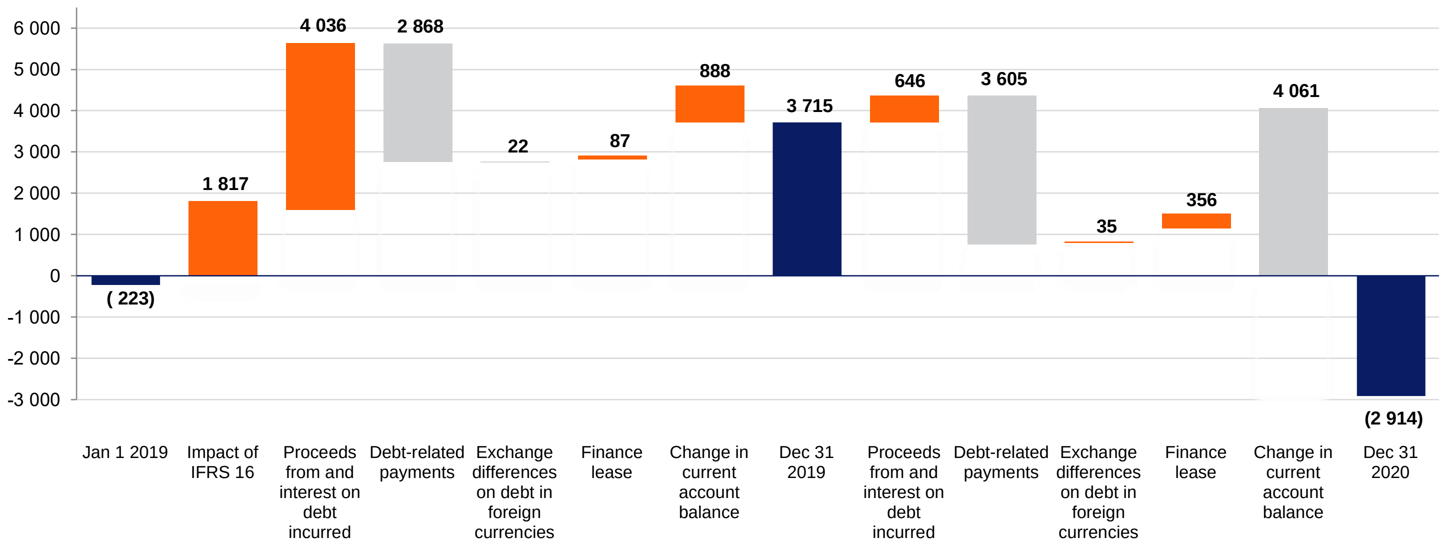
5.1 Debt reconciliation

Accounting policies

The Group defines net debt as the total of existing bank borrowings (both short-term and long-term), debt securities, lease liabilities and liabilities under non-bank borrowings, less cash and cash equivalents. The Group presents net debt to EBITDA as a measure of its debt.

Net debt	Note	2020	2019
Bank borrowings		1,764	1,712
Lease liabilities		2,007	1,775
Other		88	20
Total current financing liabilities		**3,859**	**3,507**
Bank borrowings		231	3,181
Lease liabilities		82	64
Other		12	-
Total non-current financing liabilities		**325**	**3,245**
Total debt		**4,184**	**6,752**
Cash and cash equivalents	*Note 5.4.*	7,098	3,037
Net debt		**(2,914)**	**3,715**
EBITDA	*Note 2.2.*	**13,009**	**5,504**
Net debt / EBITDA		**(0.22)**	**0.67**

Chart 2 Change in net debt at the PGNiG Group (PLNm)



(in PLN million, unless stated otherwise)

Change in debt	Bank borrowings	Debt securities	Lease liabilities	Other	Total
As at Jan 1 2019	**1,385**	**2,298**	**19**	**-**	**3,702**
Impact of IFRS 16	-	-	1,817	-	1,817
Increase in debt	3,871	-	-	20	3,891
financing received	3,831	-	-	20	3,851
transaction costs	40	-	-	-	40
Interest accrued	59	7	77	2	145
Increase (new agreements)	-	-	95	-	95
Decrease (expired agreements)	-	-	(8)	-	(8)
Debt-related payments	(398)	(2,305)	(163)	(2)	(2,868)
principal repayments	(281)	(2,290)	(153)	-	(2,724)
interest paid	(58)	(15)	(10)	(2)	(85)
commission fees paid	(59)	-	-	-	(59)
Exchange differences on debt in foreign currencies	(24)	-	2	-	(22)
As at Dec 31 2019	**4,893**	**-**	**1,839**	**20**	**6,752**
Increase in debt	431	-	-	80	511
financing received	416	-	-	80	496
transaction costs	15	-	-	-	15
Interest accrued	51	-	84	-	135
Increase (new agreements)	-	-	357	-	357
Decrease (expired agreements)	-	-	(8)	-	(8)
Modifications and changes to term estimate	-	-	7	-	7
Debt-related payments	(3,415)	-	(190)	-	(3,605)
principal repayments	(3,347)	-	(181)	-	(3,528)
interest paid	(55)	-	(9)	-	(64)
commission fees paid	(13)	-	-	-	(13)
Exchange differences on debt in foreign currencies	35	-	-	-	35
As at Dec 31 2020	**1,995**	**-**	**2,089**	**100**	**4,184**

5.2 Financing liabilities

Accounting policies

Non-bank borrowings and debt securities

On initial recognition, borrowings and debt securities are measured at fair value less transaction costs. As at the reporting date, the liabilities are measured at amortised cost with the use of the effective interest rate method.

Lease liabilities

Based on the accounting policies applied as of January 1st 2019, leases are recognised as right-of-use assets and liabilities to pay for those rights as at the date when the leased assets are available for use by the Group. Right-of-use assets are presented in Note 6.

At the lease commencement date, lease liabilities are measured at amounts equal to the present value of the following lease payments for the right to use of the underlying asset during the lease term:

- fixed lease payments (including substantially fixed payments), less any financial incentives payable;
- variable lease payments dependent on an index or a rate;
- amounts expected to be payable by the lessee under residual value guarantees;
- the exercise price of a purchase option if exercise of that option by the lessee is reasonably certain;
- lease termination fees if the lessee is entitled to exercise the option to terminate the lease and it is highly probable that the option will be exercised.

Lease payments are discounted at the lease interest rate, if that rate is readily determinable, or at the lessee's incremental borrowing rate.

Each lease is allocated between the liability and the finance cost. After initial recognition, lease liabilities are measured using the effective interest rate method. Carrying amounts of the liabilities are updated to reflect changes in the estimate of the lease term, purchase options, changes in lease payments, guaranteed residual value, and modifications to the lease contract.

The lease term is an irrevocable lease term; periods covered by lease extension or termination options are included in the lease term if there is reasonable certainty that the lease will be extended or the contract will not be terminated earlier.

(in PLN million, unless stated otherwise)

Significant estimates

Lease term

When determining the lease term, the Management Board takes into account all the facts and circumstances that give the economic incentive to exercise the option to extend the contract or not to exercise the option to terminate the contract. Periods covered by extension or termination options are included when determining the lease term if there is reasonable certainty that the contract will be renewed (extension option) or will not be terminated (termination option). Reassessment of whether there is reasonable assurance that the Group will exercise the extension option or will not exercise the termination option is made if a significant event or a significant change in circumstances occurs that affects such assessment and the Group can control the change or the circumstances.

Discount rates applied in the valuation of lease liabilities.

For the purpose of measuring lease liabilities and right-of-use assets, the Group estimated the incremental interest rates applied in discounting future cash flows. The incremental interest rates are defined as the sum of:

- the risk-free rate, determined based on IRS (Interest Rate Swap) at the time of maturity of the discount rate and the relevant base rate for a given currency, and
- the credit risk premium of the Group based on the credit margin.

The Group applied marginal interest rates ranging from 0.9% to 5.5%.

The process of determining a current incremental interest rate consists of the following steps:

- analysis of the lessee's current financing structure (e.g. the debt instruments held by the lessee and their terms);
- determination of the appropriate reference rate – for a given currency, economic conditions and the lease term;
- analysis of the other material lease terms, including the nature of the underlying assets.

As at December 31st 2020, the amount of the Group's payment obligations under short-term leases was PLN 2.2m.

In the reporting period, the Group did not enter into any sale and leaseback transactions.

The value of payments not included in the valuation of the lease liability is PLN 4.3m and relates to lease contracts not yet commenced but which the lessee is obliged to enter into.

The lease contracts outstanding as at December 31st 2020 do not impose any covenants on the Group.

In the reporting period and as at the date of authorisation of these financial statements for issue, there were no instances of default under material terms of any debt securities that could trigger accelerated repayment.

The Group's debt gives rise to liquidity risk. For detailed description of those risks and sensitivity analysis, see Note 7.3.

2020	In functional currency – PLN	In foreign currency	
		EUR	USD
Bank borrowings	181	1,044	770
Lease liabilities	2,022	1	60
Other	100	-	-
Total, including:	**2,303**	**1,045**	**830**
floating-rate	395	1,045	830
fixed-rate	1,908	-	-

2019	In functional currency – PLN	In foreign currency	
		EUR	USD
Bank borrowings	3,218	688	987
Lease liabilities	1,774	-	59
Other	20	-	-
Total, including:	**5,012**	**688**	**1,046**
floating-rate	3,357	688	1,046
fixed-rate	1,655	-	-

Interest on floating-rate debt denominated in the Polish złoty is calculated based on 1M WIBOR, 3M WIBOR or 6M WIBOR rates; USD-denominated debt: 1M LIBOR and 3M LIBOR rates; EUR-denominated debt: EONIA, 1M EURIBOR and 3M EURIBOR. Fixed interest rate is applicable only to PLN-denominated debt securities.

The Group's debt is subject to interest rate risk, currency risk and liquidity risk. For detailed information on these risks, see Note 7.3.

In the reporting period, the Group operated the following debt security issuance programme:

					Utilisation (%) as at	Outstanding debt (PLNbn) as at	
Start date	End date	Issuance programme	Participating banks as at the reporting date	Limit	Dec 31 2020	Dec 31 2020	Dec 31 2019
Authorised issuer: **PGNiG S.A.**							
December 21st 2017	October 28th 2025	Note programme	Bank Pekao S.A. ING Bank Śląski S.A. Bank Handlowy w Warszawie S.A. BNP Paribas Bank Polska S.A.	PLN 5bn	-	-	-

On October 28th 2020, PGNiG S.A. executed Annex 1 to the PLN 5bn Notes Programme Agreement of December 21st 2017 (the Programme) with the following issue arrangers: ING Bank Śląski S.A., Bank Polska Kasa Opieki S.A., Bank Handlowy w Warszawie S.A. and Bank BNP Paribas Bank Polska SA. Annex 1 aligns the Programme with the current legal framework and extends the Programme until October 28th 2025.

Under the Programme, PGNiG S.A. may issue fixed- or floating-rate notes with maturities of up to 10 years or zero-coupon notes by way of a public or private offering. The notes may be introduced to trading on the Catalyst multilateral trading facility. The notes will be issued to raise funds that will be used to meet the PGNiG Group's day-to-day financial needs related to the implementation of its strategy. No securities were issued under the Programme in the reporting period.

On June 24th 2019, PGNiG S.A. entered into an agreement terminating the PLN 7bn and PLN 1bn note programmes, replacing them with a PLN 10bn syndicated loan agreement with a five-year availability period. The agreement was concluded with a syndicate of nine banks. The facility replaced financing in the form of two underwritten note programmes for a total amount of PLN 8bn. The Company intends to use the facility to finance the day-to-day operations and capital expenditure of PGNiG S.A. and other companies the PGNiG Group.

					Utilisation (%) as at	Outstanding debt (PLNbn) as at	
Start date	End date	Issuance programme	Syndicate banks	Facility limit	Dec 31 2020	Dec 31 2020	Dec 31 2019
June 24th 2019	June 24th 2024	Credit facility	Bank Gospodarstwa Krajowego Bank Pekao S.A. ING Bank Śląski S.A. PKO BP S.A. Caixa Bank S.A. Polish Branch BNP Paribas Bank Polska S.A. Societe Generale S.A. Santander Bank Polska S.A. Intesa Sanpaolo S.P.A	PLN 10bn	-	-	3.0

In the current and comparative periods, the Group repaid its financing liabilities in a timely manner. In the reporting period and as at the date of authorisation of these financial statements for issue, there were no instances of default under material provisions of any credit facility, loan, or debt securities issue agreement that could trigger accelerated repayment.

5.2.1 Financing available but not drawn

	2020			2019		
	Facility limit	Drawn amount	Available amount	Facility limit	Drawn amount	Available amount
Credit facilities	16,418	(2,271)	14,147	12,203	(4,725)	7,478
Debt securities	5,000	-	5,000	5,000	-	5,000
Total	**21,418**	**(2,271)**	**19,147**	**17,203**	**(4,725)**	**12,478**

(in PLN million, unless stated otherwise)

5.3 Equity, dividends and capital management policies

Accounting policies

Share capital is disclosed at par value, in the amount specified in the Parent's Articles of Association and the entry in the court register.

Share premium comprises the positive difference between the issue price of shares and the par value of the shares which remains after covering issue costs.

Accumulated other comprehensive income includes exchange differences on translating foreign operations, effects of the application of cash-flow hedge accounting which are taken to equity, actuarial gains and losses on employee benefits, and valuation of financial assets available for sale.

Retained earnings are the aggregate of the profit for the reporting period and accumulated profits brought forward which were not distributed as dividend but were transferred to reserve funds or remained undistributed.

The key objective of the Group's capital management is to maintain the ability to continue its operations, taking into account investment plans, while increasing the Group's shareholder value. The PGNiG Group also monitors its ability to pay liabilities based on the net debt to EBITDA ratio (Note 5.1.).

5.3.1 Shareholding structure

PGNiG S.A.'s largest shareholder is the State Treasury, which as at December 31st 2020 held 71.88% of the Company shares and controlled the Group. For detailed information on the shareholding structure, see the Directors' Report on the operations of PGNiG S.A. and the PGNiG Group.

As at the end of 2020 and 2019, the Company's share capital comprised 5,778,314,857 shares with a par value of PLN 1 per share.

2020	Number of shares	Total par value	Ownership interest % / total voting rights held
Shareholder			
State Treasury	4,153,706,157	4,153,706,157	71.88%
Other shareholders	1,624,608,700	1,624,608,700	28.12%
Total	**5,778,314,857**	**5,778,314,857**	**100.00%**

2019	Number of shares	Total par value	Ownership interest % / total voting rights held
Shareholder			
State Treasury	4,153,706,157	4,153,706,157	71.88%
Other shareholders	1,624,608,700	1,624,608,700	28.12%
Total	**5,778,314,857**	**5,778,314,857**	**100.00%**

5.3.2 Dividend paid and proposed

On June 24th 2020, the Annual General Meeting of PGNiG S.A. resolved to distribute PLN 1,628,957,224.65, comprising PGNiG's net profit for 2019 of PLN 1,7747,606,301.26 and the uncovered loss brought forward resulting from the implementation of new accounting standards (IFRS 9 in 2018 and IFRS 16 in 2019) of PLN 118,649,076.61 as follows:

- PLN 520,048,337.13 was allocated to dividend payment,
- PLN 1,108,908,887.52 was allocated to statutory reserve funds of the Company.

The dividend of PLN 0.09 per share was paid from 5,778,314,857 shares.

The dividend record date and the dividend payment date were set for July 20th 2020 and August 3rd 2020, respectively.

	2020	2019
Dividend paid in the period		
Dividend per share paid (PLN)	0.09	0.11
Number of shares	5,778	5,778
Dividend paid	**520**	**636**
dividend paid to owners of the parent	520	636
dividend paid to minority shareholders	-	-

For detailed information on the dividend policy, see Directors' Report on the operations of PGNiG S.A. and the PGNiG Group.

(in PLN million, unless stated otherwise)

5.4 Cash and cash equivalents

Accounting policies

Cash and cash equivalents include cash at bank and in hand as well as highly liquid current financial assets with the original maturity of up to three months, which are readily convertible into specific cash amounts and subject to an insignificant risk of fluctuation in value. This item also includes amounts deposited in VAT split payment accounts.

Cash and cash equivalents are tested for impairment using individual analysis based on an assessment of the creditworthiness of the financial institutions they are deposited with, in accordance with the expected loss model.

In the statement of financial position, cash and cash equivalents are presented net of outstanding current account debt.

	2020	2019
Cash at banks	1,383	874
Bank deposits	4,753	1,767
Other cash	964	396
Total gross carrying amount	**7,100**	**3,037**
Impairment loss	(2)	-
Total net carrying amount	**7,098**	**3,037**
including restricted cash	1,208	634

The Group classifies the following as cash equivalents: commercial bills, treasury bills, NBP bills, certificates of deposit, cash in transit, cheques and third-party notes maturing in less than three months. Risks associated with cash and cash equivalents include the credit risk, foreign exchange risk, and interest rate risk. For detailed information on these risks, see Note 7.3.

(in PLN million, unless stated otherwise)

5.5 Additional information on consolidated statement of cash flows

5.5.1 Reconciliation of movements in working capital with the statement of cash flows

2020	Difference resulting from the statement of financial position	Change in current tax receivable/payable	Net cash from investing activities	Net cash from financing activities	Changes in the Group	Non-cash transactions	Net cash from operating activities (movements in working capital)
Inventories	1,358	-	-	-	-	-	1,358
Receivables	216	59	185	-	(1)	(128)	331
Other assets	42	-	(69)	(6)	-	58	25
Trade and tax payables	(190)	(35)	(214)	-	1	(21)	(459)
Employee benefit obligations	70	-	-	-	-	155	225
Provision for decommissioning, restoration and environmental remediation costs	9	-	(717)	-	-	731	23
Other provisions	88	-	-	-	1	11	100
Grants	1	-	(26)	-	-	(9)	(34)
Other liabilities	(514)	-	-	-	-	(41)	(555)
Total working capital	**1,080**	**24**	**(841)**	**(6)**	**1**	**756**	**1,014**

2019	Difference resulting from the statement of financial position	Change in current tax receivable/payable	Net cash from investing activities	Net cash from financing activities	Changes in the Group	Non-cash transactions	Net cash from operating activities (movements in working capital)
Inventories	(678)	-	-	-	-	-	(678)
Receivables	238	(6)	160	-	-	(81)	311
Other assets	(55)	-	(104)	19	-	74	(66)
Trade and tax payables	(261)	286	132	-	-	18	175
Employee benefit obligations	51	-	-	-	-	82	133
Provision for decommissioning, restoration and environmental remediation costs	(82)	-	(385)	-	-	463	(4)
Other provisions	78	-	-	-	-	75	153
Grants	7	-	(27)	-	-	(15)	(35)
Other liabilities	580	-	-	-	-	(43)	537
Total working capital	**(122)**	**280**	**(224)**	**19**	**-**	**573**	**526**

5.5.2 Other non-cash adjustments to the statement of cash flows

	2020	2019
Net interest and dividend	7	42
Net foreign exchange gains/(losses)	138	(13)
Profit/(loss) from equity-accounted investees	595	236
Derivative financial instruments	344	(351)
Written-off expenditure on non-financial non-current assets	201	261
Acquired CO_2 emission allowances	(447)	(470)
Other items, net	(56)	(89)
Other non-cash adjustments	**782**	**(384)**

5.5.3 Change in exchange differences and impairment losses on cash and cash equivalents

	2020	2019
a) Net exchange differences on cash at beginning of the period	(4)	(3)
b) Net cash write-downs at beginning of the period	-	-
c) Net exchange differences on cash at end of the period	(152)	(4)
b) Net cash write-downs at end of the period	(2)	-
I. Change in net exchange differences on cash (c-a)	(148)	(1)
II. Change in cash write-downs (d-b)	(2)	-

(in PLN million, unless stated otherwise)

6. Notes to the statement of financial position

6.1 Non-current property, plant and equipment and intangible assets

6.1.1 Property, plant and equipment and related provisions

Accounting policies

Property, plant and equipment

The most material items of property, plant and equipment are buildings and structures, and plant and equipment, mostly associated with exploration for and production of natural gas and crude oil, as well as with gas trading, storage and distribution. The Group also has vehicles and land. Tangible assets under construction include mostly capitalised expenditure on exploration for and evaluation of oil and gas deposits incurred until production commences or the assets are written off (for detailed accounting policies, see 'Exploration and evaluation assets').

Material spare parts and maintenance equipment are disclosed as property, plant and equipment if the Group expects to use such spare parts or equipment for a period longer than one year and they may be assigned to specific items of property, plant and equipment.

Property, plant and equipment are carried at cost less accumulated depreciation and impairment (for information on policies governing the recognition of impairment, see Note 6.1.3.).

The initially recognised cost of gas pipelines and gas storage facilities (classified in buildings and structures) includes the value of gas used to fill the pipelines or facilities for the first time. The amount of gas required to fill a pipeline or a storage chamber for the first time equals the amount required to obtain the minimum operating pressure in the pipeline or chamber.

The cost of property, plant and equipment includes also borrowing costs.

Costs of day-to-day maintenance and repairs of property, plant and equipment are expensed as incurred. In the event of a leak, the costs of pipeline refilling or replacing lost fuel are charged to profit or loss in the period when they were incurred.

Depreciation methods and periods for property, plant and equipment:

Category	Depreciation method	Useful life	Average remaining useful life as at the reporting date
Buildings and structures	Straight-line method	1−58 years	34
Plant and equipment	Straight-line method	1−50 years	16
Vehicles	Straight-line method	1−18 years	11
Other property, plant and equipment	Straight-line method	1−35 years	14
Reserves in the Norwegian Continental Shelf	Units of production method*	more than 10 years	more than 10 years
Land		Not depreciated	
Tangible assets under construction		Not depreciated	

**The amounts of production and products sold are strongly correlated, and contracts on sale of hydrocarbons from the Norwegian Continental Shelf preclude major discrepancies between the production volumes and sales volumes, which justifies the applied depreciation method.*

Right-of-use assets

Leases are recognised as right-of-use assets and liabilities to pay for those rights as at the date when the leased assets are available for use by the Group. For information on the accounting for lease liabilities, see Note 5.2.

Right-of-use assets are presented under property, plant and equipment in the statement of financial position.

Right-of-use assets are initially measured at cost, which includes:

- the amount of the lease liability as initially measured;
- any lease payments made at or prior to commencement, less any lease incentives received;
- any initial direct costs incurred by the lessee,
- an estimate of the costs of disassembly, removal of the underlying asset and renovation.

Following initial recognition, right-of-use assets are measured at cost less accumulated depreciation, any accumulated impairment losses and adjusted remeasurement of the lease liability due to either reassessment or modification of the lease.

The right-of-use assets are amortised over the useful life of the asset or the lease term, whichever is shorter, using the straight-line method.

When determining the cost of a right-of-use asset, the Group estimated the costs expected to be incurred on land restoration, based on information on current prices of restoration services.

Payments associated with all short-term leases and leases of low-value assets are recognised on a straight-line basis as expense in profit or loss. For low-value assets, the Group selects the method of accounting treatment on a case-by-case basis – the Group has assumed that if such asset is subleased then the right-of-use asset is recognised together with the corresponding lease liability if such asset is subleased, while for all other leases of low-value assets, the lease payments associated with those leases are recognised as an expense on a straight-line basis over the lease term.

Short-term leases are leases whose term is 12 months or less.

Low-cost assets include small office and ICT equipment.

Depreciation periods for right-of-use assets:

Category	Useful life
Right-of-use asset – land	1−99 years
Right-of-use asset – buildings and structures	1−40 years
Right-of-use asset – machinery and equipment	1−40 years
Right-of-use asset – vehicles	1−15 years
Right-of-use asset – other	1−39 years

Exploration and evaluation expenditure

Natural gas and crude oil exploration and evaluation expenditure covers geological work performed to discover and document deposits and is accounted for with the successful efforts method.

Natural gas and/or crude oil (mineral) deposits can be evaluated once the Group obtains:

- A licence for appraisal of mineral deposits,
- A licence for exploration for and appraisal of mineral deposits,
- A signed agreement establishing mining rights.

The cost of a licence for appraisal of natural gas and/or crude oil deposits and the cost of its extension is equal to the fees charged for conducting the licensed operations. The Group recognises the costs of such appraisal licences as intangible assets.

Expenditure on seismic surveys is capitalised in exploration and evaluation assets.

Expenditure incurred on individual wells is initially capitalised in tangible exploration and evaluation assets under construction. If exploration activities are successful and lead to a discovery of recoverable reserves, the Group analyses the areas and structures to determine whether production would be economically viable. If following the evaluation process a decision is made to launch commercial production of hydrocarbons, the Group reclassifies the tangible exploration and evaluation assets under construction to property, plant and equipment after the production launch.

If exploration is unsuccessful or the Group entity does not file for a licence for appraisal of natural gas and/or crude oil reserves following an analysis of the areas and structures in terms of economic viability of commercial production, the full amount of capitalised expenditure incurred on the wells drilled in the exploration phase is expensed to profit or loss in the period in which the decision to discontinue exploration was made. Capitalised seismic survey expenses related to a given structure are also recognised in profit or loss.

Provisions related to property, plant and equipment: provision for well decommissioning costs and the Extraction Facilities Decommissioning Fund

The provision for well decommissioning costs is recognised when the Group has the obligation to properly decommission and abandon wells after production is discontinued. The Group recognises provisions for costs of decommissioning of exploration, production and storage wells. Discounted amounts of such provisions are added to the initial cost of wells recognised in exploration and evaluation assets or in property, plant and equipment, and in the latter case are depreciated over the useful lives of the items to which they relate.

The amount of the provision for future costs of decommissioning of production and storage wells is adjusted for the amount of the Extraction Facilities Decommissioning Fund.

The Extraction Facilities Decommissioning Fund is created on the basis of the Mining and Geological Law, which requires the Group to decommission extraction facilities once their operation is discontinued. The fund’s resources comprise restricted cash in accordance with IAS 7, presented – due to its long-term nature – under long-term assets.

For detailed information on the provision for decommissioning of wells and the Extraction Facilities Decommissioning Fund, see Note 6.3.2.

(in PLN million, unless stated otherwise)

Significant estimates

Useful lives of property, plant and equipment

The useful lives of the property, plant and equipment were determined on the basis of assessments made by the engineering personnel responsible for their operation. Any such assessment is connected with uncertainty as to the future business environment, technology changes and market competition, which could lead to a different assessment of the economic usefulness of the assets and their remaining useful lives, and ultimately have a material effect on the value of the property, plant and equipment and the future depreciation charges.

The Group reviews the useful lives of property, plant and equipment on an annual basis. As a result of the most recent review, made as at December 31st 2020, depreciation expense was reduced by about PLN 60m.

Total property, plant and equipment:

	2020			2019		
	Gross carrying amount	Accumulated depreciation and impairment	Net carrying amount	Gross carrying amount	Accumulated depreciation and impairment	Net carrying amount
Land	144	(13)	131	142	(12)	130
Buildings and structures	40,481	(19,496)	20,985	37,445	(17,640)	19,805
Plant and equipment	20,710	(12,040)	8,670	18,631	(10,433)	8,198
Vehicles and other	3,493	(2,188)	1,305	3,303	(2,031)	1,272
Total own tangible assets	**64,828**	**(33,737)**	**31,091**	**59,521**	**(30,116)**	**29,405**
Right-of-use asset – land	2,641	(217)	2,424	2,386	(141)	2,245
Right-of-use asset – buildings and structures	403	(123)	280	377	(99)	278
Right-of-use asset – machinery and equipment	215	(37)	178	186	(24)	162
Right-of-use asset – vehicles	49	(20)	29	45	(10)	35
Total right-of-use assets	**3,308**	**(397)**	**2,911**	**2,994**	**(274)**	**2,720**
Tangible exploration and evaluation assets under construction	4,219	(1,511)	2,708	3,725	(1,164)	2,561
Other tangible assets under construction	5,968	(113)	5,855	5,357	(41)	5,316
Total property, plant and equipment	**78,323**	**(35,758)**	**42,565**	**71,597**	**(31,595)**	**40,002**

The Group has off-balance-sheet liabilities under executed agreements on acquisition of property, plant and equipment which have not yet been disclosed in the statement of financial position.

	2020	2019
Obligations assumed under agreements on acquisition of property, plant and equipment	10,609	9,395
Portion discharged as at the reporting date	(3,904)	(4,183)
Contractual obligations to be met after the reporting date	**6,705**	**5,212**

(in PLN million, unless stated otherwise)

Changes in own property, plant and equipment

	Note	Land	Buildings and structures	Plant and equipment	Vehicles and other	Total own tangible assets	Other tangible assets under construction: Tangible exploration and evaluation assets under construction	Other tangible assets under construction: Other	Total property, plant and equipment
Gross carrying amount as at Jan 1 2019		**117**	**35,382**	**18,171**	**3,153**	**56,823**	**3,185**	**3,363**	**63,371**
Accumulated amortisation		-	(14,567)	(8,867)	(1,903)	**(25,337)**	-	-	**(25,337)**
Impairment losses		(11)	(1,775)	(747)	(41)	**(2,574)**	(1,177)	(47)	**(3,798)**
Net carrying amount as at Jan 1 2019		**106**	**19,040**	**8,557**	**1,209**	**28,912**	**2,008**	**3,316**	**34,236**
IFRS 16 adjustment		20	(166)	(57)	(7)	**(210)**	-	-	**(210)**
Exchange differences on translating foreign operations		-	-	(1)	-	**(1)**	-	(13)	**(14)**
Acquisition		-	-	-	-	**-**	1,184	4,848	**6,032**
Disposal		-	(7)	(7)	(5)	**(19)**	-	-	**(19)**
Provision for well decommissioning costs	*Note 6.3.2.*	-	343	-	-	**343**	15	83	**441**
Transfer from tangible assets under construction		-	2,110	746	323	**3,179**	(405)	(3,037)	**(263)**
Transfers between asset groups and between items of the statement of financial position		-	(3)	37	1	**35**	(16)	16	**35**
Depreciation and amortisation expense		-	(1,181)	(1,028)	(245)	**(2,454)**	-	-	**(2,454)**
Impairment losses		-	(267)	(29)	1	**(295)**	13	6	**(276)**
Capitalised interest		-	-	-	-	**-**	21	64	**85**
Retirement		(2)	(65)	(16)	(6)	**(89)**	-	-	**(89)**
Tangible assets under construction written off without bringing economic effects		-	-	-	-	**-**	(258)	(3)	**(261)**
Other changes		6	1	(4)	1	**4**	(1)	36	**39**
Gross carrying amount as at Dec 31 2019		**142**	**37,445**	**18,631**	**3,303**	**59,521**	**3,725**	**5,357**	**68,603**
Accumulated amortisation		(1)	(15,598)	(9,657)	(1,991)	**(27,247)**	-	-	**(27,247)**
Impairment losses		(11)	(2,042)	(776)	(40)	**(2,869)**	(1,164)	(41)	**(4,074)**
Net carrying amount as at Dec 31 2019		**130**	**19,805**	**8,198**	**1,272**	**29,405**	**2,561**	**5,316**	**37,282**
Exchange differences on translating foreign operations		-	-	98	-	**98**	16	49	**163**
Acquisition		-	-	-	-	**-**	882	5,127	**6,009**
Transferred from leases/ new contracts		-	-	-	-	**-**	-	2	**2**
Disposal		-	(19)	(1)	(2)	**(22)**	-	-	**(22)**
Provision for well decommissioning costs	*Note 6.3.2.*	-	445	-	-	**445**	51	210	**706**
Transfer from tangible assets under construction		2	2,689	2,043	310	**5,044**	(256)	(4,920)	**(132)**
Transfers between asset groups and between items of the statement of financial position		-	(3)	9	5	**11**	(5)	3	**9**
Depreciation and amortisation expense		-	(1,206)	(1,258)	(256)	**(2,720)**	-	-	**(2,720)**
Impairment losses		(1)	(703)	(405)	(22)	**(1,131)**	(347)	(72)	**(1,550)**
Changes in the Group		-	-	-	-	**-**	-	21	**21**
Capitalised interest		-	-	-	-	**-**	12	93	**105**
Retirement		-	(24)	(10)	(4)	**(38)**	-	-	**(38)**
Tangible assets under construction written off without bringing economic effects		-	-	-	-	**-**	(198)	(3)	**(201)**
Other changes		-	1	(4)	2	**(1)**	(8)	29	**20**
Gross carrying amount as at Dec 31 2020		**144**	**40,481**	**20,710**	**3,493**	**64,828**	**4,219**	**5,968**	**75,015**
Accumulated amortisation		(1)	(16,751)	(10,859)	(2,126)	**(29,737)**	-	-	**(29,737)**
Impairment losses		(12)	(2,745)	(1,181)	(62)	**(4,000)**	(1,511)	(113)	**(5,624)**
Net carrying amount as at Dec 31 2020		**131**	**20,985**	**8,670**	**1,305**	**31,091**	**2,708**	**5,855**	**39,654**

(in PLN million, unless stated otherwise)

Change in right-of-use assets

	Land	Buildings and structures	Plant and equipment	Vehicles and other	Total right-of-use assets	Other tangible assets under construction		Total right-of-use assets relating to property, plant and equipment
						Tangible exploration and evaluation assets under construction	Other	
Gross carrying amount as at Jan 1 2019	-	-	-	-	-	-	-	-
Accumulated amortisation	-	-	-	-	-	-	-	-
Impairment losses	-	-	-	-	-	-	-	-
Net carrying amount as at Jan 1 2019	-	-	-	-	-	-	-	-
IFRS 16 adjustment	2,246	278	213	38	**2,775**	-	3	**2,778**
Acquisition	-	-	-	-	**-**	-	1	**1**
Transferred from leases/ new contracts	69	10	-	4	**83**	-	5	**88**
Disposal	(2)	-	-	-	**(2)**	-	-	**(2)**
Transfer from tangible assets under construction	40	10	4	2	**56**	-	(9)	**47**
Transfers between asset groups and between items of the statement of financial position	(1)	-	(38)	-	**(39)**	-	-	**(39)**
Depreciation and amortisation expense	(62)	(26)	(15)	(9)	**(112)**	-	-	**(112)**
Impairment losses	(46)	-	-	-	**(46)**	-	-	**(46)**
Capitalised interest	-	-	-	-	**-**	-	-	**-**
Retirement	(5)	-	(2)	-	**(7)**	-	-	**(7)**
Other changes	6	6	-	-	**12**	-	-	**12**
Gross carrying amount as at Dec 31 2019	**2,386**	**377**	**186**	**45**	**2,994**	-	-	**2,994**
Accumulated amortisation	(72)	(98)	(24)	(10)	**(204)**	-	-	**(204)**
Impairment losses	(69)	(1)	-	-	**(70)**	-	-	**(70)**
Net carrying amount as at Dec 31 2019	**2,245**	**278**	**162**	**35**	**2,720**	-	-	**2,720**
Exchange differences on translating foreign operations	-	1	2	-	**3**	-	-	**3**
Acquisition	-	-	-	-	**-**	-	1	**1**
Transferred from leases/ new contracts	298	11	4	11	**324**	-	2	**326**
Disposal	(9)	-	-	-	**(9)**	-	-	**(9)**
Transfer from tangible assets under construction	2	1	1	3	**7**	-	(4)	**3**
Transfers between asset groups and between items of the statement of financial position	(19)	10	(2)	(10)	**(21)**	-	-	**(21)**
Depreciation and amortisation expense	(69)	(26)	(14)	(11)	**(120)**	-	-	**(120)**
Impairment losses	(8)	-	-	(2)	**(10)**	-	-	**(10)**
Capitalised interest	-	-	-	-	**-**	-	-	**-**
Retirement	(5)	(2)	-	(1)	**(8)**	-	-	**(8)**
Other changes	(11)	7	25	4	**25**	-	1	**26**
Gross carrying amount as at Dec 31 2020	**2,641**	**403**	**215**	**49**	**3,308**	-	-	**3,308**
Accumulated amortisation	(140)	(122)	(37)	(18)	**(317)**	-	-	**(317)**
Impairment losses	(77)	(1)	-	(2)	**(80)**	-	-	**(80)**
Net carrying amount as at Dec 31 2020	**2,424**	**280**	**178**	**29**	**2,911**	-	-	**2,911**

6.1.2 Intangible assets

Accounting policies

Intangible assets

The Group identifies the following main categories of intangible assets:

- Software,
- CO_2 emission allowances,
- Licences obtained under the Polish Geological and Mining Law, mining rights and geological information ("Licences").

CO_2 emission allowances

Pursuant to the Act on Trading in Greenhouse Gas Emission Allowances, the Group holds CO_2 emission allowances allocated for individual installations.

The Group classifies emission allowances as:

- Acquired for redemption – recognised as intangible assets and measured in accordance with the policies discussed below,
- Acquired for resale – recognised as inventory (Note 6.2.1) and measured initially at cost; at the end of each reporting period they are measured at the lower of cost or net realisable value,
- Received free of charge under the National Allocation Plan – recognised as off-balance-sheet items at nominal value (equal to zero).

Licences, mining rights and rights to geological information

In its exploration and production operations, the Group uses licences for exploration, appraisal and production of natural gas and/or crude oil granted under the Polish Geological and Mining Law. The Group also uses mining rights and rights to geological information.

Costs of licences for exploration for and production of natural gas and/or crude oil and charges for the grant of mining rights payable to the State Treasury are disclosed as capitalised expenditure.

Measurement

The Group initially recognises intangible assets at cost. In the case of granted mining rights, the initial value is equal to the charges paid to the State Treasury for the grant of the mining rights.

Subsequent to initial recognition, intangible assets are carried at cost less accumulated amortisation and impairment (for accounting policies relating to impairment, see Note 6.1.3.).

Intangible assets are amortised using the straight-line method based on amortisation rates that reflect the expected useful lives of the assets. Acquired CO_2 emission allowances are amortised depending on the actual emission volumes.

Significant estimates

Useful lives of intangible assets

The useful lives of intangible assets were determined on the basis of assessments made by the engineering personnel responsible for their use. Any such assessment is connected with uncertainty as to the future business environment, technology changes and market competition, which could lead to a different assessment of the economic usefulness of the assets and their remaining useful lives, and ultimately have a material effect on the value of intangible assets and the future amortisation charges.

The estimated amortisation period and amortisation method are reviewed at the end of each financial year. If the forecast useful life of an asset is significantly different from previous estimates, the amortisation period is changed. Such transactions are recognised by the Group as revision of estimates and are recognised in profit or loss in the period in which such estimates are revised.

As a result of the review as at December 31st 2020, annual amortisation expense was reduced by about PLN 3m .

(in PLN million, unless stated otherwise)

Intangible assets

	Perpetual usufruct right to land	CO_2 emission allowances	Software	Licences	Other intangible assets	Total
Gross carrying amount as at Jan 1 2019	**663**	**808**	**545**	**257**	**587**	**2,860**
Accumulated amortisation	(12)	(684)	(444)	(81)	(382)	**(1,603)**
Impairment losses	(21)	-	(4)	(57)	(2)	**(84)**
Net carrying amount as at Jan 1 2019	**630**	**124**	**97**	**119**	**203**	**1,173**
IFRS 16 adjustment	(630)	-	-	-	(1)	**(631)**
Transfer from tangible assets under construction	-	41	55	70	49	**215**
Acquisition	-	470	-	-	-	**470**
Depreciation and amortisation expense	-	(373)	(40)	(27)	(45)	**(485)**
Impairment losses	-	-	-	(12)	-	**(12)**
Retirement	-	-	-	(1)	-	**(1)**
Gross carrying amount as at Dec 31 2019	**-**	**1,303**	**561**	**320**	**615**	**2,799**
Accumulated amortisation	-	(1,041)	(445)	(102)	(407)	**(1,995)**
Impairment losses	-	-	(4)	(69)	(2)	**(75)**
Net carrying amount as at Dec 31 2019	**-**	**262**	**112**	**149**	**206**	**729**
Transfer from tangible assets under construction	-	54	33	5	37	**129**
Transfers between asset groups and between items of the statement of financial position	-	-	(1)	-	2	**1**
Acquisition	-	447	-	-	-	**447**
Depreciation and amortisation expense	-	(464)	(46)	(22)	(49)	**(581)**
Impairment losses	-	-	(1)	(8)	(2)	**(11)**
Other changes	-	(6)	-	-	(15)	**(21)**
Gross carrying amount as at Dec 31 2020	**-**	**1,768**	**578**	**320**	**628**	**3,294**
Accumulated amortisation	-	(1,475)	(476)	(119)	(445)	**(2,515)**
Impairment losses	-	-	(5)	(77)	(4)	**(86)**
Net carrying amount as at Dec 31 2020	**-**	**293**	**97**	**124**	**179**	**693**

6.1.3 Impairment of non-financial assets

Significant estimates

Impairment of non-financial assets

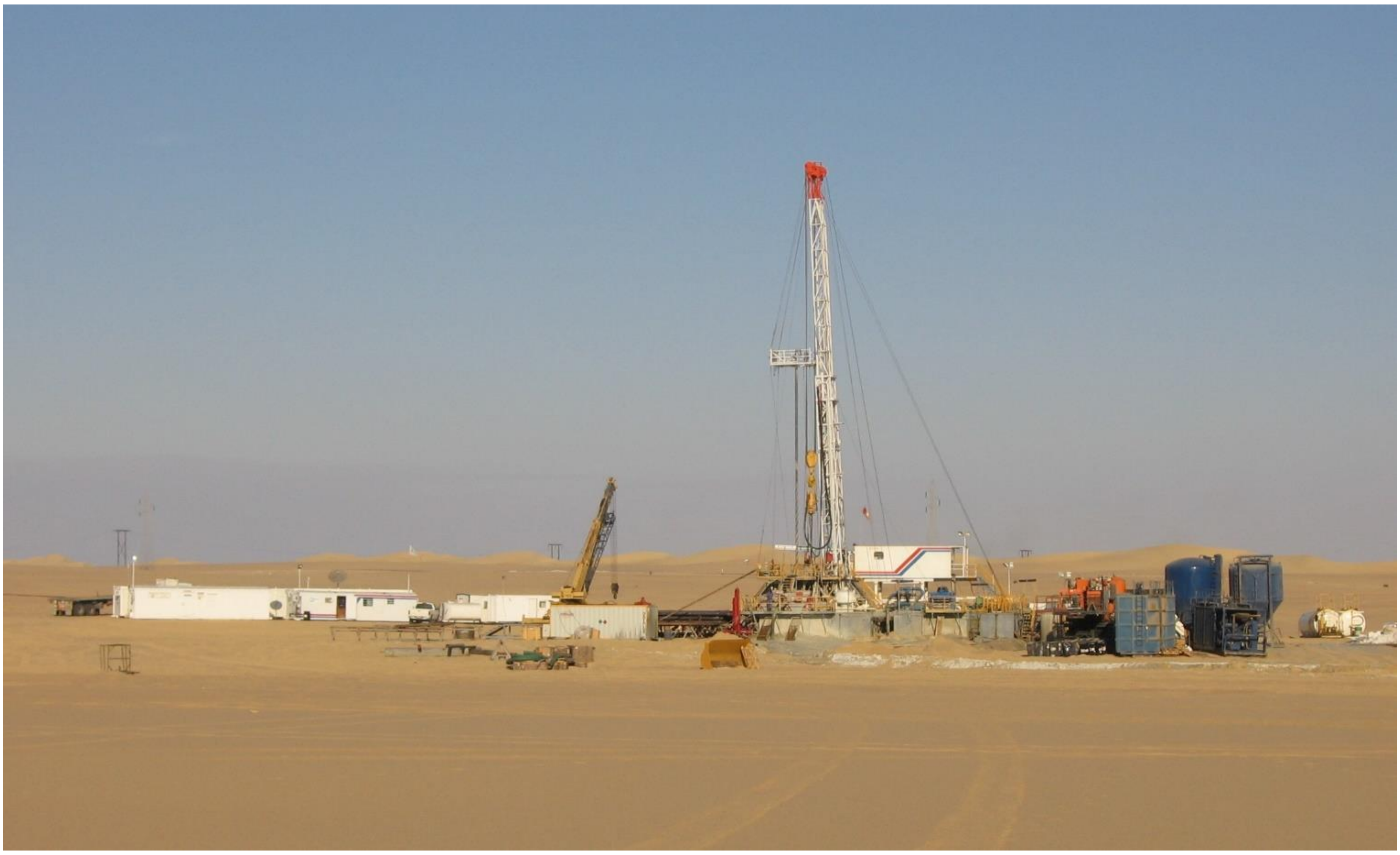
Property, plant and equipment and intangible assets are tested for impairment when there are indications of impairment. Impairment tests are based on the comparison of the carrying amount of an asset (or cash-generating unit if the asset does not independently generate separate cash inflows) with its recoverable amount, equal to the higher of its fair value less cost to sell and value in use.

If the recoverable amount is lower than the carrying amount of an asset (or cash-generating unit), the carrying amount is decreased to the recoverable amount of the asset (or cash-generating unit). An impairment loss is recognised as cost of the period in which the impairment loss arose.

Balances of impairment losses in respect of property, plant and equipment are presented in the table below:

	2020			2019		
	Upstream operations	Trade and storage	Other	Upstream operations	Trade and storage	Other
Land	(30)	-	(59)	(21)	-	(59)
Buildings and structures	(2,459)	(53)	(234)	(1,822)	(50)	(171)
Plant and equipment	(771)	(319)	(91)	(379)	(318)	(79)
Vehicles and other	(59)	(1)	(4)	(35)	(1)	(4)
Tangible assets under construction:						
Exploration and evaluation assets under construction	(1,511)	-	-	(1,164)	-	-
Other assets under construction	(68)	-	(45)	-	-	(41)
Total	**(4,898)**	**(373)**	**(433)**	**(3,421)**	**(369)**	**(354)**
Total at end of the period		**(5,704)**			**(4,144)**	

As at the reporting date, the Group's main operating assets, i.e. oil and gas production assets, gas fuel storage facilities, power generating unit, leased assets (including CNG stations, transmission assets, other property), LNG regasification units, and tangible assets under construction (wells under construction) were tested for impairment.



Impact of COVID-19 on impairment of non-financial assets

Impairment losses on non-current assets are the result of an assessment of the recoverable amount of assets based on an analysis of future cash flows, in particular based on current and projected paths of hydrocarbon prices on international markets. The COVID-19 epidemic is one of the factors that have significantly contributed to a sharp decline in hydrocarbon prices, which is also reflected in long-term forecasts of gas and oil prices. The strongest impact of COVID-19 was recorded in the first half of 2020, when the Group recognised its first impairment losses to account for the impact of COVID-19 on hydrocarbon prices. As at the end of 2020, impairment losses of PLN 685m were recognised on domestic non-current hydrocarbon assets (PGNiG S.A. assets), and impairment losses of PLN 441m on non-current hydrocarbon assets located outside of Poland (mainly PGNiG Upstream Norway assets).

Below is presented basic information on the performed tests, relating to those areas where the largest amounts of impairment losses were recognised.

(in PLN million, unless stated otherwise)

Description of cash generating unit:	*In the case of assets classified as assets of oil and gas production units, impairment tests were performed for the individual cash-generating units ("CGUs"), represented by specific production units.*

	2020		2019	
	impairment loss reversal	**impairment loss recognition**	**impairment loss reversal**	**impairment loss recognition**
Description of cash generating unit:	**CGU - 161 production units**		**CGU - 162 production units**	
Reasons for impairment / value increase	*Update of production forecast to account for new wells brought on stream	* Change in price forecasts – decline in oil prices. * Update of production forecast to account for deterioration of reservoir conditions experienced by certain production units. * Update of the provision for well decommissioning.	* Decrease in the WACC discount rate in 2019. * Update of production forecast based on well tests and taking into account new wells brought on stream.	* Change in price forecasts – decline in oil prices. * Update of production forecast to account for deterioration of reservoir conditions experienced by certain production units.
Value in use	17,300		21,476	
Nominal pre-tax discount rate	Poland 10.81% -11.98%		Poland 10.32% -12.08%	
	Pakistan: 25.92% - 29.68%		Pakistan: 19.30% - 21.42%	
Amount of recognised impairment loss	**210**	**998**	**185**	**576**

Description of cash generating unit:	*Impairment tests were performed for individual CGUs, represented by specific wells.*

	2020		2019	
	impairment loss reversal	**impairment loss recognition**	**impairment loss reversal**	**impairment loss recognition**
Description of cash generating unit:	**CGU - 78 wells**		**CGU - 79 wells**	
Reasons for impairment / value increase	* Update of production forecast and reduction of planned expenditures.	* Decision to abandon drilling plans following unsatisfactory results of geological work. *Increase in WACC discount rate in 2020 relative to December 2019. * Update of production forecast following well tests. * Change in price forecasts – decline in oil and gas prices during production periods.	* Decrease in the WACC discount rate in 2019. * Update of production forecast and reduction of planned expenditures. * Drilling of production wells	* Decision to abandon drilling plans following unsatisfactory results of geological work. * Update of production forecast following well tests. * Change in price forecasts – decline in oil and gas prices during production periods.
Value in use	2,378		2,741	
Nominal pre-tax discount rate	Poland 11.73% - 12.95%		Poland 11.29% - 13.02%	
Amount of recognised impairment loss	**13**	**463**	**152**	**281**

**** The note does not include reversal of impairment loss on property, plant and equipment under construction which have been expenses (negative wells) and recognition of impairment loss on seismic surveys.***

(in PLN million, unless stated otherwise)

Description of cash generating unit:	*In the case of assets classified as assets of oil and gas production units, impairment tests were performed for the individual cash-generating units ("CGUs"), represented by specific production units.*

	2020		2019	
	impairment loss reversal	**impairment loss recognition**	**impairment loss reversal**	**impairment loss recognition**
Description of cash generating unit:	**CGU - 9 production units**		**CGU - 8 production units**	
Reasons for impairment / value increase	Increase in proven reserves	* Deteriorated macroeconomic conditions (discount rate, hydrocarbon prices). * Changes in the tax regime accelerated consumption of the tax credit (the value had a positive effect on the 2020 result at the expense of future cash flows). * Downward revision of production forecasts for selected fields.	no impairment loss reversal	no impairment loss recognition
Value in use (PLN)	4,120		3,703	
Nominal pre-tax discount rate	7.22%		6.22%	
Amount of recognised impairment loss (PLN)	**14**	**380**	**0**	**0**

Description of cash generating unit:	*Assets used under operating lease contracts*

	2020		2019	
	impairment loss reversal	**impairment loss recognition**	**impairment loss reversal**	**impairment loss recognition**
Description of cash generating unit	**CGU – 169 units**		**CGU – 170 units**	
Reasons for impairment / value increase	* Higher rental income from certain properties. * Lower cost of planned repairs and property maintenance costs.	*Higher costs of property maintenance. *The sum of discounted cash flows and residual value is lower than the net value of property, plant and equipment.	* Higher rental income from certain properties. * Lower cost of planned repairs and property maintenance costs.	* Increase in the carrying amount of assets by the amount of items pertaining to the right of land usufruct (in accordance with IFRS 16) * Increase in the carrying amount of assets (completed investment) which do not generate additional income
Value in use (PLN)	203		144	
Nominal pre-tax discount rate	3.32% - 6.92%		3.97% - 8.52%	
Amount of recognised impairment loss (PLN)	**4**	**90**	**2**	**25**

Summary table (all cash-generating units in total)

	2020		2019	
	impairment loss reversal	**impairment loss recognition**	**impairment loss reversal**	**impairment loss recognition**
Value in use of assets tested for impairment	19,881		24,362	
Amount of recognised impairment loss (PLN)	**241**	**1,931**	**339**	**882**

(in PLN million, unless stated otherwise)

6.2 Working capital

6.2.1 Inventories

Accounting policies

The Group's most material inventory items include:

- gas fuel and fuels for electricity and heat generation,
- certificates of origin for electricity obtained in connection with electricity production and certificates of origin for electricity purchased in order to be surrendered for cancellation in connection with the Group's obligation under the Energy Law,
- energy efficiency (white) certificates, purchased by the Group, to be surrendered for cancellation and obtained in connection with efficiency enhancing measures taken under the Energy Efficiency Act,
- consumables used in investment projects and at oil and gas production facilities,
- spare parts that do not qualify as property, plant and equipment (Note 6.1.1.) and are used or may be used in different facilities.

Inventories are initially measured at cost. As at the reporting date, inventories are measured at the lower of cost and net realisable value.

Inventories of high-methane gas in storage are measured jointly for all storage units, at the average weighted cost. Changes in the inventories of gas fuel stored in the Underground Gas Storage Facilities for sale and own consumption, as well as balance-sheet differences, are measured at the average weighted cost, which includes in particular: costs of purchase of gas from all sources together with an appropriate portion of costs of system and transaction charges, actual costs of its production from domestic sources, costs of nitrogen removal and regasification.

LNG inventories are measured at actual production cost or purchase price, depending on the source. The purchase price is increased by acquisition costs, including costs of transporting the gas to the storage site (including towing and mooring services, port fees, etc.). LNG inventories are measured using the weighted average method. Changes in LNG inventories (sale and consumption, including regasification) are measured at the average actual unit cost in a given reporting period for a given location.

Changes in inventories of spare parts are measured using the weighted average method. Spare parts are recognised in profit or loss as at the date of their use.

The Group companies are obliged to obtain and surrender for cancellation certificates of origin for electricity and energy efficiency certificates corresponding to the volume of electricity, heat or gas fuel sold to end customers connected to the grid in Poland. Property rights granted to the Group in connection with the production of electricity as well as energy efficiency certificates are recognised disclosed as inventories at market prices (in correspondence with revenue) when their receipt becomes probable. Purchased certificates of origin and energy efficiency certificates are recognised at cost. Changes in the certificates are measured using the weighted average method. Certificates of origin for electricity and energy efficiency certificates are accounted for at the time of their cancellation in correspondence with the relevant provision (Note 6.3.3.).

Significant estimates

Inventory write-downs

Where the cost of inventories may not be recoverable, the Group writes inventories down to net realisable value.

An exception is spare parts, which are not written down to net realisable value if they are planned to be used.

Certificates of origin for electricity and energy efficiency certificates are written down based on a comparison between their carrying amounts and their net realisable values derived from an active market.

Write-downs of non-perishable inventories are determined by way of a case-by-case assessment of their usefulness, based on the following assumptions:

Inventories of purchased materials which are idle for a period of:	Write-down rate
1–5 years	Generally, a write-down rate of 20% is applied; in cases where an individual assessment of the usefulness and usability of an assortment group of materials and the time structure of their storage is taken into account, rates of 5% and 10% are also applied
5–10 years	Write-downs of 20%−100%
More than 10 years	100% for materials which are useless and intended for sale or scrapping

(in PLN million, unless stated otherwise)

Inventories	2020			2019		
	Initial value	Write-downs	Net carrying amount	Initial value	Write-downs	Net carrying amount
Materials, including:	2,650	(99)	2,551	4,265	(454)	3,811
gas fuel	1,812	(18)	1,794	3,397	(376)	3,021
fuels for electricity and heat generation	314	-	314	359	-	359
crude oil	17	-	17	19	-	19
other materials	507	(81)	426	490	(78)	412
Certificates of origin for electricity	102	(1)	101	222	(1)	221
CO_2 emission allowances	23	-	23	-	-	-
Other inventories	9	-	9	11	(1)	10
Total	**2,784**	**(100)**	**2,684**	**4,498**	**(456)**	**4,042**

Changes in write-downs	2020	2019
Write-downs at beginning of the period	**(456)**	**(200)**
Taken to profit or loss, including:		
Recognised write-downs taken to profit or loss	(28)	(385)
Write-down reversal taken to profit or loss	378	127
Used	-	2
Currency translation differences	2	-
Other changes	2	-
Changes in the Group	2	-
Write-downs at end of the period	**(100)**	**(456)**

6.2.2 Receivables

Accounting policies

Receivables include chiefly short-term trade receivables (mainly in connection with sale of gas fuel), taxes, customs duties and social security.

Short-term trade receivables are initially recognised at their transaction price if they do not contain a significant financing component.

Upon initial recognition, short-term trade receivables that meet the SPPI test and are held in a "hold to collect" business model are classified at amortised cost less impairment losses.

Taxes, customs duties and social security receivable by the Group are determined in accordance with applicable laws and regulations.

Significant estimates

Impairment of financial assets

The amount of impairment loss on receivables equals the difference between the carrying amount of an asset and the present value of estimated future cash flows discounted at the asset's original effective interest rate.

The Group monitors changes in credit risk of a given financial asset and classifies financial assets to one of three classes for the purpose of determining lifetime impairment:

- Class 1 – Not impaired exposures and exposures without a significant increase in credit risk, where the risk of lifetime impairment is not significantly higher than the risk of the exposure as at the grant date. In this class, the expected credit loss is calculated for the next 12 months or for a shorter period, depending on the maturity of the exposure. Financial assets in this class have low credit risk or the increase in risk has not been significant, and have high credit ratings (determined on the basis of reliable financial data, including external ratings).
- Class 2 – Not impaired exposures and exposures with a significant increase in credit risk, where the risk of lifetime impairment is significantly higher than the risk of the exposure as at the date of grant, and not impaired. In this class, the probability of a default event is calculated for the lifetime of an asset.
- Class 3 – Impaired exposures, where the impairment occurred while the asset was held by the Group. For these exposures, impairment losses are calculated over the expected duration of the recovery period, with the expected recovery amount taken into account. Interest on impaired assets is calculated by applying the effective interest rate against the net asset value (net of impairment loss). Consequently, net interest (net of impairment loss) is recognised in the statement of profit or loss.

Depending on the type of financial asset, impairment loss is determined using either the statistical approach or the case-by-case approach.

In the statistical approach, impairment losses are recognised for a large number of current financial assets of relatively small values (the so-called homogeneous portfolio). Impairment losses are determined based on an analysis of historical payment data for past due receivables in particular ageing groups and the migration matrix method. Results of the analysis are then used to calculate recovery ratios on the basis of which the amounts of impairment losses in each ageing group are determined.

(in PLN million, unless stated otherwise)

In the case-by-case approach, the Group estimates the expected credit losses for those exposures that could not be classified into the homogeneous portfolio, such as:

- lease receivables,
- acquired debt securities,
- material trade receivables (all trade receivables of counterparties covered by the case-by-case approach),
- trade receivables maturing in more than one year,
- receivables from sale of shares,
- receivables under equity contributions.

The Group identifies an instrument as impaired if any of the following occurs:

- a payment is past due by more than 90 days,
- it is becoming probable that the counterparty will enter bankruptcy or other financial reorganisation;
- bankruptcy/arrangement proceedings are pending against the debtor,
- legal dispute with respect to the amount / legitimacy of a claim on which the receivable is based,
- other qualitative information indicating that the debtor is not able to fully satisfy all financial claims.

Expected impairment of such exposures is calculated over the period until the expected end of the recovery period.

Impairment losses are charged to other expenses or finance costs, as appropriate, depending on the type of the item for which an impairment loss is recognised.

Receivables	2020			2019		
	Gross carrying amount	Impairment loss	Net carrying amount	Gross carrying amount	Impairment loss	Net carrying amount
Trade receivables (mainly in connection with sale of gas fuel)	4,834	(385)	4,449	4,887	(376)	4,511
VAT receivable	392	-	392	510	-	510
Corporate income tax receivable	107	(6)	101	42	-	42
Other taxes, customs duties and social security receivable	60	(18)	42	16	(4)	12
Loans	82	(56)	26	78	(55)	23
Other receivables	624	(346)	278	799	(393)	406
Total	**6,099**	**(811)**	**5,288**	**6,332**	**(828)**	**5,504**

Trade receivables are the source of the Group's credit and currency risk exposure. For information on credit risk management (including assessment of the credit quality of receivables and credit risk concentration), see Note 7.3.1. For information on currency risk related to receivables, see Note 7.3.2.2.

(in PLN million, unless stated otherwise)

Change in impairment losses on trade receivables in the period

	Trade receivables covered by statistical analysis		Trade receivables covered by case-by-case analysis			Measured at fair value through profit or loss
	lifetime expected loss	impaired	12-month expected loss	lifetime expected loss	impaired	
As at Jan 1 2019	**5**	**224**	**6**	**-**	**230**	**2**
Increase taken to profit or loss	61	6	5	-	129	-
Decrease taken to profit or loss	(41)	(10)	(2)	-	(197)	(1)
Impairment losses used	-	(40)	-	-	-	-
Transfers	(18)	19	-	-	(1)	-
Effect of exchange rate movements and other	-	2	1	-	(4)	-
As at Dec 31 2019	**7**	**201**	**10**	**-**	**157**	**1**
Increase taken to profit or loss	91	17	4	-	34	-
Decrease taken to profit or loss	(34)	(15)	(9)	-	(49)	-
Impairment losses used	-	(19)	-	-	(17)	-
Transfers	(16)	16	-	-	-	-
Effect of exchange rate movements and other	(2)	9	-	-	(1)	-
As at Dec 31 2020	**46**	**209**	**5**	**-**	**124**	**1**

Change of gross carrying amount of trade receivables in the reporting period

	Trade receivables covered by statistical analysis		Trade receivables covered by case-by-case analysis			Measured at fair value through profit or loss
	lifetime expected loss	impaired	12-month expected loss	lifetime expected loss	impaired	
Gross carrying amount as at Jan 1 2019	**2,899**	**369**	**1,339**	**218**	**505**	**1**
Transfer to group with lifetime expected loss	16	(1)	(15)	-	-	-
Transfer to impaired group	(27)	25	1	-	1	-
Repaid financial assets	(20,778)	(170)	(22,291)	(17)	(900)	-
Newly recognised financial assets	21,005	103	22,022	34	661	-
Write-offs	(1)	(44)	-	-	-	-
Changes due to modification of risk parameters	-	2	-	-	(2)	-
Other effect	(72)	(4)	42	11	(45)	-
Gross carrying amount as at Dec 31 2019	**3,042**	**280**	**1,098**	**246**	**220**	**1**
Transfer to group with lifetime expected loss	18	-	(18)	-	-	-
Transfer to impaired group	(136)	136	(2)	-	2	-
Repaid financial assets	(20,076)	(122)	(19,832)	(680)	(224)	(20)
Newly recognised financial assets	20,199	19	19,680	717	273	20
Write-offs	(1)	(22)	-	-	(17)	-
Other effect	(16)	35	18	1	(5)	-
Gross carrying amount as at Dec 31 2020	**3,030**	**326**	**944**	**284**	**249**	**1**

Impact of COVID-19 on expected credit losses on trade receivables

The economic effects of COVID-19 are expected to affect the quality of the Group's portfolio of financial assets and collectability of trade receivables. The projected impact will vary depending on the sector of the economy in which the trading partners operate. The models adopted by the Group use adjusted probability of default by trading partners based on market expectations implied by prices of Credit Default Swaps (CDS).

In order to take into account the impact of future factors (including COVID-19) on the risk of the portfolio composed of individually assessed trading partners, the Group has adjusted the probability of default based on prices of CDS instruments as at the reporting date. The adjustment was differentiated according to the economic sectors and subsectors in which the trading partners operate and depended on the partners' ratings (both internal and third-party ratings).

In order to take into account the impact of future factors (including COVID-19) on the risk of the portfolio assessed using the matrix method, the Group assumed an increase in the value of indicators reflecting the expected collectability of receivables in individual aging groups. The increase was proportional to the increase in the market-expected probability of default (reflected in prices of CDS contracts) for trading partners with a risk profile similar to the average risk of the portfolio, taking into account the economic sectors of the Group's key trading partners.

Based on the analyses, as at December 31st 2020 the estimated effect of COVID-19 on impairment losses on the PGNiG Group's trade receivables was PLN 3m.

(in PLN million, unless stated otherwise)

Change in impairment losses on other financial assets in the period

	Other financial assets covered by statistical analysis		Other financial assets covered by case-by-case analysis		
	lifetime expected loss	Impaired	12-month expected loss	lifetime expected loss	Impaired
As at Jan 1 2019	**21**	**288**	**2**	**-**	**76**
Increase taken to profit or loss	7	12	-	-	-
Decrease taken to profit or loss	(4)	(6)	-	-	(1)
Impairment losses used	-	(1)	-	-	-
Transfers	(26)	18	-	-	8
Effect of exchange rate movements and other	18	(16)	(1)	-	-
As at Dec 31 2019	**16**	**295**	**1**	**-**	**83**
Increase taken to profit or loss	20	19	-	-	-
Decrease taken to profit or loss	(6)	(26)	-	-	(1)
Impairment losses used	-	(1)	-	-	(76)
Transfers	(14)	14	-	-	-
Effect of exchange rate movements and other	12	64	-	-	1
As at Dec 31 2020	**28**	**365**	**1**	**-**	**7**

Changes in gross carrying amount of other financial assets

	Other financial assets covered by statistical analysis		Other financial assets covered by case-by-case analysis			Measured at fair value through profit or loss	Measured at fair value through other comprehensive income
	lifetime expected loss	Impaired	12-month expected loss	lifetime expected loss	Impaired		
Gross carrying amount as at Jan 1 2019	**233**	**298**	**68**	**1**	**84**	**30**	**40**
Transfer to group with lifetime expected loss	-	23	-	-	7	-	-
Transfer to impaired group	(30)	-	-	-	-	-	-
Repaid financial assets	(459)	(18)	(104)	(27)	-	-	-
Newly recognised financial assets	552	36	51	-	-	1	-
Write-offs	(1)	(1)	-	-	-	-	-
Other effect	56	(2)	16	26	17	-	-
Gross carrying amount as at Dec 31 2019	**351**	**336**	**31**	**-**	**108**	**31**	**40**
Transfer to group with lifetime expected loss	-	26	-	-	-	-	-
Transfer to impaired group	(26)	-	-	-	-	-	-
Repaid financial assets	(472)	(38)	(32)	-	(5)	(126)	-
Newly recognised financial assets	339	104	5	-	5	115	-
Write-offs	-	(1)	-	-	(76)	-	-
Other effect	(49)	(10)	36	-	(16)	(21)	(40)
Gross carrying amount as at Dec 31 2020	**143**	**417**	**40**	**-**	**16**	**(1)**	**-**

6.2.3 Trade and tax payables

Accounting policies

Short-term trade payables and liabilities under purchase of property, plant and equipment and intangible assets are initially recognised at fair value, which is equal to their nominal value, and as at the reporting date are measured at amortised cost.

Taxes, customs duties and social security payable are determined in amounts due to Group companies in accordance with applicable laws and regulations.

Trade and tax payables	2020	2019
Trade payables	1,199	1,608
Liabilities under purchase of property, plant and equipment and intangible assets	654	429
VAT payable	963	1,008
Other taxes, customs duties and social security payable	313	310
Current income tax liabilities	168	132
Total	**3,297**	**3,487**

The Group is exposed to currency risk and liquidity risk in relation to trade payables and liabilities under purchase of property, plant and equipment and intangible assets. For more information on those risks, see Note 7.3.2.2 and Note 7.3.3, respectively.

(in PLN million, unless stated otherwise)

6.3 Provisions and liabilities

6.3.1 Employee benefit obligations

Accounting policies

Short-term employee benefits

Short-term employee benefits are benefits (other than termination benefits) which fall due wholly within twelve months after the end of the annual reporting period in which the employees render the related service. Short-term employee benefits require no actuarial assumptions. The Group recognises the anticipated undiscounted amount of short-term benefits to be paid out. Expenses on benefits paid during employment are charged to profit or loss of the current reporting period.

Short-term employee benefits paid by the Group include:

- Salaries, wages and social security contributions,
- Short-term compensated absences,
- Profit-sharing and bonuses payable within 12 months after the end of the period in which the employees acquired the related entitlements,
- Non-cash benefits for current employees.

Short-term employee benefits, including payments towards defined contribution plans, are recognised in the periods in which the employee provided the services to a Group entity, and in the case of profit-sharing and bonus payments – when the following conditions are met:

- A Group entity has a legal or constructive obligation to make such payments as a result of past events, and
- A reliable estimate of the expected cost can be made.

The Group recognises expected short-term employee benefits expense related to compensated absences in the case of accumulated compensated absences (that is absences to which the entitlement is transferred to the future periods and can be used in the future if the absences were not fully used in the reporting period).

Long-term employee benefits

Long-term employee benefits are all benefits which are payable after 12 months from the reporting date. They include:

- Post-employment benefits,
- Other long-term employee benefits.

Post-employment benefits include retirement severance payments and benefits from the Company Social Benefits Fund.

Provision for long-term employee benefits is determined using the projected unit credit method, with the actuarial valuation made as at the end of the reporting period.

Actuarial gains and losses related to defined post-employment benefits are presented in other comprehensive income, whereas gains and losses related to other benefits paid during employment are charged to profit or loss of the current reporting period.

Employee benefit obligations	**2020**		**2019**	
	Non-current	**Current**	**Non-current**	**Current**
Liabilities under length-of-service awards	639	57	562	50
Liabilities under severance payments	311	4	254	3
Wages and salaries payable	-	79	-	77
Amounts payable for unused holiday entitlements	-	72	-	59
Termination benefits	-	7	-	9
Profit-sharing and bonus obligations	-	148	-	135
Benefits obligations under the Company Social Benefits Fund	90	4	69	4
Other employee benefit obligations	6	97	5	61
Total	**1,046**	**468**	**890**	**398**

Changes in obligations under retirement severance payments and length-of-service awards were as follows:

(in PLN million, unless stated otherwise)

	Length-of-service awards		Retirement severance payments	
	2020	2019	2020	2019
Obligations at beginning of the period	612	566	257	225
Interest expense	16	15	7	6
Current service cost	33	28	12	10
Benefits paid	(56)	(56)	(11)	(10)
Actuarial gain/(loss) − changes in financial assumptions	52	21	34	13
Actuarial gain/(loss) − changes in demographic assumptions	39	38	16	13
Obligations at end of the period	**696**	**612**	**315**	**257**

In the reporting period, the technical rate applied to calculate the discounted value of future retirement severance obligations was -1.4%, and resulted from a 1.2% annual return on long-term Treasury bonds and a 1.2% forecast annual salary growth (at the end of 2019 the applied technical rate was -0.5%, and resulted from the rates of 2.1% and 2.6%, respectively).

6.3.2 Provision for well decommissioning, restoration and environmental remediation costs

Accounting policies

Provision for future well decommissioning costs and contributions to the Extraction Facilities Decommissioning Fund.

The Group recognises a provision for future well decommissioning costs when the Group has the obligation to decommission wells after production is discontinued. When the provision for well decommissioning costs is recognised with respect to wells classified as tangible exploration and evaluation assets, the discounted amount of the provision is added to the amount of those assets, and after the production phase starts, it is depreciated over the expected useful life of the wells (accounting policies in Note 6.1.1). Any subsequent adjustments to the provision due to changes in estimates are also recognised as an adjustment to the value of the relevant item of property, plant and equipment. Adjustments to provisions resulting from changes of discount rates are taken to profit or loss. The amount of the provision for future costs of decommissioning of production and storage wells is adjusted for the amount of the Extraction Facilities Decommissioning Fund.

The Extraction Facilities Decommissioning Fund is created on the basis of the Mining and Geological Law, which requires the Group to decommission extraction facilities once their operation is discontinued. Contributions to the Extraction Facilities Decommissioning Fund are recognised in correspondence with other expenses. The assets accumulated in the Extraction Facilities Decommissioning Fund are kept in a separate bank account and may be used only to cover the costs of decommissioning of an extraction facility or its specific part, in particular the costs of:

- Abandonment of and securing production, storage, discharge, observation and monitoring wells;
- Liquidation of redundant facilities and disassembly of machinery and equipment;
- Restoration of land and development of areas after completion of extraction activities;
- Maintenance of facilities intended for decommissioning in an order ensuring safety of extraction facility operations.

The fund's resources comprise restricted cash in accordance with IAS 7, presented – due to its long-term nature – under long-term assets.

Provisions for environmental liabilities

The Group recognises provisions for future liabilities for:

- costs of identification and remediation of contamination of soil and aquatic environment in connection with the existence of a legal or customary obligation to perform these activities. The provision recognised for such liabilities reflects potential costs projected to be incurred, which are estimated at current prices and reviewed periodically.
- compulsory costs of restoration of leased land/land plots prior to the transfer of the land back to the lessor after the end of the contract.

Changes in the amount of provisions resulting from changes in the discount rate (due to the passage of time) are recognised in profit or loss, while changes in the estimated restoration costs are remeasured to the value of the right-of-use asset. Changes in the amount of provisions resulting from changes in estimates due, for example, to early site restoration are treated as an adjustment to the value of the right-of-use asset and an increase in the amount of the provision up to the amount of costs actually incurred on site restoration.

(in PLN million, unless stated otherwise)

Significant estimates

Provision for well decommissioning costs

The amount of the provision for well decommissioning costs is based on the estimates of future asset decommissioning and land restoration costs, which largely depend on the applied discount rate and the estimate of time when the outflow of cash is expected to take place.

The provision for well decommissioning costs is calculated based on the average cost of well decommissioning at the individual extraction facilities over the last three full years preceding the reporting period, adjusted for the projected consumer price index (CPI) and changes in the time value of money. The adoption of a three-year time horizon was due to the varied number of decommissioned wells and their decommissioning costs in the individual years.

Extraction Facilities Decommissioning Fund

Contributions to the Extraction Facilities Decommissioning Fund are made in the amount of 3% of the value of the annual tax depreciation of extraction property, plant and equipment (determined in accordance with the laws on corporate income tax).

Provisions for costs of landfill reclamation and environmental protection

The amount of the provisions is based on the estimates of future restoration costs, which largely depend on the applied discount rate and the estimate of time when the cash flows are expected to occur.

	Note	Provision for well decommissioning costs	Provisions for environmental liabilities	Provision for landfill reclamation	Total
As at Jan 1 2019		**2,008**	**115**	**67**	**2,190**
Effect of amended IFRS 9		-	(19)	-	(19)
Recognised provision capitalised in cost of property, plant and equipment	*Note 6.1.1.*	441	-	-	441
Recognised write-downs taken to profit or loss	*Note 3.3.*	60	49	7	116
Other increases – Extraction Facilities Decommissioning Fund		2	-	-	2
Used		(35)	-	-	(35)
Write-down reversal taken to profit or loss	*Note 3.3.*	(86)	(28)	(14)	(128)
Exchange differences on translating foreign operations		(1)	-	-	(1)
Other changes		-	5	-	5
As at Dec 31 2019		**2,389**	**122**	**60**	**2,571**
non-current		2,355	105	50	2,510
current		34	17	10	61
As at Jan 1 2020		**2,389**	**122**	**60**	**2,571**
Recognised provision capitalised in cost of property, plant and equipment	*Note 6.1.1.*	706	-	-	706
Recognised write-downs taken to profit or loss	*Note 3.3.*	83	10	6	99
Other increases – Extraction Facilities Decommissioning Fund		1	-	-	1
Used		(28)	-	-	(28)
Write-down reversal taken to profit or loss	*Note 3.3.*	(45)	(16)	-	(61)
Exchange differences on translating foreign operations		23	-	-	23
As at Dec 31 2020		**3,129**	**116**	**66**	**3,311**
non-current		3,094	92	55	3,241
current		35	24	11	70

With respect to the costs of decommissioning of wells and site infrastructure in Poland, in 2020 the discount rate applied to calculate the provision for well decommissioning was -1.22%, and resulted from a 1.25% rate of return on assets and an inflation rate assumed at the NBP’s continuous inflation target of 2.50% (as at the end of 2019, the discount rate was -0.45%, and resulted from the rates of 2.04% and 2.50%, respectively).

6.3.3 Other provisions

Accounting policies	Significant estimates
Provision for certificates of origin and energy efficiency certificates If at a reporting date the number of certificates is not sufficient to meet the requirements stipulated in the Polish Energy Law and the Energy Efficiency Act, the Group recognises a provision for cancellation of certificates of origin and energy efficiency certificates or for the payment of emission charge, whichever of the two is lower. The provision is measured based on the carrying amount of the certificates held and the then current price (on the Polish Power Exchange) of certificates which should be additionally purchased to meet the cancellation requirement resulting from the volume of electricity sales to end users. The provision and the registered certificates of origin disclosed under inventories (see Note 6.2.1.) are accounted for at the time of registering their cancellation in the Register of Certificates of Origin maintained by the Polish Power Exchange (PPX).	The provision for certificates of origin is recognised as at the end of the reporting period based on the amount of electricity consumed (net of internally generated electricity consumed) and electricity sold to end customers, and based on the percentage ratios applicable to individual certificates provided for in the Regulation of the Minister of Energy and Climate Affairs (or in the event of change in the structure of the government administration – of another competent minister) and the price of individual certificates on the Polish Power Exchange as at the last trading day in the reporting period. The provision for energy efficiency certificates is recognised as at the end of the reporting period based on the volume of electricity consumed (net of internally generated electricity consumed) and the volume of gas fuel (in energy units), electricity and heat sold to end customers (with the exceptions provided for in the Energy Efficiency Act), the applicable regulatory percentage ratios, and the average price of the entire portfolio of energy efficiency property rights.
Provision for liabilities associated with exploration work abroad In 2013, the Parent recognised a provision for liabilities associated with the exploration work carried out by PGNiG Upstream North Africa B.V., PGNiG's subsidiary. Owing to the Force Majeure risk present in Libya, PGNiG Upstream North Africa B.V. has suspended operations. Therefore, the Parent has been maintaining a provision for licence obligations under licence agreements concluded with the Libyan government.	The amount of the provision is based on the obligations contracted under the licence agreements, but not met.
Provision for claims under extra-contractual use of land In the ordinary course of business, the Group installs technical equipment on land owned by third parties, often natural persons. Where possible, at the time of installing the elements of the infrastructure, the Group enters into agreements establishing standard land easements and transmission easements. The Group recognises a provision for claims under extra-contractual use of land in respect of those claims which have been confirmed to be valid (the claimant presented a legal title to land) and in the case of which correspondence has been exchanged with the claimant in the last three years.	The Group estimates the provision for claims under extra-contractual use of land based on an estimate survey made by an expert appraiser, or its own valuation, taking into account the size of the controlled area in square meters, the amount of annual rent per square meter for similar land in a given municipality, and the period of extra-contractual use of land (not more than ten years). If it is not possible to obtain reliable data required to apply the method described above, the Group analyses submitted claims on a case-by-case basis. As the amounts used in the above calculations are arrived at based on a number of variables, the actual amounts of compensation for extra-contractual use of land that the Group will be required to pay may differ from amounts of the related provisions.

(in PLN million, unless stated otherwise)

	Note	Provision for certificates of origin and energy efficiency certificates	Provision for liabilities associated with exploration work abroad	Provision for UOKiK fine*	Provision for claims under extra-contractual use of land	Other provisions	Total
As at Jan 1 2019		**151**	**175**	**-**	**23**	**341**	**690**
Recognised write-downs taken to profit or loss	*Note 3.3.*	265	-	6	2	176	449
Write-down reversal taken to profit or loss	*Note 3.3.*	(59)	-	-	(4)	(141)	(204)
Used		(123)	-	-	-	(10)	(133)
Other changes		(18)	2	-	-	39	23
As at Dec 31 2019		**216**	**177**	**6**	**21**	**405**	**825**
non-current		-	4	-	13	107	124
current		216	173	6	8	298	701
As at Jan 1 2020		**216**	**177**	**6**	**21**	**405**	**825**
Recognised write-downs taken to profit or loss	*Note 3.3.***	243	-	-	2	460	705
Write-down reversal taken to profit or loss	*Note 3.3.*	(11)	-	-	(6)	(358)	(375)
Used		(179)	-	-	-	(12)	(191)
Changes in the Group		-	-	-	-	(1)	(1)
Other changes		6	(2)	-	1	(44)	(39)
As at Dec 31 2020		**275**	**175**	**6**	**18**	**450**	**924**
non-current		-	4	-	10	121	135
current		275	171	6	8	329	789

**For more information, see the Directors' Report on the Operations of PGNiG S.A. and the PGNiG Group.*

***Other provisions (provisions for financial guarantees), of PLN 7m, are disclosed in Note 3.4 as other net finance costs.*

6.3.4 Grants

Accounting policies

Grants

Grants related to assets recognised by the Group are grants whose primary condition is that the Group should purchase, construct or otherwise acquire long-term assets.

Grants related to assets are recognised in the statement of financial position under 'Grants' (non-current and current portions), and subsequently taken – through equal annual charges – to profit or loss throughout the expected useful life of the assets.

Grants	2020	2019
Grants related to assets, including:	745	754
Kosakowo UGSC construction	53	62
Wierzchowice UGS extension	356	378
Strachocina UGS extension	49	51
Husów UGS extension	23	25
Construction of gas distribution systems in new areas and upgrades of existing distribution networks	136	142
Development of smart energy storage, transmission and distribution systems	78	40
Other	50	56
Total	**745**	**754**
non-current	695	705
current	49	48

Group companies are executing projects for which EU co-financing has been obtained. The largest such projects type are implemented by Polska Spółka Gazownictwa Sp. z o.o., which in 2020 performed agreements on grants for investment projects involving construction of new gas pipelines to develop gas distribution in towns and cities in Poland which have not been connected to the gas network so far. Under the agreements, in the reporting period the Company received grants for a total amount of PLN 32m. In the comparative period, the amount was PLN 38m.

(in PLN million, unless stated otherwise)

6.3.5 Other liabilities

Other liabilities	2020		2019	
	Non-current	Current	Non-current	Current
Security deposits	-	41	-	463
Non-depreciable portion of the value of gas service lines provided by gas buyers	64	40	105	40
Prepaid deliveries	-	236	-	206
Accruals and deferred income	-	160	-	297
Liabilities under licences, rights to geological information and mining rights	34	-	44	-
Other deferred income	1	212	1	144
Other	78	280	89	333
Total	**177**	**969**	**239**	**1,483**

7. Notes on financial instruments and financial risk management

7.1 Financial instruments

Accounting policies

The Group holds the following categories of financial instruments:

- measured at amortised cost calculated using the effective interest rate,
- measured at fair value through other comprehensive income,
- measured at fair value through profit or loss,
- hedge derivatives.

In the case of equity instruments to be carried at fair value through profit or loss or through comprehensive income, the selection is made individually for each instrument.

The Group classifies financial assets based on:

- the entity's business model of financial asset management. The model concerns the way in which the entity manages its financial assets in order to generate cash flows. A business model may provide for holding assets in order to collect their contractual cash flows (the 'hold' model); the objective may be both to collect cash flows and sell financial assets (the 'hold and sell' model); or the Group may manage financial assets in order to generate cash flows through their sale (the 'sell' model);
- assessment of the profile of contractual cash flows. At the time of initial recognition of a financial asset, a Group company determines whether the contractual cash flows are solely payments of principal and interest on the principal amount outstanding, and whether are thus consistent with the underlying loan agreement. Interest may include consideration for the time value of money, credit risk, other basic lending risks, as well as costs and profit margin.

On initial recognition of a new financial asset, the Group companies assess the business model and perform an SPPI test taking into account the new terms of the modified financial asset.

Classification of financial assets and liabilities is as follows:

Financial assets measured at amortised cost, meeting the SPPI test:

- loans,
- trade receivables (Note 6.2.2.),
- debt instruments,
- term deposits,
- cash and cash equivalents (Note 5.4.).

Financial assets at fair value through other comprehensive income:

- investments in equity instruments (other than shares in non-equity accounted subsidiaries, jointly-controlled entities and non-equity accounted associates), which the Group measures through other comprehensive income,
- investments in debt instruments.

Financial assets at fair value through profit or loss:

- investments in listed equity instruments,
- loans advanced and other debt instruments not meeting the SPPI test,
- investment fund units,
- investments in equity instruments (other than shares in unconsolidated subsidiaries, as well as jointly-controlled entities and associates which are not equity-accounted), which the Group does not measure at fair value through other comprehensive income,
- other items (including non-refundable contributions to equity, recognised as an investment in a subsidiary at the contributing company).

Financial liabilities at amortised cost

- trade payables (Note 6.2.3.),
- financing liabilities (Note 5.2.),
- all other financial liabilities not specified above (except lease liabilities recognised in accordance with IFRS 16).

Financial assets and liabilities at fair value through profit or loss

Derivative financial instruments which are not hedging instruments are classified by the Group as financial assets/liabilities at fair value through profit or loss. For information on accounting policies, see Note 7.2.

Hedge derivatives

This category comprises derivative instruments to which the Group applies hedge accounting. For description of the applied hedge accounting policies, see Note 7.2.

Modification of contractual cash flows

If any contractual cash flows which are to be renegotiated or otherwise modified are identified in contracts, the Group:

- renegotiates or modifies contractual cash flows, which does not lead to derecognition of the original financial asset – minor modification; or
- renegotiates or modifies contractual cash flows, which leads to derecognition and elimination of the financial asset – significant modification.

The key criteria applied by the Group with respect to a major modification of cash flows from a financial asset include:

1. Quantitative criterion – exceeding the materiality threshold, i.e. a 10% difference between the carrying amount after the change of schedule and the carrying amount before the change.
2. Qualitative criteria:

- change of a variable interest rate into a fixed interest rate and vice versa;
- deep restructuring of a loan in the case of the borrower's financial distress, including split of the loan, change of repayment dates or change of disbursement profile, increasing the level of cash flows;
- material change in conditions resulting in change with regard to meeting the SPPI test;

On the date of the change, the previous financial instrument is derecognised, and the new instrument is recognised (at fair value).

The difference between the carrying amount of the original financial asset and the fair value of the modified asset, as determined for the modification date, is charged to profit or loss.

On initial recognition of a new financial asset, the Group assesses the business model and performs an SPPI test taking into account the new terms of the modified financial asset. If, upon initial recognition, the modified financial asset is measured at amortised cost, the Group uses a new effective interest rate to measure such asset.

(in PLN million, unless stated otherwise)

7.1.1 Key financial assets by category

Item	Item referenced in Note	Note	2020 Financial assets at amortised cost	2020 Financial assets at fair value through profit or loss	2020 Financial instruments designated for hedge accounting	2020 Total	2019 Loans and receivables at amortised cost	2019 Financial assets at fair value through profit or loss	2019 Financial instruments designated for hedge accounting	2019 Total
Receivables	Trade receivables	Note 6.2.2.	4,449	-	-	4,449	4,511	-	-	4,511
Derivative financial instruments		Note 7.2.	-	1,004	449	1,453	-	1,539	1,088	2,627
Cash and cash equivalents		Note 5.4.	7,098	-	-	7,098	3,037	-	-	3,037
Total			**11,547**	**1,004**	**449**	**13,000**	**7,548**	**1,539**	**1,088**	**10,175**

7.1.2 Key financial liabilities by category

Item	Item referenced in Note	Note	2020 Financial liabilities at amortised cost	2020 Financial liabilities at fair value through profit or loss	2020 Financial instruments designated for hedge accounting	2020 Total	2019 Financial liabilities at amortised cost	2019 Financial liabilities at fair value through profit or loss	2019 Financial instruments designated for hedge accounting	2019 Total
Financing liabilities	Bank borrowings	Note 5.2.	1,995	-	-	1,995	4,893	-	-	4,893
Trade and tax payables	Trade payables	Note 6.2.3.	1,199	-	-	1,199	1,608	-	-	1,608
Derivative financial instruments		Note 7.2.	-	780	618	1,398	-	991	305	1,296
Total			**3,194**	**780**	**618**	**4,592**	**6,501**	**991**	**305**	**7,797**

(in PLN million, unless stated otherwise)

7.1.3 Items of income and expenses related to financial assets and liabilities

Item of statement of profit or loss and statement of comprehensive income	Item referenced in Note / additional explanations	Note	2020 Loans, receivables and liabilities at amortised cost	2020 Derivative financial instruments not designated for hedge accounting	2020 Derivative financial instruments designated for cash flow hedge accounting	2019 Loans, receivables and liabilities at amortised cost	2019 Derivative financial instruments not designated for hedge accounting	2019 Derivative financial instruments designated for cash flow hedge accounting
Effect on statement of profit or loss								
Net finance costs	Interest on debt	Note 3.4	7	-	-	(41)	-	-
	Foreign exchange differences	Note 3.4	(6)	-	-	15	-	-
	Measurement and exercise of derivative financial instruments not designated for hedge accounting	Note 3.4	-	12	-	-	(7)	-
Other income and expenses	Foreign exchange differences	Note 3.3.	68	-	-	(9)	-	-
	Impairment losses	Note 3.3.	(54)	-	-	42	-	-
	Measurement and exercise of derivative financial instruments not designated for hedge accounting	Note 3.3.	-	202	-	-	239	-
Revenue by product	Adjustment to gas sales due to hedging transactions	Note 3.1.	-	-	1,062	-	-	570
Raw materials and consumables used	Cost of transactions hedging gas prices	Note 3.2.	-	-	-	-	-	1
			15	**214**	**1,062**	**7**	**232**	**571**
Effect on other comprehensive income								
Gains/(losses) on measurement of derivative instruments designated for cash flow hedge accounting [effective portion]					(155)			1,490
Reclassification of derivative instruments measurement to profit or loss upon exercise (cash flow hedges)					(1,062)			(571)
					(1,217)			**919**
Effect on comprehensive income			**15**	**214**	**(155)**	**7**	**232**	**1,490**
Change in equity recognised in gross inventories					**285**			**(96)**

7.2 Derivative financial instruments

Accounting policies

Derivative financial instruments not designated for hedge accounting

Derivative financial instruments used to hedge the Group's risk which are not hedging instruments designated for hedge accounting are classified as financial assets/liabilities at fair value through profit or loss. Such instruments are economic hedges. The Group also permits speculative transactions to be executed, but they are strictly controlled and limited by risk limits.

Derivative instruments at fair value include also derivatives with hedging relationship terminated.

Derivative instruments are initially recognised at fair value, and as at each reporting date they are measured at fair value with gains or losses from the measurement recognised in statement of profit or loss under net finance costs (e.g. measurement of instruments hedging financing activity, such as debt liabilities) and other income and expenses (e.g. hedging transactions not designated for hedge accounting, e.g. forward contracts).

Hedge accounting

The Group applies hedge accounting to appropriately account for the risk of movements in gas prices and exchange rates (EUR/PLN and USD/PLN) for future transactions to buy/sell gas. The gas price risk is related to the highly probable future gas purchase transactions. The Group applies cash flow hedge accounting to these transactions.

Derivatives are designated as hedging instruments.

The portion of gains or losses arising from change in the fair value of a cash flow hedge which is determined to be an effective hedge is recognised as a separate item of equity (hedging reserve). The ineffective portion is charged to profit or loss. The effective hedge taken to equity over its lifetime is reclassified upon being exercised to initial cost of inventories or affects profit or loss on gas sales.

The Group ceases to classify an instrument as a hedge if the derivative expires or is sold, terminated or exercised, the hedge no longer meets the criteria of hedge accounting, or if the hedged transaction is no longer expected to be executed.

The Group enters into transactions involving the following derivative instruments:

Derivative instruments designated for hedge accounting

Description and purpose of instrument	
Currency forwards	A currency forward is a contract for the purchase or sale of a currency for a specified exercise price, with delivery date falling no earlier than after two business days from the date when the forward terms have been agreed. The Group uses currency forwards to hedge against currency risk of USD and EUR exchange rates in future transaction to buy/sell commodities. Average rate forwards/currency swaps are settled in cash based on the difference between the exercise price and the average monthly price.
Commodity swap	A commodity swap is a contract where two parties agree to exchange payments on a specified date. The payments are calculated based on agreed amounts of a specified commodity and its price. In the transaction, one party agrees to pay a fixed price, and the other party pays a floating price. However, no physical exchange of the underlying commodities takes place. The Group companies use the instrument to hedge against price movements in transactions to buy/sell gas.

Derivative instruments not designated for hedge accounting

Description and purpose of instrument	
CCIRS	A cross currency interest rate swap is an instrument which exchanges cash flows associated with an interest rate and a currency in respect of an agreed base amount at a fixed pre-agreed exchange rate. The Group uses CCIRS to exchange variable rate interest payments denominated in NOK into variable rate interest payments denominated in PLN or fixed rate interest payments denominated in EUR into variable rate interest payments denominated in PLN.
Currency forwards	For instrument description see the previous table.

Electricity and gas futures contracts[1]	A futures contract (futures) is a standard contract enabling the sale or purchase of a commodity in a regulated market for a set exercise price, with a delivery date falling no earlier than after two business days from the date when the terms of the futures contract have been agreed. The Group uses this instrument as economic hedge against price changes in future purchases of electricity and gas.
CO_2 futures contracts	A futures contract is standard contract enabling the sale or purchase of CO_2 emission allowances in a regulated market for a set exercise price, with a delivery date falling no earlier than after two business days from the date when the terms of the futures contract have been agreed. The Group uses this instrument as economic hedge against price changes in future purchases of CO_2 emission allowances.
Electricity and gas forward contracts	A commodity forward is a contract for the purchase or sale of a commodity for a set exercise price, with delivery date falling no earlier than after two business days from the date when the forward terms have been agreed. The Group uses this instrument as economic hedge against price changes in future purchases of electricity and gas[2].

1. EE – Phelix power futures contracts traded at the EEX

2. Electricity and gas forward contracts traded at the Polish Power Exchange

	Note	2020		2019	
		Assets	Liabilities	Assets	Liabilities
Derivative instruments covered by hedge accounting	*Note 7.2.*	449	618	1,088	306
Derivative instruments not covered by hedge accounting	*Note 7.2.*	1,004	780	1,539	991
Total		**1,453**	**1,398**	**2,627**	**1,297**

Derivative instruments designated for hedge accounting

Type of derivative instrument	2020 Notional amount (million)	2020 Period when cash flow will occur and affect the financial result	2020 Exercise price (exercise price range)	2020 Weighted average exercise price	2020 Fair value of instruments for which cash flow hedge accounting is applied	2019 Notional amount (million)	2019 Period when cash flow will occur and affect the financial result	2019 Fair value of instruments for which cash flow hedge accounting is applied
Derivative instruments used to hedge currency risk in gas purchase and sale contracts								
Forwards								
USD	263 USD	up to 3 years	3,6629-3,7583	3.71	11	371 USD	up to 3 years	54
USD	340 USD	up to 3 years	3,7935-3,9960	3.87	(38)	601 USD	up to 3 years	(39)
EUR/USD	32 EUR	up to 3 years	1,2463-1,2575	1.25	-	970 EUR	up to 3 years	120
EUR/USD	229 EUR	up to 4 years	1,1170-1,2391	1.20	(41)	42 EUR	up to 3 years	2
Currency swap								
EUR	38 EUR	up to 3 years	4,6535-4,6630	4.66	-	-	-	-
EUR	528 EUR	up to 3 years	4,4421-4,6342	4.51	(73)	-	-	-
					(141)			**137**
Derivative instruments used to hedge gas purchase and selling prices								
TTF swap DA	24 MWh	up to 3 years	12,70-19,75	16.52	286	41 MWh	up to 3 years	807
TTF swap MA	5 MWh	1–3 months	15,06-19,10	17.45	11	2 MWh	1–3 months	(1)
TTF swap DA	29 MWh	up to 4 years	11,26-19,12	14.58	(446)	12 MWh	Up to 12 months	(254)
BRENT Swap	4 Bbl	up to 3 years	39,05-43,87	42.03	117	-	-	-
	-	-	-	-	-	4 MWh	up to 3 years	105
HH NYMEX	31 MMBTU	up to 4 years	2,2450-2,6080	2.43	24	-	-	-
HH NYMEX	33 MMBTU	up to 4 years	2,4050-2,6080	2.52	(20)	15.41 MMBTU	up to 3 years	(12)
					(28)			**645**
				Total	**(169)**		**Total**	**782**
			Including:	Assets	449	Including:	Assets	1,088
				Liabilities	618		Liabilities	306

(in PLN million, unless stated otherwise)

2020

Type of hedging instrument	Notional amount	Carrying amount		Name of item in statement of financial position which includes hedging instrument	Change in fair value of hedging instrument used as basis for recognising hedge ineffectiveness in a given period	Hedging gains or losses for reporting period, recognised in other comprehensive income	Hedge ineffectivenes s amount taken to profit or loss	Statement of comprehensive income (statement of profit or loss) item in which ineffectiveness amount is included	Amount reclassified from cash flow hedging reserve to profit or loss as reclassification adjustment	Item of statement of comprehensive income (statement of profit or loss) in which reclassification adjustment is included
		Assets	Liabilities							
CASH FLOW HEDGES										
CURRENCY RISK										
Forward contracts for currency purchase (USD/PLN)	2,267	11	38	Derivative financial instruments	75	60	-	Operating income/(expense)	-	Not applicable
Forward contracts to purchase USD for EUR (EUR/USD)	1,183	-	41	Derivative financial instruments	(38)	(39)	-	Operating income/(expense)	2	Revenue from sales of gas
Average rate forwards (EUR/PLN)	2,611	-	73	Derivative financial instruments	(41)	(172)	-	Operating income/(expense)	(51)	Revenue from sales of gas
COMMODITY PRICE RISK										
Basis swap contracts for gas price indices	403	11	37	Derivative financial instruments	(100)	(99)	-	Operating income/(expense)	38	Revenue from sales of gas
Swap contracts for gas price indices	4,274	286	409	Derivative financial instruments	889	(48)	32	Operating income/(expense)	(1,051)	Revenue from sales of gas
Swap contracts for HH price indices	610	24	20	Derivative financial instruments	(19)	(7)	-	Operating income/(expense)	-	Not applicable
Swap contracts for petroleum product price indices	699	117	-	Derivative financial instruments	151	151	-	Operating income/(expense)	-	Not applicable
Total	**12,047**	**449**	**618**		**917**	**(154)**	**32**		**(1,062)**	

(in PLN million, unless stated otherwise)

2019

Type of hedging instrument	Notional amount	Carrying amount – Assets	Carrying amount – Liabilities	Name of item in statement of financial position which includes hedging instrument	Change in fair value of hedging instrument used as basis for recognising hedge ineffectiveness in a given period	Hedging gains or losses for reporting period, recognised in other comprehensive income	Hedge ineffectiveness amount taken to profit or loss	Statement of comprehensive income (statement of profit or loss) item in which ineffectiveness amount is included	Amount reclassified from cash flow hedging reserve to profit or loss as reclassification adjustment	Item of statement of comprehensive income (statement of profit or loss) in which reclassification adjustment is included
CASH FLOW HEDGES										
CURRENCY RISK										
Forward contracts for currency purchase (USD/PLN)	3,688	54	39	Derivative financial instruments	287	72	-	Operating income / expenses	-	Not applicable
Forward contracts for currency purchase – USD for EUR (EUR/USD)	186	2	-	Derivative financial instruments	2	2	-	Operating income / expenses	-	Revenue from sales of gas
Average rate forwards (EUR/PLN)	4,133	120	-	Derivative financial instruments	444	129	288	Operating income / expenses	(25)	Revenue from sales of gas
COMMODITY PRICE RISK										
Basis swap contracts for gas price indices	88	1	1	Derivative financial instruments	396	286	85	Operating income / expenses	(276)	Revenue from sales of gas
Swap contracts for gas price indices	2,899	911	254	Derivative financial instruments	1,547	1,013	713	Operating income / expenses	(269)	Revenue from sales of gas
Swap contracts for petroleum product price indices	128	-	12	Derivative financial instruments	(18)	(11)	(6)	Operating income / expenses	-	Not applicable
Total	**11,122**	**1,088**	**306**		**2,658**	**1,491**	**1,080**		**(570)**	

(in PLN million, unless stated otherwise)

The impact of cash flow hedges is presented in the table below.

Hedged items	2020			2019		
	Change in value of hedged item used as basis for recognising hedge ineffectiveness in given period	Balance of cash flow hedging reserve for continuing hedges	Balance remaining incash flow hedging reserve in respect of all hedging relationships for which hedge accounting is no longer applied	Change in value of hedged item used as basis for recognising hedge ineffectiveness in given period	Balance of cash flow hedging reserve for continuing hedges	Balance remaining incash flow hedging reserve in respect of all hedging relationships for which hedge accounting is no longer applied
CURRENCY RISK						
Natural gas (USD)	(75)	(26)	-	(287)	16	-
Natural gas (EUR/USD)	38	(41)	-	(2)	2	-
Natural gas (EUR)	41	(69)	(24)	(156)	93	38
COMMODITY PRICE RISK						
Gas contracts indexed to monthly gas price indices	(807)	(176)	195	(310)	33	1
Gas contracts indexed to daily gas price indices	24	3	-	(846)	606	133
Gas contracts indexed to monthly petroleum product indices	(151)	117	-	15	(12)	-
Total	**(930)**	**(192)**	**171**	**(1,586)**	**738**	**172**

Changes in the cash flow hedging reserve are presented in the table below.

	2020	2019
At beginning of the period	**910**	**88**
CURRENCY RISK		
Hedging gains or losses recognised in other comprehensive income during reporting period	(152)	202
Amount reclassified from cash flow hedging reserve to statement of profit or loss as reclassification adjustment	(49)	(25)
Amount transferred from cash flow hedging reserve and recognised as adjustment to carrying amount of inventories	(107)	(271)
COMMODITY PRICE RISK		
Hedging gains or losses recognised in other comprehensive income during reporting period	(4)	1,287
Amount reclassified from cash flow hedging reserve to statement of profit or loss as reclassification adjustment	(1,012)	(545)
Amount transferred from cash flow hedging reserve and recognised as adjustment to carrying amount of inventories	393	174
At end of the period	**(21)**	**910**

Derivative instruments not designated for hedge accounting

Type of derivative instrument	2020 Notional amount (million)	2020 Fair value of instruments not designated for hedge accounting	2019 Notional amount (million)	2019 Fair value of instruments not designated for hedge accounting
Derivative instruments hedging interest rate risk and currency risk				
CCIRS				
NOK	3,818 NOK	(45)	2,318 NOK	90
Forwards				
EUR	44 EUR	5	608 EUR	89
EUR	33 EUR	5	1 EUR	-
EUR	-	-	610 EUR	(49)
EUR	2 EUR	-	24 EUR	(1)
USD	16 USD	5	-	-
Currency swap				
EUR	558 EUR	78	-	-
EUR	534 EUR	(78)	-	-
		(30)		**129**
Derivative instruments used as economic hedges of electricity purchase prices				
Forwards				
electricity – PPX	2 MWh	44	12 MWh	18
electricity – PPX	15 MWh	5	1 MWh	(5)
electricity – OTC	1 MWh	14	1 MWh	34
electricity – OTC	1 MWh	(23)	1 MWh	(22)
Futures				
electricity – EEX AG	1 MWh	26	2 MWh	69
electricity – EEX AG	1 MWh	(17)	3 MWh	(81)
Electricity EPEX SPOT	-	-	-	-
Electricity EPEX SPOT	-	-	-	-
		49		**13**
Derivative instruments used to hedge gas purchase and selling prices				
Forwards				
Gas	0.04 MWh	(1)	-	-
gas – OTC	20 MWh	204	16 MWh	393
gas – OTC	19 MWh	(239)	13 MWh	(310)
Futures				
gas - PPX	3 MWh	50	-	-
gas - PPX	-	-	2 MWh	(54)
gas – ICE ENDEX B.V.	3 MWh	59	4 MWh	91
gas – ICE ENDEX B.V.	3 MWh	(61)	4 MWh	(92)
gas – POWERNEXT SA	1 MWh	12	2 MWh	40
gas – POWERNEXT SA	2 MWh	(19)	3 MWh	(72)
Swap				
GASPOOL DA	1 MWh	17	9 MWh	235
GASPOOL DA	1 MWh	(5)	7 MWh	(99)
BRENT	0.31 Bbl	(2)	-	-
TTF swap DA	28 MWh	431	21 MWh	473
TTF swap DA	19 MWh	(248)	9 MWh	(159)
TTF swap MA	3 MWh	(4)	9 MWh	(44)
		194		**402**
		-		**-**
Derivative instruments used to hedge purchase prices of CO_2 emission allowances				
Forwards	1 t	(43)	-	-
Futures	2 t	38	3 t	(1)
		(5)		**(1)**
Derivative instruments used to hedge share purchase prices				
Options	7 million shares	16	9 million shares	5
	Total	**224**	**Total**	**548**
	Including:		Including:	
	Assets	1,004	Assets	1,539
	Liabilities	780	Liabilities	991

(in PLN million, unless stated otherwise)

Measurement of derivative financial assets and derivative financial liabilities is classified as Level 1 and Level 2 in the fair value hierarchy. In Level 1, market quotations of instruments are used for measurement, while Level 2 measurements are made using observable inputs other than quoted prices.

Instrument	Measurement method	Key inputs
Stock options	Black-Scholes-Merton model	Market data on: interest rates, exchange rates, basis of commodity spreads and commodity volatility (volatility)
Forwards, currency swaps, commodity swaps, CCIRS and IRS	Discount method	

7.3 Financial risk management policies

In its business activities, the Group is exposed in particular to the following types of financial risk:

- Credit risk (Note 7.3.1.)
- Market risk, including:
  - Commodity price risk (Note 7.3.2.1.)
  - Currency risk (Note 7.3.2.2.)
  - Interest rate risk (Note 7.3.2.3.)
- Liquidity risk (Note 7.3.3.)

To effectively manage the financial risks, the Parent implemented the 'Policy of Financial Risk Management at PGNiG S.A.' (the 'Policy'), which defines the distribution of functions and responsibilities between the Company's organisational units in the process of managing and monitoring the financial risks. The body responsible for ensuring compliance with the Policy and its periodic updates is the Financial Risk Committee, which proposes risk management procedures, monitors the Policy implementation and revises the Policy as needed.

7.3.1 Credit risk

Credit risk is defined as the probability of failure by a Group's trading partner to meet its obligations on time or failure to meet such obligations at all, or the probability that the Group may be unable to recover any monetary assets that have been deposited at a bank or otherwise invested.

The PGNiG Group's credit exposure arises mostly in connection with the following items:

Maximum risk exposure, equal to the carrying amount of the item	2020	2019
Cash and cash equivalents (cash at banks and bank deposits)	7,098	3,037
Non-current restricted cash	188	190
Trade receivables	4,449	4,511
Loans	845	723
Total	**12,580**	**8,461**

As a rule, the Group concludes transactions in financial instruments with multiple entities with high creditworthiness. The key criteria applied by the Group in the selection of trading partners include their financial condition as confirmed by rating agencies, as well as their respective market shares and reputation.

Credit risk exposure associated with the individual items specified above is determined by reference to the carrying amounts of those items.

(in PLN million, unless stated otherwise)

7.3.1.1 Credit risk related to cash and bank deposits

The Group seeks to minimize its credit exposure mainly by diversifying the portfolio of the institutions (mostly banks) with which the Group companies place their funds.

As at the reporting date, there was no concentration of credit risk within the Group. As at the end of 2020, the three banks with which the Group deposited the largest amounts of their funds accounted for 46%, 19% and 13% of the total cash balance (in 2019, the distribution was 40%, 15% and 10%).

Moreover, the parent has concluded Framework Agreements with all its relationship banks. The Framework Agreements stipulate detailed terms of execution and settlement of financial transactions between the parties.

The Group assesses the credit risk by reviewing the banks' financial standings on a regular basis, as reflected in ratings assigned to the banks by rating agencies.

The Group places its funds in a diversified portfolio of deposits held with reputable banks – the breakdown of the portfolio is presented below (the table also provides information on any derivatives contracts entered into with the financial institutions (where the Group carries assets in connection with such contracts)).

	Rating assigned by	2020		2019	
	Fitch	Bank deposits	Derivative instruments (assets)	Bank deposits	Derivative instruments (assets)
Bank\Financial Institution	A	3,176	287	-	1,149
Bank\Financial Institution	A-	1,334	192	448	39
Bank\Financial Institution	A+	-	226	231	508
Bank\Financial Institution	A2 (Moody's)	-	263	19	264
Bank\Financial Institution	BB-	1	-	9	-
Bank\Financial Institution	BBB-	1	-	10	-
Bank\Financial Institution	BBB+	240	22	1,049	15
Exchanges	-	-	185	-	216
OTC market	-	-	262	-	431
Bank\Financial Institution, other	-	1	16	1	5
Total		**4,753**	**1,453**	**1,767**	**2,627**

7.3.1.2 Credit risk related to receivables

Credit risk with respect to trade receivables is understood as a settlement risk that may expose the Group to losses or adverse changes in its financial position as a result of default by a counterparty, including concentration risk arising from excessive exposure to one entity.

Some of the Group's gas sales transactions are effected via the Polish Power Exchange ("PPX"). Transactions made at the PPX do not generate exposure to credit risk, as the system of guaranteed settlements operated by the Commodity Exchange Clearing House protects Clearing House members against insolvency of individual market participants. As at the reporting date, outstanding balances from settlement of transactions effected via the PPX were not material.

In order to minimise the risk of uncollectible receivables arising from sale transactions outside of the PPX, uniform rules designed to secure trade receivables are in place.

In 2019, the parent implemented a uniform credit risk management model for its trading partners, designed to ensure appropriate standards of creditworthiness assessment, application of contractual collateral, and process security across the Group

These uniform rules are designed to control the process of granting credit limits to counterparties (including joint counterparties) and to ensure effective collection of trade receivables. The entire process was also covered by the internal system for reporting credit risk exposures and past due receivables. The Group limits its exposure to credit risk related to trade receivables by regularly assessing the creditworthiness of its trading partners, setting credit limits, and using appropriate security instruments.

With respect to private customers, the Group's debt collection teams continuously monitor the balance of a customer's past-due receivables. As part of the internal pre-litigation process, standard debt collection steps are taken: notification of overdue payments, call for payment, notification and suspension of gas supply pursuant to Art. 6b.1.2) of the Energy Law. As a last resort, the Group terminates contracts due to non-payment, and the case is referred to court and subject to enforcement proceedings. Any debt that has not been recovered by the Group as part of its internal procedures is sold.

There is no credit risk concentration within the Group. As at December 31st 2020, trade receivables from the Group's three largest customers accounted for 14%, 9%, and 9% of total trade receivables (December 31st 2019: 7.0%, 3.5%, and 2.3%).

(in PLN million, unless stated otherwise)

7.3.1.3 Credit risk related to derivative transactions

Transactions in financial derivatives are executed with most reputable banks with high credit ratings. The Group has also concluded either Framework Agreements or ISDA Agreements with each of their relationship banks, stipulating detailed terms of service and limits of maximum exposure arising from the fair value of derivatives. The Group believes that all the measures described above protect it against any material credit-risk-related losses.

The relationship banks' credit ratings are presented in Note 7.3.1.1.

As at December 31st 2020, the shares of the three counterparty banks which accounted for the largest proportion (in value terms) of transactions in derivative instruments with positive valuations were 18%, 14% and 13% (December 31st 2019: 23%, 17% and 16%).

7.3.2 Market risk

Market risk is defined as the risk of the Group's financial results or economic value being adversely affected by changes in trading conditions on financial and commodity markets.

In line with the adopted policy, the purpose of the market risk management process in place at the Group is to:

- Reduce the volatility of cash flows related to the Group's operations to acceptable levels in the short- and medium term
- Build company value in the long term.

Considering potential impacts on its financial results, the Group has identified the following market risks:

Impact on financial results

Market risk	Approach to risk management
Natural gas and oil product prices	The Group manages the risk by purchasing derivatives to hedge natural gas prices.
EUR/PLN, USD/PLN and NOK/PLN exchange rates	The risk is mainly related to trade payables. The Group hedges the risk by entering into derivative contracts.
Interest rates	The Group hedges the risk by purchasing derivatives.
Other commodity prices	The risk considered immaterial.

(in PLN million, unless stated otherwise)

7.3.2.1 Commodity price risk

Commodity price risk is defined as the risk of the Group's financial results being adversely affected by changes in commodity prices.

The Group's exposure to commodity price risk arises mainly in connection with its gas fuel buy and sell contracts entered into as part of daily trading activities on the PPX. It stems from volatility of prices of gas and oil products quoted on global markets. Under some of the contracts for gas fuel supply, the pricing formula relies on a weighted average of the prices recorded in previous months, which mitigates the volatility risk.

Commodity risk is also related to electricity trading, certificates of origin, and carbon credits. Trade in electricity is carried out on regulated exchange markets in Poland and abroad. The Group also executes transactions outside of regulated markets, under framework agreements. Commodity risk exposure is managed by mechanisms for identifying, calculating and monitoring exposure levels, as well as by valuation of open positions, value-at-risk measurement, and market risk limits.

The Group applies cash flow hedge accounting with respect to future, highly probable cash flows associated with the purchase/sale of gas and petroleum products. As for projected purchases and sales at prices resulting from PPX future indices, the Group hedges against a covert risk component being the value of the TTF DA index.

Based on analyses of historical data performed for the last three years, the Group determined that in the past the change in the TTF index accounted for approximately 130% of the volatility of the price of gas purchased/sold at the intra-day price on the PPX. The Group also determined that there is a negative correlation between the TTF index and the currency exchange rate.

For details on hedge accounting, see Note 7.2.

For prices of electricity, carbon credits and certificates of origin, the Group applies economic hedges, but does not apply hedge accounting. For more information on derivatives not designated for hedge accounting, see Note 7.2.

The tables below present an analysis of sensitivity of material energy commodity derivatives (TTF) to price changes in 2020 and 2019.

2020	Carrying amount	TTF, EE - price change by:			
		45%		-45%	
		Profit/(loss)	Other comprehensive income	Profit/(loss)	Other comprehensive income
Energy commodity derivative assets	1,333	380	509	442	870
Energy commodity derivative liabilities	1,123	(447)	(1,021)	(365)	(418)
Effect of TTF, EE* price changes		**(67)**	**(512)**	**77**	**452**

**TTF, EE – for abbreviations see Note 7.2.*

2019	Carrying amount	TTF, EE - price change by:			
		30%		-30%	
		Profit/(loss)	Other comprehensive income	Profit/(loss)	Other comprehensive income
Energy commodity derivative assets	2,265	48	57	246	2
Energy commodity derivative liabilities	1,201	(247)	(4)	(44)	(59)
Effect of TTF, EE* price changes		**(199)**	**53**	**202**	**(57)**

**TTF, EE – for abbreviations see Note 7.2.*

7.3.2.2 Currency risk

Currency risk is defined as the risk of the Group's financial results being adversely affected by changes in the price of one currency against another.

As part of its risk management strategy, which consists in particular in managing the risk from a net open position in contracts to purchase or sell gas and petroleum products, the Group hedges the currency risk arising in connection with trading in gas and petroleum products payable by it under contracts settled in foreign currencies by entering into transactions on appropriate foreign exchange derivatives.

Currency risk largely arises on account of fluctuations in the EUR/PLN, USD/PLN and NOK/PLN exchange rates, And it mainly affects the Parent. The key sources of exposure include:

- Trade payables (mainly for natural gas purchased by the Group (Note 6.2.3.),
- CCIRS hedging a NOK-denominated loan to PGNiG Upstream Norway AS (the loan is eliminated in the consolidated financial statements) (Note 7.2.), and
- Cash and cash equivalents (Note 5.4.).

The main objective of the Group's currency risk hedging activities is to mitigate volatility of net revenue from trading in gas and petroleum products (purchase, sale) arising from payments made in the euro, the US dollar and the Polish złoty, but resulting from economic indexation of commodity prices to the euro.

The Parent applies cash flow hedge accounting with respect to future, highly probable foreign-currency costs to purchase gas and petroleum products under contracts settled in the euro or the US dollar and economically indexed to the euro. The Group designates as a hedged item the risk component being the EUR/PLN exchange rate in those gas purchase and/or sale contracts for which the price is not determined in either of the currencies, but which give rise to the exposure to, inter alia, the EUR/PLN exchange rate. For details of the hedging transactions, see Note 7.2.

Analyses performed by the Group confirmed that currency exchange movements have a material impact on gas prices on the Polish Power Exchange. As it is common knowledge that gas prices in Poland are strongly correlated with gas prices in Germany, and based on analyses, despite the fact that the foreign currency component is not expressly specified in the price of gas in Poland, the Group finds that such component can be separated and reliably measured.

Based on historical analyses performed for the last three years, the Group determined that in the past currency exchange movements accounted for approximately 10% of the volatility of the price of gas bought/sold at the intra-day price (i.e. other than under contracts to buy/sell gas at the price determined at the time of contract execution/amendment).

In 2020, the Group used derivative instruments to hedge against currency risk associated with trade payables/receivables denominated in foreign currencies (chiefly USD and EUR), including forwards and average rate forwards/currency swaps. For detailed information on derivative transactions executed by the Group (derivatives designated for hedge accounting and economic hedges not designated for hedge accounting), see Note 7.2.

The table below presents the Group's exposure to currency risk arising from material items denominated in foreign currencies, and an analysis of the Group's sensitivity to the risk of movements in foreign exchange rates that the Group considers to be reasonably possible as at the reporting date (December 31st 2020).

(in PLN million, unless stated otherwise)

2020	Note	Carrying amount	Value at risk	EUR/PLN				USD/PLN				NOK/PLN			
				Exchange rate change: +10%		Exchange rate change: -10%		Exchange rate change: +10%		Exchange rate change: -10%		Exchange rate change: +10%		Exchange rate change: -10%	
				Profit/(loss)	Other comprehensive income	Profit/(loss)	Other comprehensive income	Profit/(loss)	Other comprehensive income	Profit/(loss)	Other comprehensive income	Profit/(loss)	Other comprehensive income	Profit/(loss)	Other comprehensive income
Financial assets															
Trade receivables	*Note 6.2.2.*	4,449	990	52	-	(52)	-	18	-	(18)	-	6	-	(6)	-
Derivative financial instruments (assets)	*Note 7.2.*	1,453	59	-	-	14	203	-	183	5	-	-	-	134	-
Cash and cash equivalents	*Note 5.4.*	7,098	3,544	25	-	(25)	-	260	-	(260)	-	-	-	-	-
Financial liabilities															
Financing liability	*Note 5.2.*	4,184	1,881	(85)	-	85	-	(67)	-	67	-	-	-	-	-
Trade payables	*Note 6.2.3.*	1,199	681	(28)	-	28	-	(23)	-	23	-	(3)	-	3	-
Derivative financial instruments (liabilities)	*Note 7.2.*	1,398	276	(14)	(203)	-	-	(5)	-	-	(183)	(134)	-	-	-
Effect of exchange rate movements				**(50)**	**(203)**	**50**	**203**	**183**	**183**	**(183)**	**(183)**	**(131)**	**-**	**131**	**-**

2019		Carrying amount	Value at risk	EUR/PLN				USD/PLN				NOK/PLN			
				Exchange rate change: +10%		Exchange rate change: -10%		Exchange rate change: +10%		Exchange rate change: -10%		Exchange rate change: +10%		Exchange rate change: -10%	
				Profit/(loss)	Other comprehensive income	Profit/(loss)	Other comprehensive income	Profit/(loss)	Other comprehensive income	Profit/(loss)	Other comprehensive income	Profit/(loss)	Other comprehensive income	Profit/(loss)	Other comprehensive income
Financial assets															
Trade receivables	*Note 6.2.2.*	4,511	1,173	57	-	(57)	-	22	-	(22)	-	12	-	(12)	-
Derivative financial instruments (assets)	*Note 7.2.*	2,627	355	-	-	7	315	-	295	-	-	-	-	84	-
Cash and cash equivalents	*Note 5.4.*	3,037	927	41	-	(41)	-	32	-	(32)	-	-	-	-	-
Financial liabilities															
Financing liability	*Note 5.2.*	6,753	1,741	(56)	-	56	-	(85)	-	85	-	-	-	-	-
Trade payables	*Note 6.2.3.*	1,608	1,479	(39)	-	39	-	(75)	-	75	-	(4)	-	4	-
Derivative financial instruments (liabilities)	*Note 7.2.*	1,297	89	(6)	(315)	-	-	-	-	-	(295)	(84)	-	-	-
Effect of exchange rate movements				**(3)**	**(315)**	**4**	**315**	**(106)**	**295**	**106**	**(295)**	**(76)**	**-**	**76**	**-**

(in PLN million, unless stated otherwise)

7.3.2.3 Interest rate risk

Interest rate risk is defined as the risk of the Group's financial results being adversely affected by changes in interest rates.

The Group's primary sources of the interest rate risk are:

- Cash and cash equivalents (bank deposits) (Note 5.4.).
- Financing liabilities (Note 5.2.),
- CCIRS and IRS not designated for hedge accounting (Note 7.2.).

Market risk (currency and interest rate risk) is monitored by the Group through sensitivity analysis and VaR measurement. VaR (value at risk) means that the maximum loss arising from a change in the market (fair) value will not exceed that value over the next n business days, given a specified probability level (e.g. 99%). VaR is estimated using the variance-covariance method.

Items bearing variable-rate interest expose the Group to the risk of interest rate movements causing changes in cash flows associated with a given item by affecting interest income/expense recognised in profit or loss. Items bearing fixed-rate interest expose the Group to the risk of fair value changes. However, since the items are measured at amortised cost (save for derivatives), any such change has no impact on their carrying amounts or on profit or loss.

The table below presents key items exposed to interest rate risk, and an analysis of the Group's sensitivity to interest rate movements affecting items bearing variable-rate interest, which the Group considers reasonably possible as at the reporting date.

		2020				2019			
		Carrying amount	Balances bearing interest at variable rate	Interest rate change by +20 bps	Interest rate change by -20 bps	Carrying amount	Balances bearing interest at variable rate	Interest rate change by +30 bps	Interest rate change by -30 bps
Cash and cash equivalents	Note 5.4.	7,098	4,753	10	(10)	3,037	1,767	5	(5)
CIRS not designated for hedge accounting (assets)	Note 7.2	-	-	-	-	90	1,001		
CIRS not designated for hedge accounting (liabilities)	Note 7.2.	(45)	1,680	-	-	-	-	-	-
Financing liabilities	Note 5.2.	4,178	2,270	(5)	5	6,746	5,091	(15)	15
Effect after hedge accounting				**5**	**(5)**			**(10)**	**10**

7.3.3 Liquidity risk

Liquidity risk is defined as the risk of inadequate liquidity restricting the Group's ability to finance its capital requirements or the risk of structural excess liquidity adversely affecting profitability of the Group's business.

The main objective of the liquidity risk management is to monitor and plan the Group's liquidity on a continuous basis. Liquidity is monitored through at least 12-month projections of future cash flows, which are updated once a month. The Group reviews the actual cash flows against projections at regular intervals, which comprises an analysis of unmet cash-flow targets, as well as the related causes and effects.

The liquidity risk should not be associated exclusively with the risk of loss of liquidity by the Group. An equally serious threat is that of having excess structural liquidity, which could adversely affect the Group's profitability. The Group monitors and plans its liquidity levels on a continuous basis.

To enhance its liquidity position, the Group has launched several note issuance programmes. For details on the note issues, see Note 5.2.

The Group companies also use lines of credit; for credit limits, see Note 5.2.1.

The liquidity risk at the parent is significantly mitigated by following the PGNiG S.A. Liquidity Management Procedure, which ensures proper management of financial liquidity through:

- execution of payments,
- cash flow forecasting,
- optimal management of free cash,

(in PLN million, unless stated otherwise)

- raising new financing and restructuring existing funding arrangements to finance day-to-day operations and investment projects,
- providing protection against temporary liquidity constraints resulting from unforeseen disruptions, and servicing contracted bank loans.

Measurement of the liquidity risk is based on ongoing detailed monitoring of cash flows, which takes into account the probability that specific flows will materialise, as well as the planned net cash position.

The tables below present maturities of financial liabilities at contractual undiscounted amounts.

2020	Time to contractual maturity at the reporting date					Total	Carrying amount
	Up to 3 months	3–12 months	1-3 years	3-5 years	over 5 years		
Financing liabilities	**77**	**247**	**281**	**1,282**	**2,335**	**4,222**	**4,184**
Bank borrowings	16	215	83	1,067	614	**1,995**	**1,995**
Lease liabilities	61	20	198	127	1,721	**2,127**	**2,089**
Other	-	12	-	88	-	**100**	**100**
Trade payables	2,252	81	62	11	39	**2,445**	**2,445**
Derivative financial liabilities							
Forwards							
- inflows	1,637	3,848	1,772	281	-	**7,538**	**-**
- outflows	(1,682)	(4,004)	(1,833)	(424)	-	**(7,943)**	**385**
Other derivative instruments							
- inflows	42	160	28	-	-	**230**	**-**
- outflows	(397)	(280)	(112)	(8)	-	**(797)**	**973**
Financial liabilities (outflows)	**4,347**	**4,592**	**2,090**	**1,598**	**653**	**13,280**	**-**
Financial liabilities, including inflows from derivatives	**2,668**	**584**	**290**	**1,317**	**653**	**5,512**	**7,987**

2019	Time to contractual maturity at the reporting date					Total	Carrying amount
	Up to 3 months	3–12 months	1-3 years	3-5 years	over 5 years		
Financing liabilities	**3,059**	**195**	**253**	**757**	**2,659**	**6,923**	**6,752**
Bank borrowings	3,014	164	60	602	1,050	**4,890**	**4,893**
Lease liabilities	45	31	193	135	1,609	**2,013**	**1,839**
Other	-	-	-	20	-	**20**	**20**
Trade payables	3,076	47	80	17	36	**3,256**	**3,256**
Derivative financial liabilities							
Forwards							
- inflows	267	257	38	54	-	**616**	**-**
- outflows	(254)	(222)	(38)	(39)	-	**(553)**	**426**
Other derivative instruments							
- inflows	184	400	20	50	-	**654**	**-**
- outflows	(640)	(636)	(40)	(66)	-	**(1,382)**	**869**
Financial liabilities (outflows)	**6,984**	**1,069**	**218**	**744**	**1,086**	**10,101**	**-**
Financial liabilities, including inflows from derivatives	**6,533**	**412**	**160**	**640**	**1,086**	**8,831**	**11,303**

(in PLN million, unless stated otherwise)

8. Other notes

8.1 Assets held for sale

Accounting policies

The Group classifies a non-current asset (or disposal group) as held for sale if its carrying amount is to be recovered principally through a sale transaction rather than through continuing use. Non-current assets held for sale are measured at the lower of their net carrying amount and fair value less cost to sell. If the fair value is lower than the net carrying amount, the difference is charged to profit or loss as an impairment loss.

Asset (disposal group) held for sale	Terms and expected date of disposal	Carrying amount 2020	Carrying amount 2019
Perpetual usufruct right to land	Auction (sale February 2021)	23	-
Other non-current assets held for sale	Auction (sale expected in 2021 or 2020)	8	14
Total		**31**	**14**

8.2 Other assets

Accounting policies

Loans are initially recognised at fair value and as at each reporting date are measured at amortised cost, using the effective interest rate method.

Non-current restricted cash represents cash of the Extraction Facilities Decommissioning Fund, accumulated by the Parent in a separate bank account from the first day of operation to the start of decommissioning of extraction facilities. The Fund's cash is increased by the amount of interest accruing on the Fund's assets. Due to formal and legal restrictions on the use of this cash (it may only be applied towards specific long-term objectives), the assets accumulated in the Extraction Facilities Decommissioning Fund are recognised in the Group's statement of financial position as other assets under non-current assets. The amount of the provision for decommissioning of production and storage wells is adjusted for any unused contributions to the Extraction Facilities Decommissioning Fund (Note 6.3.2.).

Connection charge is disclosed under accrued income. The charge amount is accounted for throughout the average useful lives of the relevant assets.

Unlisted shares are measured at cost (less impairment losses, if any) because their fair value cannot be measured reliably.

Amounts receivable under long-term contracts are the excess of recognised income (measured using the percentage of completion method) over progress billings.

Other non-current assets and other current assets include mainly prepayments.

Finance lease receivables are recognised as the sum of minimum lease payments due to the Company, discounted at the interest rate implicit in the lease. The difference between the carrying amount of leased assets and their fair value is posted to deferred revenue.

	2020	2019
Other non-current assets	**1,834**	**1,375**
Loans	819	700
Non-current restricted cash	188	190
Connection charge	115	120
Unlisted shares	60	32
Investment property	147	155
Prepayments for other tangible assets under construction, not related to exploration activities	8	77
Financial receivables (deposits, guarantees, and other)	38	26
Other non-current assets	459	75
Other current assets	**217**	**259**
Securities and other debt instruments	47	71
Property insurance	56	52
Other current assets	114	136

(in PLN million, unless stated otherwise)

Change in gross carrying amount of loans advanced in the reporting period

	Loans		
	12-month expected loss	lifetime expected loss	Impaired
Gross carrying amount as at Jan 1 2019	**560**	**25**	**55**
Repaid financial assets	(16)	(3)	(4)
Newly recognised financial assets	138	7	-
Other effect	22	-	4
Gross carrying amount as at Dec 31 2019	**704**	**29**	**55**
Repaid financial assets	(16)	(4)	(2)
Newly recognised financial assets	107	16	-
Other effect	26	-	3
Gross carrying amount as at Dec 31 2020	**821**	**41**	**56**

Change in impairment losses on loans advanced in the reporting period

	Loans		
	12-month expected loss	lifetime expected loss	Impaired
As at Jan 1 2019	**9**	**-**	**55**
Increase taken to profit or loss	3	-	3
Decrease taken to profit or loss	(1)	-	(4)
Effect of exchange rate movements and other	-	-	1
As at Dec 31 2019	**11**	**-**	**55**
Increase taken to profit or loss	7	1	3
Decrease taken to profit or loss	(1)	(1)	(2)
As at Dec 31 2020	**17**	**-**	**56**

8.2.1 Contingent assets and liabilities

Contingent asset	2020	2019
	Estimated amount	
Grants awarded	182	187
Other contingent assets	13	14
Total	**195**	**201**

The carrying amount of contingent assets in the reporting period was mainly attributable to the co-financing granted to Polska Spółka Gazownictwa Sp. z o.o. for the construction of gas pipelines as part of the gas network roll-out process.

Contingent liabilities	2020	2019
	Estimated amount	
Guarantees and sureties	4,830	3,808
Promissory notes	554	552
Other	9	11
Total	**5,393**	**4,371**

As at the end of 2020, the largest item of contingent liabilities was a guarantee issued by the parent for the benefit of the Norwegian State in connection with PUN's work on the Norwegian Continental Shelf, whose carrying amount as at the end of 2020 was PLN 2,896m (PLN 2,672m as at the end of 2019) and was disclosed under Guarantees and sureties.

The increase in contingent liabilities under guarantees and sureties provided in the reporting period was primarily attributable to the issuance of new performance bonds securing gas supplies, and provision of sureties to secure repayment of the Group companies' liabilities under credit facility agreements.

8.3 Related-party transactions

The Group's related parties include entities jointly controlled by the Group, the Group's associates, the Group's subsidiaries which are not consolidated due to immateriality, companies in which the State Treasury holds an equity interest (subsidiaries, jointly controlled entities and associates), as well as the Group's key management personnel (i.e. members of the Management and Supervisory Boards of the parent and its subsidiaries).

The State Treasury is the entity having control of the Group.

(in PLN million, unless stated otherwise)

8.3.1 Transactions with entities in which PGNiG or its subsidiary holds equity interests

	2020			2019		
	Joint ventures	Other related parties	Total	Joint ventures	Other related parties	Total
Turnover and revenue/expenses for the period						
Sale of products and services	266	16	282	54	13	67
Interest income from loans	37	4	41	34	4	38
Total	**303**	**20**	**323**	**88**	**17**	**105**
Purchase of services, merchandise and materials	(290)	(66)	(356)	(77)	(60)	(137)
Purchase of tangible assets under construction	(88)	(37)	(125)	(109)	(3)	(112)
Purchase of inventories	(461)	(20)	(481)	(450)	(19)	(469)
Other purchases	-	-	-	-	-	-
Total	**(839)**	**(123)**	**(962)**	**(636)**	**(82)**	**(718)**
Balance at end of the period						
Trade and other receivables	199	3	202	12	2	14
Including impairment losses	(95)	-	(95)	-	-	-
Loans	792	51	843	694	30	724
Including impairment losses	(17)	(56)	(73)	(11)	(55)	(66)
Total	**991**	**54**	**1,045**	**706**	**32**	**738**
Trade payables	106	13	119	61	7	68
Borrowings	-	-	-	-	-	-
Other liabilities	43	-	43	6	-	6
Total	**149**	**13**	**162**	**67**	**7**	**74**

In 2020, neither the parent nor its subsidiaries entered into any material related-party transactions other than on arm's length terms.

8.3.2 Transactions with entities in which the State Treasury holds equity interests

Transactions with entities in which the State Treasury holds equity interests (and has control or joint control of, or significant influence on, such entities) are mainly transactions executed in the course of the Group's day-to-day operations, i.e. natural gas trading, sale of crude oil, and sale of electricity.

	2020	2019
Revenue	4,584	5,871
Expenses	(1,716)	(1,687)
Receivables	839	919
Liabilities	23	23

The above data refer to transactions with entities supervised by the Prime Minister and listed in the Regulation of the Prime Minister of January 26th 2021 on the list of companies in which rights from shares held by the State Treasury are exercised by members of the Council of Ministers other than the Prime Minister, Government Plenipotentiaries or state legal persons, including companies fully owned by the State Treasury.

8.3.3 Benefits received by the Group's key personnel

	2020			2019		
	Management Board	Supervisory Board	Total	Management Board	Supervisory Board	Total
Parent	**10.9**	**0.8**	**11.7**	**10.4**	**0.7**	**11.1**
Short-term employee benefits	9.2	0.8	10.0	10.0	0.7	10.7
7Termination benefits	1.7	-	1.7	0.4	-	0.4
Subsidiaries	**23.8**	**3.7**	**27.5**	**23.6**	**5.2**	**28.8**
Short-term employee benefits	22.4	3.7	26.1	22.9	5.2	28.1
Post-employment benefits	0.2	-	0.2	0.2	-	0.2
Other long-term benefits expense	0.3	-	0.3	0.3	-	0.3
Termination benefits	0.9	-	0.9	0.2	-	0.2
Share-based payments	-	-	-	-	-	-
Total	**34.7**	**4.5**	**39.2**	**34.0**	**5.9**	**39.9**

For more information on remuneration of the key management personnel and the remuneration policy applied at the Parent, see the Directors' Report on the operations of PGNiG S.A. and the PGNiG Group.

8.3.4 Loans granted to the management and supervisory personnel of the Group companies

In 2020 and 2019, none of the members of the management and supervisory personnel of the PGNiG Group received loans from the Group.

8.4 Joint operations

Accounting policies

In relation to its interest in joint operations, the Group, as a joint operator, recognises in its financial statements:

- its assets, including its share of any assets held jointly,
- its liabilities, including its share of any liabilities incurred jointly,
- its revenue from the sale of its share of the output arising from the joint operation;
- its share of the revenue from the sale of the output by the joint operation; and
- its expenses, including its share of any expenses incurred jointly.

As assets, liabilities, revenues and costs relating to the joint operation are also disclosed in the separate financial statements of the party, these items are not subject to adjustment or other consolidation procedures when preparing consolidated financial statements of that party.

Figure 2: Countries where the Group conducts joint operations

The Group is involved in joint operations mainly in Poland, and also in Norway and Pakistan. They consist mainly in exploration for and production of natural gas and crude oil, except for operations conducted in south-eastern Poland, where they involve an initial stage of exploration for unconventional deposits of gas.

Significant estimates

As at the end of the reporting period, the Group was involved in joint operations, within the meaning of IFRS 11, as part of projects carried out in Norway in the PL127C, PL146, PL333, PL460, PL939, PL941, PL1009, PL1009B and PL1017 licence areas.

As at December 31st 2020, the Group also held interests in other licences on the Norwegian Continental Shelf, covering, among others, the Skarv, Gina Krog, Morvin, Vilje, Vale, Tommeliten Alpha and Duva fields. Considering the IFRS 11 criteria, the Group's operations in the above fields do not represent joint arrangements as defined in the standard and the Group does not have joint control of the operations as there is more than one combination of parties that can agree to make significant decisions. Therefore, for the purpose of correct recognition and measurement of transactions related to the operations in those fields, the Group applies other relevant IFRSs taking into account its interest in the fields, which ensures that there are no material differences in the accounting recognition and measurement of transactions related to these operations and the manner of recognising operations which are carried out jointly with holders of interests in the licences that meet the definition of joint operations within the meaning of IFRS 11.

For more information on joint operations, see the Directors' Report on the operations of PGNiG S.A. and the PGNiG Group.

(in PLN million, unless stated otherwise)

A detailed list of joint operations in which the Group is involved is presented in the tables below.

2020

Name of joint contractual arrangement	Country where joint operation is conducted	Interests in joint operations	Business of joint operations
Joint operation in the Sieraków licence area	Poland	PGNiG S.A. 51%; ORLEN Upstream Sp. z o.o. 49%	Oil and gas exploration and production
Joint operation in the Płotki licence area	Poland	PGNiG S.A. 51%; ORLEN Upstream sp. z o.o. 49%	Oil and gas exploration and production
Joint operation in the Poznań licence area	Poland	PGNiG S.A. 51%; ORLEN Upstream sp. z o.o. 49%	Oil and gas exploration and production
Joint operation in the Bieszczady licence area	Poland	PGNiG S.A. 51%; ORLEN Upstream sp. z o.o. 49%	Oil and gas exploration and production
Joint operation in the licence area (production of natural gas from the Karmin field)	Poland	PGNiG S.A. 51%; ORLEN Upstream sp. z o.o. 49%	Natural gas production
Joint operation in the licence area (production of natural gas from the Mirosław E field)	Poland	PGNiG S.A. 51%; ORLEN Upstream sp. z o.o. 49%	Natural gas production
Joint operation in the Kirthar licence area	Pakistan	PGNiG S.A. 70%; Pakistan Petroleum Ltd. 30%	Oil and gas exploration and production
Joint operation in the PL460 licence area	Norway	PGNiG Upstream Norway AS 35%; AkerBP 65%	Oil and gas exploration and production
Joint operation in the PL939 licence area	Norway	PGNiG Upstream Norway AS 30%; Equinor 70%	Oil and gas exploration and production
Joint operation in the PL1009/PL1009B licence area	Norway	PGNiG Upstream Norway AS 30%; ConocoPhillips 65%	Oil and gas exploration and production
Joint operation in the PL1017 licence area	Norway	PGNiG Upstream Norway AS 50%; Equinor 50%	Oil and gas exploration and production
Joint operation in the PL146/PL333 licence area	Norway	PGNiG Upstream Norway AS 22.2%; Equinor 77.8%	Oil and gas exploration and production
Joint operation in the PL127C licence area	Norway	PGNiG Upstream Norway AS 11.9175%; Aker BP 88.0825%	Oil and gas exploration and production
Joint operation in the PL941 licence area	Norway	PGNiG Upstream Norway AS 20%; Aker BP 80%	Oil and gas exploration and production

2019

Name of joint contractual arrangement	Country where joint operation is conducted	Interests in joint operations	Business of joint operations
Joint operation in the Sieraków licence area	Poland	PGNiG S.A. 51%; ORLEN Upstream Sp. z o.o. 49%	Oil and gas exploration and production
Joint operation in the Płotki licence area	Poland	PGNiG S.A. 51%; FX Energy (Grupa ORLEN) 49%	Oil and gas exploration and production
Joint operation in the Górowo Iławieckie licence area	Poland	PGNiG S.A. 51%; LOTOS Petrobaltic S.A. 49%	Oil and gas exploration and production
Joint operation in the Poznań licence area	Poland	PGNiG S.A. 51%; FX Energy (Grupa ORLEN) 49%	Oil and gas exploration and production
Joint operation in the Bieszczady licence area	Poland	PGNiG S.A. 51%; ORLEN Upstream sp. z o.o. 49%	Oil and gas exploration and production
Joint operation in the Warszawa Południe licence area	Poland	FX Energy (Grupa ORLEN) 81.82%; PGNiG S.A. 18.18%	Oil and gas exploration and production
Joint operation in the PL460 licence area	Norway	PGNiG Upstream Norway AS 35%; AkerBP 65%	Oil and gas exploration and production
Joint operation in the PL939 licence area	Norway	PGNiG Upstream Norway AS 30%; Equinor 70%	Oil and gas exploration and production
Joint operation in the PL1009 licence area	Norway	PGNiG Upstream Norway AS 30%; ConocoPhillips 65%	Oil and gas exploration and production
Joint operation in the PL1017 licence area	Norway	PGNiG Upstream Norway AS 50%; Equinor 50%	Oil and gas exploration and production
Joint operation in the PL146/PL333 licence area	Norway	PGNiG Upstream Norway AS 22.2%; Equinor 77.8%	Oil and gas exploration and production

(in PLN million, unless stated otherwise)

8.5 Changes in the Group structure in the reporting period

Date	Company	Event
March 12th 2020	GEOFIZYKA Kraków S.A. w likwidacji w upadłości (in liquidation bankruptcy)	On March 12th 2020, the court declared GEOFIZYKA Kraków S.A. w likwidacji (in liquidation) bankrupt.
May 22nd 2020	Gardia Broker Sp. z o. o.	On May 22nd 2020 Górnośląska Spółka Brokerska Sp. z o. o. changed its name to Gardia Broker Sp. z o. o.
September 17th 2020	PST Europe Sales GmbH (subsidiary of PGNiG Supply & Trading GmbH)	On September 17th 2020, as part of the sale of PST Europe Sales GmbH's and XOOL GmbH's customer portfolio to Lekker Energie GmbH, PST Europe Sales GmbH acquired 100% of shares in PST Verwaltungs GmbH free of charge. On December 23rd 2020, a merger agreement was signed between PST Verwaltungs GmbH and PST Europe Sales GmbH. As a result of the merger, there were no changes in PST Europe Sales GmbH's share capital. Upon registration of the merger on January 8th 2021, PST Verwaltungs GmbH ceased to exist.
November 30th 2020	CIFL Sp. z o.o. w likwidacji	The company prepared financial statements as at the date of liquidation, i.e. November 30th 2020. On February 19th 2021, CIFL sp. z o. o. w likwidacji (in liquidation) was removed from the National Court Register.
December 4th 2020	PGNiG TERMIKA Energetyka Przemyśl Sp. z o.o.	On December 4th 2020, PGNiG TERMIKA Energetyka Przemyśl Sp. z o. o. was established. All shares (100%) in the share capital of the new company, with a total par value of PLN 5,000.00, were acquired by PGNiG TERMIKA S.A. On March 2nd 2020, the company was registered in the National Court Register.
December 22nd 2020	Exalo Diament Sp. z o.o. w organizacji	On December 22nd 2020, Exalo Diament Sp. z o. o. was established. All shares (100%) in the share capital of the new company, with a total par value of PLN 5,000.00, were acquired by EXALO Drilling S.A. Until the date of the report, the company was not registered in the National Court Register.

8.6 Other relevant information

8.6.1 Auditor fees

	2020	2019
Audit of the full-year separate financial statements and the full-year consolidated financial statements of the Group	1.70	1.91
Other assurance services, including review of financial statements	0.49	0.43
Other services	0.80	1.22
Total	**2.99**	**3.56**

PKF Consult Spółka z ograniczoną odpowiedzialnością Sp.k. was the entity authorised to audit and review financial statements of the parent and some of the subsidiaries and the consolidated financial statements of the PGNiG Group in the current and comparative reporting period.

The audit services contract was concluded on April 12th 2019 and covered the years 2019–2020.

PKF Consult Spółka z ograniczoną odpowiedzialnością Sp.k. also provided review services and other permitted services to the Group.

(in PLN million, unless stated otherwise)

8.7 Events after the reporting date

Date	Company	Event
January 13th 2021	Polska Spółka Gazownictwa Sp. z o. o.	On January 13th 2021, the President of the Energy Regulatory Office (the "President of URE") approved new Gas Fuel Distribution Tariff No. 9 of Polska Spółka Gazownictwa Sp. z o. o. (the “Distribution Tariff”). The rates of network fees and charges applied in settlements with customers were increased by approximately 3.6% on average in relation to the previous distribution tariff of Polska Spółka Gazownictwa Sp. o. o. for all tariff groups (rates applicable to coke gas did not change). The new Distribution Tariff is valid from February 1st to December 31st 2021. For detailed information on the approved Distribution Tariff, see www.ure.gov.pl, and *Biuletyn Branżowy URE – Paliwa gazowe* (the URE official gazette).
January 29th 2021	PGNiG S.A.	Due to the expiry of the offer submitted by PGNiG to TAURON Polska Energia S.A. (TAURON) for 100% of shares in Tauron Ciepło Sp. z o. o. (the “Transaction”) and the parties’ failure to reach agreement during the period of exclusive negotiations (which expired on January 31st 2021) PGNiG informed TAURON of its intention to not pursue further negotiations concerning the Transaction. For information on the process, see Current Reports No. 29/2020 of June 16th 2020 and No. 62/2020 of November 30th 2020.
February 10th 2021	PGNiG S.A.	Further to Current Report No. 64/2020 of December 11th 2020 on submission of a non-binding offer to ČEZ a.s. (ČEZ) jointly by PGNiG and PGE Polska Grupa Energetyczna S.A. (PGE) for purchase of Polish assets of the ČEZ Group (the “Transaction”), PGNiG submitted a statement on withdrawal from the Transaction and cooperation with PGE in the process.
February 17th 2021	PGNiG S.A.	Mr Jarosław Wróbel tendered his resignation as Vice President of the PGNiG Management Board effective as of March 1st 2021, citing his appointment as Vice President of the Management Board of Grupa LOTOS S.A. as the reason for the resignation.
March 2nd 2021	PGNiG S.A.	The Supervisory Board of PGNiG S.A. decided to appoint Mr Artur Cieślik as Vice President of the PGNiG Management Board, effective March 16th 2021, for the duration of the Company's sixth term of office, which expires on January 10th 2023.

Management Board of PGNiG S.A.

President of the Management Board	Paweł Majewski	*Signed with qualified electronic signature* --
Vice President of the Management Board	Artur Cieślik	*Signed with qualified electronic signature* --
Vice President of the Management Board	Robert Perkowski	*Signed with qualified electronic signature* --
Vice President of the Management Board	Arkadiusz Sekściński	*Signed with qualified electronic signature* --
Vice President of the Management Board	Przemysław Wacławski	*Signed with qualified electronic signature* --
Vice President of the Management Board	Magdalena Zegarska	*Signed with qualified electronic signature* --
Person responsible for the preparation of the consolidated financial statements	Aleksandra Sobieska-Moroz	*Signed with qualified electronic signature* --

Warsaw, March 23rd 2021

This document is an English version of the original Polish version.
In case of any discrepancies between the Polish and English version, the Polish version shall prevail.