Polskie Górnictwo Naftowe i Gazownictwo SA

SEPARATE FINANCIAL STATEMENTS PGNiG SA

FOR THE YEAR ENDED DECEMBER 31ST 2019

prepared in accordance with the International
Financial Reporting Standards
as endorsed by the European Union

Members of the Management Board of PGNiG S.A.

President of the Management Board	Jerzy Kwieciński	*Signed with qualified digital signature*
Vice President of the Management Board	Robert Perkowski	*Signed with qualified digital signature*
Vice President of the Management Board	Arkadiusz Sekściński	*Signed with qualified digital signature*
Vice President of the Management Board	Przemysław Wacławski	*Signed with qualified digital signature*
Vice President of the Management Board	Jarosław Wróbel	*Signed with qualified digital signature*
Vice President of the Management Board	Magdalena Zegarska	*Signed with qualified digital signature*

Signature of the person responsible for keeping the accounting records

Chief Accountant	Violetta Jasińska-Jaśkowiak	*Signed with qualified digital signature*

Warsaw, March 10th 2020

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.

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Financial statements

Statement of profit or loss

Statement of profit or loss	2019	2018	
Revenue from sale of gas	17,865	18,349	
Other revenue	4,750	3,995	
Revenue	**22,615**	**22,344**	*Note 2.2.*
Cost of gas sold	(15,400)	(14,663)	*Note 2.3.*
Other raw materials and consumables used	(1,958)	(1,361)	*Note 2.3.*
Employee benefits expense	(724)	(685)	*Note 2.3.*
Transmission, distribution and storage services	(941)	(954)	
Other services	(1,153)	(1,503)	*Note 2.3.*
Depreciation and amortisation expense	(856)	(798)	*Note 2.3.*
Taxes and charges	(317)	(301)	
Other income and expenses	(557)	(349)	*Note 2.4.*
Work performed by the entity and capitalised	12	8	
Recognition and reversal of impairment losses on property, plant and equipment, intangible assets, rights-of-use assets	(419)	252	*Note 2.3.*
Dividends	1,344	1,726	
Finance income	105	51	*Note 2.5.*
Interest income calculated using the effective interest rate	235	156	
Finance costs	(76)	(52)	*Note 2.5.*
Gain/(loss) on derecognition of financial assets measured at amortised cost	18	(69)	
Revaluation of financial assets	61	(125)	
Total	**(20,626)**	**(18,667)**	
Profit before tax	**1,989**	**3,677**	
Income tax	(241)	(388)	*Note 3.1.1.*
Net profit	**1,748**	**3,289**	
Weighted average number of ordinary shares (million)	5,778	5,778	
Basic and diluted earnings per share (PLN)	0.30	0.57	

Statement of comprehensive income

Statement of comprehensive income	2019	2018
Net profit	**1,748**	**3,289**
Hedge accounting	919	285
Deferred tax	(156)	(15)
Other comprehensive income subject to reclassification to profit or loss	**763**	**270**
Actuarial losses on employee benefits	(16)	(12)
Deferred tax	3	2
Other comprehensive income not subject to reclassification to profit or loss	**(13)**	**(10)**
Other comprehensive income, net	**750**	**260**
Total comprehensive income	**2,498**	**3,549**

(in PLN million, unless stated otherwise)

Statement of cash flows

	2019	2018	
Cash flows from operating activities			
Net profit	**1,748**	**3,289**	
Depreciation and amortisation expense	856	798	
Interest and dividends	(1,483)	(1,810)	
Net gain/(loss) on investing activities	344	(153)	
Other non-monetary adjustments	(194)	664	
Income tax paid	(145)	(467)	
Income tax expense recognised in profit or loss for the period	241	388	
Movements in working capital	622	(51)	*Note 5.2.4.*
Net cash from operating activities	**1,989**	**2,658**	
Cash flows from investing activities			
Payments for tangible exploration and evaluation assets	(851)	(835)	
Payments for other property, plant and equipment and intangible assets	(264)	(379)	
Loans	(3,193)	(914)	
Payments for derivative financial instruments	(34)	(62)	
Payments for shares in related entities	(447)	(32)	
Other cash used in investing activities	(34)	(27)	
Repayments of loans	844	943	
Proceeds from derivative financial instruments	42	55	
Interest received	158	117	
Dividends received	1,344	1,726	
Proceeds from sale of property, plant and equipment and intangible assets	46	38	
Lease proceeds	7	14	
Other cash generated by financing activities	126	-	
Net cash from investing activities	**(2,256)**	**644**	
Cash flows from financing activities			
Proceeds from borrowings	3,000	-	
Proceeds from issue of debt securities	-	2,295	
Other cash generated by financing activities	1	3	
Dividends paid	(636)	(404)	
Redemption of debt securities	(2,290)	(1,996)	
Interest paid	(116)	(36)	
Repayment of lease liabilities	(11)	-	
Net cash flows from financing activities	**(52)**	**(138)**	
Net cash flows	**(319)**	**3,164**	
Cash and cash equivalents at beginning of the period	4,844	1,680	
Cash and cash equivalents at end of the period	**4,525**	**4,844**	*Note 4.6.*
including restricted cash	284	456	

(in PLN million, unless stated otherwise)

Statement of financial position

	2019	2018	
Assets			
Property, plant and equipment	12,423	12,116	Note 5.1.1.
Licences, mining rights and rights to geological information	149	120	Note 5.1.3.
Deferred tax assets	-	45	Note 3.2.
Shares	10,285	9,846	Note 7.1
Derivative financial instruments	234	214	
Loans advanced	5,363	2,881	Note 7.4
Other assets	431	520	Note 5.3.1.
Non-current assets	**28,885**	**25,742**	
Inventories	3,230	2,691	Note 5.2.1.
Receivables	1,886	2,365	Note 5.2.2.
Cash pooling receivables	2,501	1,825	Note 4.3
Derivative financial instruments	1,834	453	
Loans advanced	563	592	Note 7.4
Other assets	30	181	Note 5.3.2.
Cash and cash equivalents	2,115	3,144	Note 4.6
Current assets	**12,159**	**11,251**	
TOTAL ASSETS	**41,044**	**36,993**	
Equity and liabilities			
Share capital and share premium	7,518	7,518	
Capital reserve	1,867	867	
Hedging reserve	737	72	
Accumulated other comprehensive income	-	13	
Retained earnings	20,496	20,363	
Total equity	**30,618**	**28,833**	Note 4.4
Financing liabilities	305	-	Note 4.2
Derivative financial instruments	20	105	
Employee benefit obligations	297	255	Note 5.4.1.
Provision for well decommissioning costs	1,923	1,569	Note 5.1.2.
Other provisions	17	28	Note 5.4.2.
Grants	484	519	Note 5.4.3.
Deferred tax liabilities	202	-	Note 3.2.
Other liabilities	67	75	Note 5.4.4.
Non-current liabilities	**3,315**	**2,551**	
Financing liabilities	3,015	2,298	Note 4.2
Derivative financial instruments	718	406	
Trade and tax payables	2,802	2,194	Note 5.2.3.
Cash pooling liabilities	119	171	Note 4.3
Employee benefit obligations	107	109	Note 5.4.1.
Provision for well decommissioning costs	34	91	Note 5.1.2.
Other provisions	266	287	Note 5.4.2.
Other liabilities	50	53	Note 5.4.4.
Current liabilities	**7,111**	**5,609**	
TOTAL LIABILITIES	**10,426**	**8,160**	
TOTAL EQUITY AND LIABILITIES	**41,044**	**36,993**	

(in PLN million, unless stated otherwise)

Statement of changes in equity

	Share capital and share premium	Capital reserve	Hedging reserve	Accumulated other comprehensive income	Retained earnings (deficit)	Total equity
As at Jan 1 2018	**7,518**	**-**	**7**	**23**	**18,485**	**26,033**
Effect of IFRS 9	-	-	-	-	(140)	(140)
As at Jan 1 2018 (restated)	**7,518**	**-**	**7**	**23**	**18,345**	**25,893**
Net profit	-	-	-	-	3,289	3,289
Other comprehensive income, net	-	-	270	(10)	-	260
Total comprehensive income	**-**	**-**	**270**	**(10)**	**3,289**	**3,549**
Transfers	-	867	-	-	(867)	-
Dividend **	-	-	-	-	(404)	(404)
Change in equity recognised in inventories	-	-	(205)	-	-	(205)
As at Dec 31 2018	**7,518**	**867**	**72**	**13**	**20,363**	**28,833**
Effect of IFRS 16	-	-	-	-	20	20
As at Jan 1 2019 (restated)	**7,518**	**867**	**72**	**13**	**20,383**	**28,853**
Net profit	-	-	-	-	1,748	1,748
Other comprehensive income, net	-	-	763	(13)	-	750
Total comprehensive income	**-**	**-**	**763**	**(13)**	**1,748**	**2,498**
Transfers *	-	1,000	-	-	(1,000)	-
Dividend **	-	-	-	-	(636)	(636)
Change in equity recognised in inventories	-	-	(98)	-	-	(98)
As at Dec 31 2019	**7,518**	**1,867**	**737**	**-**	**20,496**	**30,618**

On June 27th 2019, the Annual General Meeting of PGNIG S.A. passed Resolution No. 19/VI/2019 to allocate:

* PLN 1,000m to capital reserves to finance the extension and upgrade of the national gas distribution network; and

** PLN 1,040m to payment of dividend from the 2018 profit – dividend paid on August 7th 2019 of PLN 636m, and interim dividend from the Company's 2018 profit of PLN 404m (paid on December 3rd 2018).

(in PLN million, unless stated otherwise)

1. General information

1.1. Overview of the Company's business

Company details

Company name:	Polskie Górnictwo Naftowe i Gazownictwo Spółka Akcyjna
Registered office	ul. Marcina Kasprzaka 25, 01-224 Warsaw, Poland
Court of registration	District Court for the Capital City of Warsaw, 12th Commercial Division
National Court Register (KRS) No.	0000059492
Industry Identification Number (REGON)	012216736
Tax Identification Number (NIP)	525-000-80-28

Polskie Górnictwo Naftowe i Gazownictwo Spółka Akcyjna (the "Company", "PGNiG", "PGNiG S.A.") has been listed on the Warsaw Stock Exchange since 2005. PGNiG is the parent within its corporate group (the "PGNiG Group"). As at the date of issue of these financial statements for 2019, the State Treasury was the only shareholder holding 5% or more of total voting rights at the General Meeting of PGNiG S.A. The State Treasury is the parent to the Company.

The Company's principal business activity consists in hydrocarbon exploration activities, production of natural gas and crude oil, gas import, wholesale of gas fuels and electricity, and provision of other services, including gas storage services.

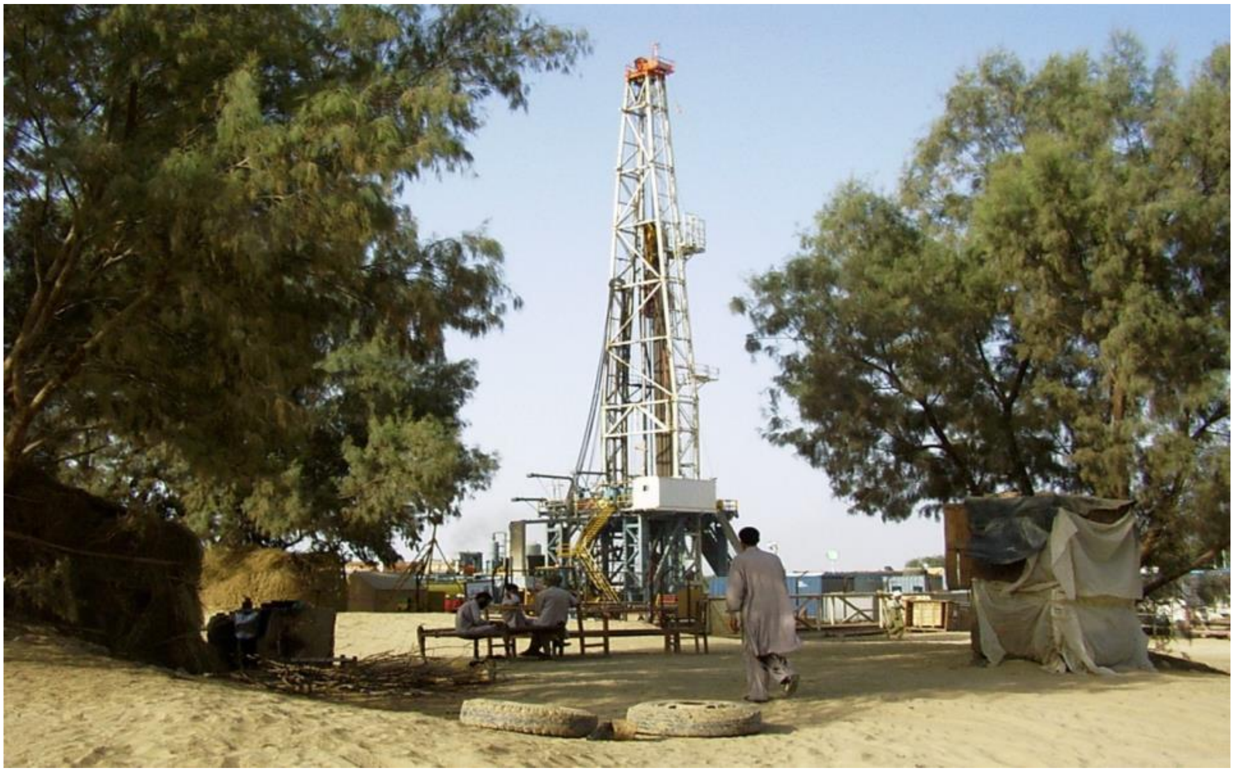
The PGNiG Group plays a key role on the Polish gas market and, as the market leader, is responsible for maintaining Poland's energy security. To this end, it takes measures necessary to satisfy demand for gas fuel and diversify supply sources by increasing indigenous production and imports.

PGNiG S.A. operates as a structure which as at December 31st 2019 comprised:

- Head Office in Warsaw,
- Odolanów Branch,
- Sanok Branch,
- Zielona Góra Branch,
- Geology and Hydrocarbon Production Branch in Warsaw,
- Central Measurement and Testing Laboratory in Warsaw,
- Well Mining Rescue Station in Kraków,
- Wholesale Trading Branch in Warsaw,
- Operator Branch in Pakistan,
- Branch in Ras Al Khaimah, United Arab Emirates.

Under joint operations agreements, the Company is a partner in joint operations conducted in Poland and Pakistan. These joint operations consist mostly in exploration for natural gas and crude oil. For detailed information on joint operations, see **Note 8.2.** and section **5.1.3** of the Directors' Report on the operations of PGNIG S.A. and the PGNiG Group Operations in Poland and section **5.1.4.** Foreign operations.

These financial statements will be submitted for authorisation to the PGNiG S.A. Management Board on March 12th 2020.



1.2. Basis of preparation

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

The Company is the parent of the PGNiG Group. For a comprehensive understanding of the financial position and results of PGNiG S.A. as the parent of the PGNiG Group, these financial statements should be read in conjunction with the full-year consolidated financial statements of the PGNiG Group and the Directors' Report on the operations of PGNiG S.A. and the PGNiG Group for the period ended December 31st 2019. The separate financial statements of the Company, the consolidated financial statements of the PGNiG Group and the Directors' Report on the operations of PGNiG S.A. and the PGNiG Group will be made available on the Company's website, at www.pgnig.pl, as previously announced in the current report concerning the date of publication of the Group's Consolidated Annual Report for 2019.

The accounting policies employed in the preparation of these financial statements, discussed in the detailed notes, were consistently applied by the Company in all periods presented. For information on changes in the accounting policies, including their effect on the financial statements, see **Note 1.3.** Preparation of financial statements in accordance with IFRSs requires using certain critical accounting estimates and judgements made by the Management Board within the framework of the accounting policies applied by the Company. The critical estimates used in the preparation of these financial statements are presented in the notes to the individual items of these financial statements.

These financial statements have been prepared based on the assumption that the Company will continue as a going concern in the foreseeable future. As at the date of authorisation of these financial statements for issue, no circumstances were identified which would indicate any threat to the Company's continuing as a going concern.

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

Accounting policies

Items denominated in foreign currencies

On initial recognition, transactions denominated in foreign currencies are recognised 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 effective 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,
- non-cash items measured at fair value in a foreign currency are translated at the exchange rate effective for the date of determining the fair value.

Exchange 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 effective portion of the gain or loss on a hedging instrument in hedge accounting are recognised in other comprehensive income.

To hedge against foreign currency risk, the Company enters into currency derivative contracts (for description of the accounting policies applied by the Company to derivative financial instruments see **Note 6.2.**).

(in PLN million, unless stated otherwise)

1.3. Effect of new standards

New and amended standards and interpretations

The following new and amended standards and interpretations effective as of January 1st 2019 had an effect on these financial statements:

Standard	**IFRS 16 *Leases* – effective for reporting periods beginning on or after January 1st 2019** **The Company applies IFRS 16 as of January 1st 2019.**
Description	The new standard establishes principles for the recognition, measurement, presentation and disclosure of leases. Practically all lease transactions result in the need for the lessee to recognise the right to use the asset and the obligation to pay. Thus, IFRS 16 abolishes the operating and finance lease classification under IAS 17 and provides a single lessee accounting model. The lessee is required to recognise: • assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset is a low-value asset, and • depreciation of the leased asset separately from interest on the lease liability recognised in the profit and loss account. IFRS 16's approach to lease accounting by lessors is substantially unchanged from its predecessor, IAS 17. Lessors continue to classify leases as operating or finance leases, each subject to different accounting treatment.
Effect of the standard	The Company decided to implement the new standard retrospectively with the cumulative effect of the initial application of IFRS 16 in equity (retained earnings) as at January 1st 2019. This means that the data presented for 2018 and 2019 are not comparable. **The Company as a lessee** For all leases, except for short-term leases and leases of low-value assets which are not subleased, previously classified as operating leases in accordance with IAS 17, as at the date of initial application of IFRS 16 , i.e. as at January 1st 2019, the Company recognised: • the lease liability measured at the present value of the remaining lease payments, discounted at the Company's marginal borrowing rate as at the date of initial application; • for all leases – the right-of-use asset, in an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments on the lease, recognised in the statement of financial position immediately before the date of initial application. Assets whose initial value, regardless of the age of the leased asset, does not exceed PLN 20,000 are considered low-value assets (even if their aggregated value is material). In particular, small office and electronic equipment are classified as low-value assets. If the above-described exemptions are applied, the Company recognises lease payments as costs using the straight-line method over the lease term. In the case of leases previously classified as finance leases under IAS 17, the Company recognised the right-of-use asset at the carrying amount of the leased asset and the lease liability directly before the day of their measurement in accordance with IAS 17. In accordance with IFRS 16, the Company did not make any changes to the existing and recognised operating and finance leases in which it was a lessor as at January 1st 2019. The marginal borrowing rate used to measure lease liabilities as at January 1st 2019 fell within the range of 2.94%–3.97%, depending on the length of the lease term. **Use of practical expedients** The Company decided to use the following practical solutions permitted under IFRS 16: • to apply a discount rate determined based on lease contract duration, • to rely on its own assessment of whether leases are onerous contracts under IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* immediately before the date of initial application, as an alternative to performing an impairment review. When choosing this practical expedient, the lessee adjusts the right-of-use asset at the date of initial application by the amount of any previously recognised onerous lease provision recognised in the statement of financial position immediately before the date of initial application; • not to apply lease recognition requirements to contracts where the lease term ends within 12 months from the date of first application, i.e. January 1st 2019, to treat such contracts as short-term leases, and to recognise lease payments as costs on a straight-line basis over the remaining lease term; • to excluded initial direct costs in the measurement of the right-of-use asset on the date of initial application; • to use hindsight to determine the lease term for contracts containing options to extend or terminate the lease.

(in PLN million, unless stated otherwise)

In connection with the implementation of IFRS 16, the Company's Accounting Policies had to be amended with respect to the recognition of land properties and usufruct right to land. As of January 1st 2019, on initial recognition the Company recognises perpetual usufruct rights acquired free of charge at the present value of lease payments outstanding at the date of initial application of IFRS 16. At the date of initial recognition of perpetual usufruct rights acquired against consideration, such rights will be recognised at the present value of lease payments outstanding at the date of initial application of IFRS 16, increased by:

- the excess of the first payment over the annual perpetual usufruct charge in the case of perpetual usufruct agreements made with the State Treasury or a local government unit;
- the cost of acquisition of the perpetual usufruct rights to land if the agreement was made with an entity other than the State Treasury or a local government unit.

The explanation of the difference between the operating lease liabilities disclosed as at December 31st 2018 in accordance with IAS 17 and the lease liabilities recognised as at January 1st 2019 is presented in **Table A** – *Reconciliation of operating lease liabilities in accordance with IAS 17 to lease liabilities recognised as at January 1st 2019*

The Company as a lessor

In the case of contracts where the Company is a lessor, the application of IFRS 16 did not require recognition of adjustments as at January 1st 2019.

Summary of the effects of IFRS 16

As at December 31st 2018, the Company had an irrevocable off-balance-sheet liability under operating leases related to perpetual usufruct right to land, as well as lease of land, premises, machinery and equipment, and vehicles. The Company measured the present value of assets used under the contracts and recognised a right-to-use asset and the corresponding lease liability as at January 1st 2019

The effect of the application of IFRS 16 on the Company's separate financial statements is presented in **Table B** – *Effect of application of IFRS 16 on the statement of financial position as at January 1st 2019*.

The Company changed the recognition of the provision for site restoration. Prior to the implementation of IFRS 16, the provision was treated as an operating lease in accordance with IAS 17, and The Company recognised a provision for costs of restoration of land held in perpetual usufruct received free of charge in profit or loss. IFRS 16 clearly specifies that the cost of a right-of-use asset should include estimated restoration costs to be incurred by the lessee.

The change in the recognition of the provision along with the corresponding change in deferred tax is recognised in retained earnings and presented in **Table B** – *Effect of IFRS 16 on the statement of financial position as at January 1st 2019*.

Effect of IFRS 16 on financial results

Given the fact that practically all leases were recognised in the statement of financial position, the application of IFRS 16 by the Company affected its balance sheet ratios, including the debt to equity ratio. It also affected the profit metrics (including operating profit and EBITDA) and to cash flows from operating and investing activities. The Company has analysed the implications of these changes for the covenants contained in its credit facility agreements. No risk of default or non-compliance has been identified.

As a result of the first-time application of IFRS 16, EBITDA for 2019 and 2018 is not comparable.

	IFRIC 23 *Uncertainty over Income Tax Treatments* – effective for reporting periods beginning on or after January 1st 2019 **The Company applies IFRIC 23 as of January 1st 2019.**
Description	This interpretation clarifies the application of the recognition and measurement requirements of IAS 12 *Income Taxes* if there is uncertainty over the tax treatment of income. In such circumstances, the Company recognises and measures its current tax receivables and liabilities or deferred tax assets and liabilities in accordance with the requirements of IAS 12 *Income Taxes* based on taxable income (tax loss), taxable base, unused tax losses, unused tax credits and tax rates determined using this interpretation.
Effect of the standard	The interpretation has no effect on the Company's financial statements.

Other standards, amendments to standards and interpretations that have been issued but are not yet effective and have not been listed above are not relevant to the Company's financial statements or do not apply to its business.

(in PLN million, unless stated otherwise)

Table A – Reconciliation of operating lease liabilities in accordance with IAS 17 to lease liabilities recognised as at January 1st 2019

Undiscounted operating lease liabilities as at December 31 2018 in accordance with IAS 17	-
perpetual usufruct rights to land	755
plots, land	91
buildings and structures	22
vehicles	17
plant and equipment	4
Total	**889**
Effect of discounting at the marginal borrowing rate as at January 1st 2019	(558)
Lease liabilities at January 1st 2019	**331**
- long-term	320
- short-term	11

As at December 31st 2018, the estimated fair value of the perpetual usufruct right to land received free of charge was PLN 322m and was based on the legal interpretation of the definition of irrevocable lease. As a result of the reassessment of the definition of irrevocability, especially taking into account its economic aspects, additional contracts are now included in operating leases and mainly cover the right of perpetual usufruct of land, office premises and means of transport. If these contract were included in the value of future minimum lease payments under irrevocable operating leases as at December 31st 2018, they would amount to approximately PLN 889m.

With respect to the rights of perpetual usufruct of land, the Company assumed that the whole period for which these rights were granted is irrevocable.

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(in PLN million, unless stated otherwise)

Table B – Effect of application of IFRS 16 on the statement of financial position as at Jan 1 2019

	Carrying amount as at Dec 31 2018	Effect of IFRS 16 on the statement of financial position	Carrying amount as at Jan 1 2019
Assets			
Property, plant and equipment, including	12,116	367	12,483
- land	*38*	*(19)*	*19*
Right-of-use assets, including:	-	386	386
- perpetual usufruct rights to land	*-*	*286*	*286*
- land	*-*	*63*	*63*
- buildings and structures	*-*	*18*	*18*
- plant and equipment	*-*	*4*	*4*
- vehicles	*-*	*15*	*15*
Deferred tax on provision for environmental liabilities	5	(5)	-
Other assets, including:	520	(30)	490
- perpetual usufruct rights to land	*30*	*(30)*	*-*
Non-current assets	**25,742**	**332**	**26,074**
TOTAL ASSETS	**36,993**	**332**	**37,325**
Equity and liabilities			
Retained earnings	20,363	20	20,383
Total equity	**28,833**	**20**	**28,853**
Financing liabilities, including			
- lease liabilities	*-*	*320*	*320*
Other provisions, including	28	(17)	11
- provisions	*24*	*(17)*	*7*
Non-current liabilities	**2,551**	**303**	**2,854**
Financing liabilities, including	2,298	-	2,298
- lease liabilities	*-*	*11*	*11*
Other provisions, including	287	(2)	285
- provisions	*2*	*(2)*	*-*
Current liabilities	**5,609**	**9**	**5,618**
TOTAL LIABILITIES	**8,160**	**312**	**8,472**
TOTAL EQUITY AND LIABILITIES	**36,993**	**332**	**37,325**

In the year ended December 31st 2019, the Company made a PLN 42m adjustment to the effect of IFRS 16 with respect to the recognised amounts of property, plant and equipment and finance lease liabilities relative to the amounts shown in the separate financial statements for the year ended December 31st 2018 on account of IFRS 16.

(in PLN million, unless stated otherwise)

Table C - Effect of application of IFRS 16 on the statement of comprehensive income and the statement of cash flows for the year ended December 31st 2019

Effect on the statement of comprehensive income	
- decrease in taxes, charges and services	(20)
- increase in interest expense	9
- increase depreciation and amortisation expense	16

Effect on the statement of cash flows	
- increase in net operating cash flows	20
- decrease in net financing cash flows	(24)

As a result of the implementation of IFRS 16, the financial result for the year ended December 31st 2019 decreased by approximately PLN 5m.

2. Notes to the statement of profit or loss

2.1. Segment information

The reportable segments have been identified based on the type of business conducted by the Company. The individual operating segments were aggregated into reportable segments according to the aggregation criteria presented in the table below. PGNIG S.A. is the chief operating decision maker (CODM). For additional information on the reportable segments, see **Note 2** to the consolidated financial statements of the PGNiG Group and in **section 4** of the Directors' Report on the operations of PGNIG S.A. and the PGNiG Group included in the Consolidated Annual Report of the PGNiG Group.

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. This involves exploring for and extracting natural gas and crude oil from deposits, and includes geological surveys, geophysical research, drilling, and development of and production of hydrocarbons from gas and oil fields. The segment sells natural gas to customers outside PGNiG S.A. and to other segments of PGNiG S.A. It also sells crude oil and other products in Poland and abroad.	The operating segments included in this reportable segment are those operations of PGNiG S.A. which are related to the hydrocarbon exploration and production business. The operating segments were aggregated into the reportable segment as they have similar economic characteristics and meet most of the aggregation criteria. The key criteria for aggregation of the operating segments into a reportable segment included similarity of products and services, similar nature of the production process and target customer groups, and similar economic characteristics.
Trade and Storage	The segment's activities consist in sale of natural gas (imported, produced or purchased on natural gas exchanges), operation of underground gas storage facilities for trading purposes (including the UGSFs located in Mogilno, Wierzchowice, Husów, Brzeźnica, Strachocina and Swarzów), and electricity trading.	The operating segments included in this reportable segment are those operations of PGNiG S.A. which are related to the gas fuel and electricity trading business. The key aggregation criteria were similarity of products and services, similarity of the customer base, and similar economic characteristics.
Other Segments	Operations that do not qualify for inclusion in any of the previous segments, i.e. the part of PGNiG S.A. comprising the corporate centre, are included in Other Segments. These include: operations of PGNiG S.A.'s corporate centre, research work related to and testing of the measuring devices and systems used in the gas industry, calibration of measuring devices, surveillance of the measuring systems operating at the Polish gas grid entry points in Belarus and Ukraine and at the LNG terminal, technical analyses, specialized trainings dedicated to industry professionals.	Operating segments in this reportable segment include PGNiG S.A.'s activities relating to corporate support for other reportable segments, and other operations of PGNiG S.A. which do not qualify to be included in the above categories.

(in PLN million, unless stated otherwise)

2019	Exploration and Production	Trade and Storage	Other Segments	Total	Reconciliation with separate financial statements (eliminations and inter-segment adjustments)	Total
Sales to external customers	2,307	20,177	131	**22,615**	-	**22,615**
Inter-segment sales	2,139	36	-	**2,175**	-	**2,175**
Total revenue	4,446	20,213	131	**24,790**	(2,175)	**22,615**
EBITDA	2,573	(1,073)	(259)	**1,241**	-	**1,241**
Depreciation and amortisation expense	(611)	(190)	(55)	**(856)**	-	**(856)**
EBIT (operating profit)	1,962	(1,263)	(313)	**386**	-	**386**
Recognition and reversal of impairment losses on property, plant and equipment, intangible assets, rights-of-use assets	(621)	(3)	(47)	**(671)**	-	**(671)**
Expenditure on acquisition of property, plant and equipment and intangible assets	(955)	(36)	(124)	**(1,115)**	-	**(1,115)**
Property, plant and equipment	8,674	3,091	658	**12,423**	-	**12,423**
Employment	3,819	312	681	**4,812**		**4,812**

2018	Exploration and Production	Trade and Storage	Other Segments	Total	Reconciliation with separate financial statements (eliminations and inter-segment adjustments)	Total
Sales to external customers	2,459	19,736	149	**22,344**	-	**22,344**
Inter-segment sales	3,284	54	-	**3,338**	-	**3,338**
Total revenue	5,743	19,790	149	**25,682**	(3,338)	**22,344**
EBITDA	3,862	(967)	(258)	**2,637**	-	**2,637**
Depreciation and amortisation expense	(556)	(182)	(60)	**(798)**	-	**(798)**
EBIT (operating profit)	3,305	(1,149)	(317)	**1,839**	-	**1,839**
Recognition and reversal of impairment losses on property, plant and equipmentand intangible assets	(424)	-	-	**(424)**	-	**(424)**
Expenditure on acquisition of property, plant and equipment and intangible assets	(1,017)	(48)	(149)	**(1,214)**	-	**(1,214)**
Property, plant and equipment	8,483	3,075	558	**12,116**	-	**12,116**
Employment	3,735	312	622	**4,669**		**4,669**

In 2019, 10% of the Company's total revenue was derived from a single external customer (2018: 13%). In both 2019 and 2018, the revenue was generated in the Trade and Storage segment.

(in PLN million, unless stated otherwise)

Revenue by operating segment

2019	Exploration and Production	Trade and Storage	Other Segments	Total	Reconciliation with separate financial statements (eliminations and inter-segment adjustments)	Total
Revenue from sale of gas, including:	**3,009**	**17,031**	**-**	**20,040**	**(2,175)**	**17,865**
High-methane gas	1,606	15,551	-	17,157	(1,617)	15,540
Nitrogen-rich gas	1,156	847	-	2,003	(558)	1,445
Propane-butane gas	66	-	-	66	-	66
LNG	31	63	-	94	-	94
Helium	150	-	-	150	-	150
Adjustment to gas sales due to hedging transactions	-	570	-	570	-	570
Other revenue, including:	**1,435**	**3,184**	**131**	**4,750**	**-**	**4,750**
Crude oil and natural gasoline	1,404	-	-	1,404	-	1,404
Sales of electricity	-	1,905	-	1,905	-	1,905
Right to use storage facilities	-	579	-	579	-	579
CO_2 emission allowances	-	493	-	493	-	493
Other income from operating leases	-	-	17	17		17
Other	31	207	114	352	-	352
Total revenue	**4,444**	**20,215**	**131**	**24,790**	**(2,175)**	**22,615**

2018	Exploration and Production	Trade and Storage	Other Segments	Total	Reconciliation with separate financial statements (eliminations and inter-segment adjustments)	Total
Revenue from sale of gas, including:	**4,165**	**17,522**	**-**	**21,687**	**(3,338)**	**18,349**
High-methane gas	2,534	17,088	-	19,622	(2,555)	17,067
Nitrogen-rich gas	1,429	750	-	2,179	(783)	1,396
Propane-butane gas	74	-	-	74	-	74
LNG	38	62	-	100	-	100
Helium	90	-	-	90	-	90
Adjustment to gas sales due to hedging transactions	-	(378)	-	(378)	-	(378)
Other revenue, including:	**1,578**	**2,268**	**149**	**3,995**	**-**	**3,995**
Crude oil and natural gasoline	1,544	-	-	1,544	-	1,544
Sales of electricity	-	1,285	-	1,285	-	1,285
Right to use storage facilities	-	574	-	574	-	574
CO_2 emission allowances	-	178	-	178	-	178
Other income from operating leases	-	-	22	22	-	22
Other	34	231	127	392	-	392
Total revenue	**5,743**	**19,790**	**149**	**25,682**	**(3,338)**	**22,344**

(in PLN million, unless stated otherwise)

Impairment losses on own and leased non-financial assets by operating segments

2019

Impairment of non-financial assets	Exploration and Production	Trade and Storage	Other Segments	Total
Land	(18)	-	(37)	(55)
Buildings and structures	(1,819)	(49)	(103)	(1,971)
Plant and equipment	(310)	(317)	(35)	(662)
Vehicles and other	(33)	(1)	-	(34)
Total impairment losses on tangible assets	**(2,180)**	**(367)**	**(175)**	**(2,722)**
Tangible exploration and evaluation assets under construction	(833)	-	-	(833)
Other tangible assets under construction	-	-	(9)	(9)
Total impairment losses on property, plant and equipment	**(3,013)**	**(367)**	**(184)**	**(3,564)**

2018

Impairment of non-financial assets	Exploration and Production	Trade and Storage	Other Segments	Total
Land	(4)	-	(4)	(8)
Buildings and structures	(1,558)	(47)	(98)	(1,703)
Plant and equipment	(279)	(316)	(28)	(623)
Vehicles and other	(30)	(1)	-	(31)
Total impairment losses on tangible assets	**(1,871)**	**(364)**	**(130)**	**(2,365)**
Tangible exploration and evaluation assets under construction	(849)	-	-	(849)
Other tangible assets under construction	(1)	-	(9)	(10)
Total impairment losses on property, plant and equipment	**(2,721)**	**(364)**	**(139)**	**(3,224)**

(in PLN million, unless stated otherwise)

2.2. Revenue

Accounting policies

Revenue

The Company derives revenue primarily from trade in high-methane and nitrogen-rich natural gas produced from its own sources or purchased on the market under short- and long-term contracts. The Company also generates revenue from the production and sale of crude oil and from generation and sale of electricity.

Moreover, the Company sells other goods, including CO2 emission allowances, and provides property rental services. Goods include goods that the Company produced for sale and those that were purchased by the Company for resale.

The Company recognises revenue from contracts with customers when the Company meets its performance obligations by transferring the promised good or service to the buyer, where such transfer simultaneously gives the buyer control of the asset, i.e. the ability to direct the use of the asset and obtain substantially all of the remaining benefits from the asset.

As a performance obligation, the Company recognises each promise to transfer a distinct good or service, or a series of distinct goods or services, that are substantially the same and that have the same pattern of transfer to a customer. For each performance obligation, the Company determines (on a contractual basis) whether it will be performed over time or at a point in time.

The Company defines its role as that of an agent with respect to transmission and distribution services transferred to customers at net amounts, i.e. after deducting the respective costs to purchase these services from the transmission and distribution system operators. When entering into comprehensive service agreements with its customers, the Company does not bear the main responsibility for the performance of transmission and distribution services, has no control over the main features of such services, and cannot freely determine their prices, which means that the Company acts as an agent in their sale. The obligation to perform transmission and distribution services is satisfied upon delivery of gas or electricity.

Revenue is disclosed at an amount that reflects the consideration to which the Company expects to be entitled in exchange for such goods or services, excluding amounts collected on behalf of third parties, i.e. after deducting sales taxes (VAT, excise duties).

Revenue from sale of gas and electricity is determined by reference to actual consumption, as indicated by actual meter readings.

	Total		Domestic sales		Export sales	
	2019	2018	2019	2018	2019	2018
Revenue from sale of gas, including:	**17,865**	**18,349**	**17,199**	**17,435**	**666**	**914**
Revenue from contracts with customers IFRS 15	17,295	18,727	16,629	17,813	666	914
High-methane gas	15,540	17,067	15,101	16,356	439	711
Nitrogen-rich gas	1,445	1,396	1,333	1,268	112	128
Propane-butane gas	66	74	66	74	-	-
LNG	94	100	94	100	-	-
Helium	150	90	35	15	115	75
Excluded from the scope of IFRS 15	570	(378)	570	(378)	-	-
Adjustment to gas sales due to hedging transactions	570	(378)	570	(378)	-	-
Other revenue, including:	**4,750**	**3,995**	**4,218**	**3,269**	**532**	**726**
Revenue from contracts with customers IFRS 15	4,154	3,399	3,622	2,673	532	726
Crude oil and natural gasoline	1,404	1,544	965	1,087	439	457
Sales of electricity	1,905	1,285	1,903	1,155	2	130
CO_2 emission allowances	493	178	493	178	-	-
Other	352	392	261	253	91	139
Excluded from the scope of IFRS 15	596	596	596	596	-	-
Right to use storage facilities	579	574	579	574	-	-
Other income from operating leases	17	22	17	22	-	-
Total revenue	**22,615**	**22,344**	**21,417**	**20,704**	**1,198**	**1,640**

Sales are made directly to business customers and via the Polish Power Exchange. Generally, goods are transferred at a specific point in time. They are sold on the basis of individual short-term contracts, meeting the definition of a "contract" provided in IFRS 15. Such contracts are entered into under long-term master agreements. Settlements are made on the basis of the contract price and the quantity of goods received by the customer. The Company did not identify any significant financing component in its contracts nor did it incur any significant incremental cost of obtaining a contract.

Revenue-generating non-current assets

	2019	2018
Value of non-current assets other than financial instruments located in Poland	11,973	11,758
Value of non-current assets other than financial instruments located abroad	599	478
Total	**12,572**	**12,236**
% share of assets located abroad in total assets	**5%**	**4%**

2.3. Operating expenses

Accounting policies for the most significant items

Cost of gas sold

This item includes the cost of purchase of gas in Poland and abroad, including the appropriate portion of costs of system and transaction charges, costs of domestically produced gas and costs of nitrogen rejection. For details on the measurement of inventories of gaseous fuels, see **Note 5.2.1.**

Raw materials and consumables used

This item comprises the costs of raw materials and consumables used in core activities. A material item in this cost group is the cost of electricity for trading and other materials.

Employee benefits expense

Key items recognised in employee benefits expense are salaries, wages, social security contributions and cost of future benefits. For details of employee benefits expense, see **Note 5.4.1**.

Transmission, distribution and storage services

In connection with its transmission, distribution and storage services, the Company incurs costs of the services it contracts from third parties (this does not apply to costs related to comprehensive agreements in which the Company acts as an agent (described in **Note 2.2.**). The transmission and distribution system operators charge the Company for the cost of transmission and distribution services, i.e. the cost of transmission of gas fuel via the network of pipelines. Costs of storage services are incurred in connection with the need to ensure continuity of gas supplies to consumers and maintain the required stocks of gas. In addition, the availability of storage capacities facilitates optimum operation of the hydrocarbon production facilities and steady production from the fields throughout the year, irrespective of fluctuations in demand for gas.

Other services

In other services the Company includes costs of regasification services, geological and exploration services, mineral resources production services, IT services, repair and construction services, and other similar items.

Depreciation and amortisation

This item comprises depreciation/amortisation expense on property, plant and equipment, intangible assets (including licence, mining rights and rights to geological information) and rights to use assets calculated based on the applied depreciation/amortisation rates (for details, see **Note 5.1.1.** and **Note 5.1.3.**).

Taxes and charges

This item includes in particular property taxes, taxes on extraction of certain minerals, and fees related to hydrocarbon production.

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

For details of impairment of non-financial assets, see **Note 5.1.4**.

(in PLN million, unless stated otherwise)

	2019	2018
Cost of gas sold	**(15,400)**	**(14,663)**
Gas fuel	(15,401)	(14,679)
Net gain/(loss) on gas price hedges	1	16
Other raw materials and consumables used	**(1,958)**	**(1,361)**
Electricity for trading	(1,833)	(1,237)
Other raw materials and consumables used	(125)	(124)
Employee benefits expense	**(724)**	**(685)**
Salaries and wages	(521)	(478)
Social security contributions	(121)	(114)
Other employee benefits expense	(59)	(58)
Employee benefit obligations	(23)	(35)
Transmission, distribution and storage services	**(941)**	**(954)**
Other services	**(1,153)**	**(1,503)**
Regasification services	(370)	(366)
Cost of dry wells written off	(252)	(677)
Repair and construction services	(70)	(58)
Geological and exploration services	(61)	(54)
Mineral resources production services	(25)	(25)
Well abandonment services	(28)	(22)
IT services	(107)	(103)
Other services	(240)	(198)
Depreciation and amortisation	(856)	(798)
Depreciation of non-leased assets	(840)	(798)
Depreciation of the right of use	(16)	N/A
Taxes and charges	**(317)**	**(301)**
Recognition and reversal of impairment losses on property, plant and equipment, intangible assets, rights-of-use assets	**(419)**	**252**
Impairment losses on property, plant and equipment and rights-of-use assets	(407)	260
Impairment losses on intangible assets	(12)	(8)
Total	**(21,768)**	**(20,013)**

N/A – non applicable; the items did not exist in 2018 and are a result of implementation of new IFRS 16 *Leases*.

Costs of lease liability recognised in the statement of comprehensive income

In the period ended December 31st 2019, a PLN 1m cost of short-term leases was recognised in costs of other services. In the period ended December 31st 2018, operating lease costs were PLN 23m, of which PLN 11m were rental costs, PLN 9m were perpetual usufruct charges, and PLN 3m were costs of operating lease of vehicles.

Tax on extraction of certain minerals

Under ‘Taxes and charges’, the Company recognises tax on extraction of certain minerals. The repeal of the Act on Special Hydrocarbon Tax also led to changes in the date on which the obligation to pay tax on the extraction of certain minerals arose. The Company declares tax on production of natural gas and crude oil as of January 2016 and has been a payer of the tax since November 2019.

(in PLN million, unless stated otherwise)

The tax base for crude oil and natural gas is the value of the extracted mineral determined as the product of the volume of the mineral produced and its average price. The rates of tax on production of natural gas and crude oil vary depending on the type of deposit, with deposit's permeability and porosity taken into account. Extraction of natural gas and oil from low producing wells is tax exempt.

In 2019, the Company assessed a PLN 23m tax on production of certain minerals. The tax expense is charged to cost of production of the core product, but it is not deductible for the corporate income tax purposes.

2.4. Other income and expenses

	2019	2018	
Measurement and exercise of derivative financial instruments	237	53	
Change in inventory write-downs	(271)	(27)	*Note 5.2.1.*
Change in provision for well decommissioning costs	30	(20)	*Note 5.1.2.*
Change in provision for certificates of origin and energy efficiency certificates	(26)	(33)	*Note 5.4.2.*
Change in provision for UOKiK fine	(6)	-	*Note 5.4.2.*
Change in other provisions	3	(8)	
Cost of merchandise and materials sold	(511)	(289)	
- including the amount of value of CO_2 emission allowances sold	*(485)*	*(270)*	
Other	(13)	(25)	
Total other income and expenses	**(557)**	**(349)**	

2.5. Finance income and costs

	2019	2018
Finance income		
Gain on measurement and exercise of forward contracts	5	-
Foreign exchange gains	-	19
Fair value measurement of a loan	-	22
Gain on modification of financial assets	91	-
Other finance income	9	10
Total finance income	**105**	**51**

Following the amendments to the terms of the agreements, the Company recognised a PLN 97m gain on modification of the loan to PGNiG Upstream AS and PLN 4m and PLN 2m losses on modification of loans to Polska Spółka Gazownictwa Sp. z o.o. and to PGNiG Termika Energetyka Przemysłowa S.A. respectively. For more information, see **Note 7.4**.

	2019	2018
Finance costs		
Loss on measurement and exercise of forward contracts	-	(12)
Debt-related interest and fees	(68)	(37)
- including interest on lease liabilities	*(9)*	-
Foreign exchange losses	(2)	-
Other	(6)	(3)
Total finance costs	**(76)**	**(52)**

3. Notes on taxation

3.1. Income tax

Accounting policies

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

PGNiG S.A. and ten other PGNiG Group companies established the PGNiG Tax Group. The agreement to establish the PGNiG Tax Group specifies that PGNiG S.A., as a representative of the PGNiG Tax Group, is required to compute, withhold and pay corporate income tax and make advance payments towards the tax to the tax office competent for the PGNiG Tax Group. Concurrently, the subsidiaries are obliged to make advance payments towards income tax and the annual income tax payments in a timely manner to the bank account of PGNiG S.A. If the final amount of advance payments/income tax required to be made to the tax office is lower than the sum of payments made by the subsidiaries to PGNiG S.A.'s bank account and the amount due on account of income earned by PGNiG S.A., the surplus cash is redistributed. Members of the PGNiG Tax Group agreed that the surplus would be allocated to those companies in the PGNiG Tax Group that reported losses reducing the PGNiG Tax Group's tax liability. Receivables from and payables to companies that are members of the PGNiG Tax Group are disclosed in the statement of financial position under 'Receivables' and 'Trade and tax payables', respectively.

Deferred tax is determined using the balance-sheet method, based on temporary differences between the carrying amounts and tax value of assets and liabilities.

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 the recognised deductible temporary differences, including tax losses and tax credit, can be utilised.

Deferred tax liabilities are recognised for taxable temporary differences associated, among other things, with investments in subsidiaries, associates and joint ventures, unless the Company, acting as the parent, investor or partner in a joint venture, controls the timing of the 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 they relate to income taxes levied by the same taxation authority and the Company has a legally enforceable right to perform the offset.

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

PGNiG S.A. represents the PGNiG Tax Group which, under the agreement entered into on September 19th 2016, will exist from January 1st 2017 to December 31st 2020.

The PGNiG Tax Group comprises: 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 as 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 applicable tax laws, the companies included in the PGNiG Tax Group lost their status as separate payers of corporate income tax (CIT) and such status was acquired by the PGNiG Tax Group, which allows corporate income tax to be calculated jointly for all members of the PGNiG Tax Group. The PGNiG Tax Group is a separate entity only for corporate income tax purposes, and should not be viewed as a separate legal person. Its tax status does not extend to other types of taxes. In particular, each of the companies forming the PGNiG Tax Group remains a separate payer of value-added tax and of tax on civil-law transactions, and a separate remitter of personal and corporate income tax withholdings. The other companies of the PGNiG Group are separate payers of corporate income tax.

(in PLN million, unless stated otherwise)

The PGNiG Tax Group is a source of certain benefits for its member companies, including:

- ability to offset losses generated by individual members of the PGNiG Tax Group against profits earned by other member companies in the period when such losses are incurred,
- CIT settlements are handled by a single entity.

3.1.1. Income tax expense disclosed in the statement of profit or loss and effective tax rate

	2019	2018	
Profit before tax	**1,989**	**3,677**	
Corporate income tax at the applicable 19% statutory rate	(378)	(699)	
Dividends received	255	328	
Other income not recognised as taxable income	46	128	
Non-tax deductible expenses	(164)	(145)	
Corporate income tax at the effective tax rate	**(241)**	**(388)**	
Current tax expense	(152)	(363)	
Deferred tax expense	(89)	(25)	*Note 3.2.*
Effective tax rate	**12%**	**11%**	

PGNiG S.A.'s foreign branch in Pakistan is a taxable permanent establishment within the meaning of the double tax treaty. Therefore, the branch settles income tax in accordance with the laws and regulations applicable in Pakistan, where the applicable income tax rate is 40%.

3.1.2. Current tax settlements of the PGNIG Tax Group

	2019	2018
At beginning of the period (tax receivables and payables, net)	**37**	**194**
Current income tax expense of PGNiG S.A. recognised in profit or loss for the period	152	363
Income tax expense of PGNiG S.A. paid in the period	(145)	(467)
Current tax liability / (asset) of the PGNiG Tax Group	(12)	(53)
At end of the period (tax receivables and payables, net)	**32**	**37**
including:		
- payables	32	37

(in PLN million, unless stated otherwise)

3.2. Deferred tax expense

		Credited/Charged				Credited/Charged			
	As at Jan 1 2018	Effect of IFRS 9	Net profit/(loss)	Other comprehensive income	As at Dec 31 2018	Effect of IFRS 16 on Jan 1 2019	Net profit/(loss)	Other comprehensive income	As at Dec 31 2019
Deferred tax assets									
Employee benefit obligations	49	-	4	2	55	-	6	3	64
Provision for well decommissioning costs	155	-	26	-	181	-	21	-	202
Other provisions	26	-	9	-	35	(5)	(5)	-	25
Measurement of derivatives	13	-	80	-	93	-	31	-	124
Useful lives of property, plant and equipment	174	-	(76)	-	98	-	(4)	-	94
Unused tax losses of the Pakistan Branch	-	-	50	-	50	-	(17)	-	33
Other	26	-	10	-	36	-	54	-	90
Total	**443**	**-**	**103**	**2**	**548**	**(5)**	**86**	**3**	**632**
Deferred tax liabilities									
Difference between depreciation rates for property, plant and equipment	292	-	86	-	378	-	32	-	410
Measurement of derivatives	34	-	58	15	107	-	128	156	391
Other	38	(4)	(16)	-	18	-	15	-	33
Total	**364**	**(4)**	**128**	**15**	**503**	**-**	**175**	**156**	**834**
Set-off of assets and liabilities	(364)	-			(503)				(632)
After set-off									
Assets	79	-	-	-	45	-	-	-	-
Liabilities	-	-	-	-	-	-	-	-	202
Net effect of changes in the period		**4**	**(25)**	**(13)**		**(5)**	**(89)**	**(153)**	

In the year ended December 31st 2019, the Company recognised the effect of IFRS 16 on deferred tax assets of PLN 5m. As deferred tax is presented in the statement of financial position on a net basis, the balance of deferred tax liabilities was adjusted by the identified amount of assets.

In the comparative period, the Company recognised the effect of IFRS 9 on deferred tax liabilities of PLN 4m. The balance of deferred tax assets was adjusted by the identified amount of liabilities.

(in PLN million, unless stated otherwise)

4. Debt and capital management

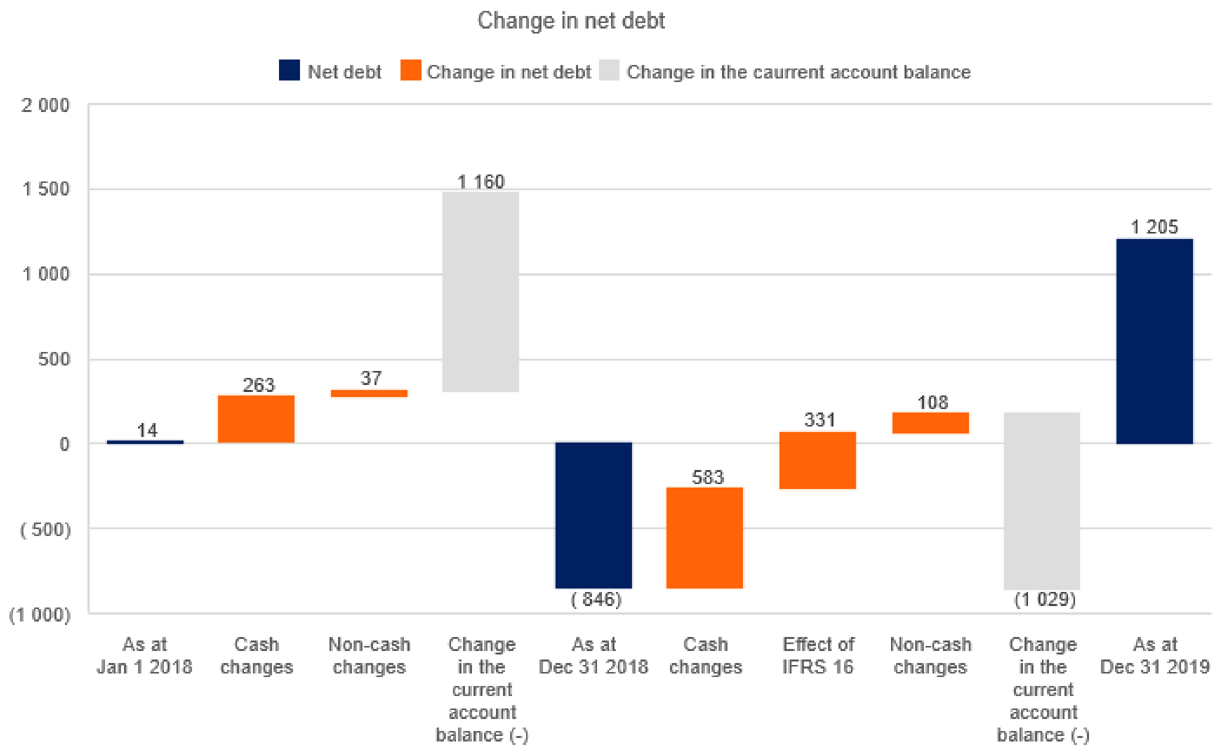
4.1. Net debt

Net debt means the sum of bank loans and borrowings, debt securities and leasing liabilities, less cash and cash equivalents.

Net debt reconciliation	2019	2018
Borrowings	3,002	-
Debt securities	-	2,298
Lease liabilities	318	-
Debt	3,320	2,298
Cash and cash equivalents	(2,115)	(3,144)
Net debt = Debt (-) Net cash and cash equivalents	**1,205**	**(846)**

Following the implementation of IFRS 16 in 2019, the Company redefined its net financial debt to include lease liabilities. Given the use of the modified retrospective method, as of January 1st 2019 the comparative data in this Note is not comparable.

	Borrowings	Debt securities	Lease liabilities	Total
As at Jan 1 2018	**-**	**1,998**	**-**	**1,998**
Cash changes				
net inflows /(outflows)	-	299	-	299
interest paid	-	(36)	-	(36)
Non-cash changes				
accrued interest	-	34	-	34
measurement of debt	-	3	-	3
As at Dec 31 2018	**-**	**2,298**	**-**	**2,298**
Effect of IFRS 16	**-**	**-**	**331**	**331**
Cash changes				
net inflows /(outflows)	3,000	(2,290)	(11)	699
interest paid	(81)	(23)	(12)	(116)
Non-cash changes				
accrued interest	83	23	12	118
new lease contracts	-	-	6	6
measurement of debt	-	(3)	-	(3)
other changes	-	(5)	(8)	(13)
As at Dec 31 2019	**3,002**	**-**	**318**	**3,320**



4.2. Financing liability

Accounting policies

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

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 Company. Right-of-use assets are presented in **Note 5.1.1.**

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 lease incentives payable;
- variable lease payments that depend on the index or rate,
- amounts expected to be paid by a lessee under a residual value guarantee,
- the exercise price of the call option if it is reasonably certain that the lessee will exercise that option,
- lease termination fees if the lessee is entitled to exercise the option to terminate the lease.

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)

Accounting policies applied until December 31st 2018

Leases where substantially all risks and rewards of ownership are not transferred to the company as a lessee are classified as operating leases. Lease payments under operating leases (after taking into account all lease benefits received from the lessor) are recognised as costs in profit or loss on a straight-line basis over the lease term.

Material 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 company 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 Company can control the change or the circumstances.

In the case of contracts concluded for an indefinite term, the lease term is determined individually for each contract by way of professional judgement, based on expert knowledge, taking into account:

- the expected useful life of the non-current asset,
- the minimum duration of investment in the case of construction of a an item of property, plant and equipment,
- the time necessary to bring the asset in use to its original condition as required by law,
- material penalties* or other costs related to early termination of the contract,
- plans concerning the Company's investment or operating activities.

*A material penalty is understood to mean both the contractual payment to be made by the lessee or the lessor for early termination as well as other broadly defined exit blockades and material losses associated with contract termination for either party.

Discount rates applied in the valuation of lease liabilities.

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

- currently interest rates derived from IRS (Interest Rate Swap) quotation based on Reuters data,
- the Company's current financing margin.

The Company determined incremental borrowing rates taking into account contract term, based on the time brackets presented below:

Contract term	Interest rate
2–5 years	2.94% - 3.47%
6–10 years	3.58% - 3.93%
11–14 years	3.94%
15–21 years	3.95%
22–47 years	3.69%
48–99 years	3.97%

(in PLN million, unless stated otherwise)

The table below sets forth the carrying amount of the debt, by currency:

Currency: PLN/ debt amount in PLN	2019	2018	
Borrowings	3,002	-	Note 4.1.
Debt securities	-	2,298	Note 4.1.
Lease liabilities	318	-	Note 4.1.
Total, including:	**3,320**	**2,298**	
floating-rate	3,002	-	
fixed-rate	318	2,298	

Borrowings and debt securities

As at December 31st 2019, the Company had the following fixed-rate debt security issue programmes and a floating-rate syndicated credit facility:

Type of financing	Objective	Limit	2019	2018
Discount notes	To meet the Company's general liquidity needs, also those related to investment projects	PLN 7,000m	-	2,298
Credit facility	To meet the Company's general liquidity needs, also those related to investment projects	PLN 10,000m	3,002	-
Total			**3,002**	**2,298**

The facility agreement contains a financial covenant: net debt to EBITDA.

In 2019 and 2018, the Company's financing liabilities were not secured with its property, plant and equipment.

In the reporting period and as at the date of authorisation of these financial statements for issue, there were no defaults under material terms of any debt securities as well as loans that could trigger accelerated repayment, including with respect to the covenants.

The Company's debt gives rise to liquidity risk. For detailed description of those risks and sensitivity analysis, see **Note 6.3.**

Lease liabilities

For information on the maturities of lease liabilities, see **Note 6.3.5.**

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(in PLN million, unless stated otherwise)

4.3. Cash pooling

Accounting policies

Selected PGNiG Group companies are parties to cash pooling agreements. Transactions are settled by the bank, and the Company coordinates the process.

Cash paid to the Company's bank accounts by the cash pooling participants, less cash transferred to the cash pooling participants, is disclosed under cash and cash equivalents in the statement of financial position. This cash is not disclosed in the statement of cash flows.

Settlements with participants in the joint cash management arrangement are presented as cash pooling receivables or cash pooling liabilities, as appropriate, depending on the balance disclosed as at the reporting date.

Cash pooling assets and liabilities are not offset as the criteria for recognition on a net basis are not met.

The Company performs impairment tests on its cash pooling receivables in line with the expected loss model.

Material estimates

Impairment loss on cash pooling receivables

The impairment amount is estimated in accordance with the expected loss model appropriate for the case-by-case approach, taking into account the credit risk profile of a company, the receivable amount and its expected repayment date.

The credit risk of a company is assessed based on an internal scoring model using the qualitative behavioural analysis and quantitative analysis of the company's historical financial data.

	2019	2018
Gross cash pooling receivables	2,515	1,835
Impairment loss	(14)	(10)
Net cash pooling receivables	**2,501**	**1,825**
Cash pooling liabilities	**119**	**171**

As at December 31st 2019, the Company was a party to two cash pooling agreements:

- Cash pooling agreement of July 16th 2014 concluded with Bank Pekao S.A., and
- Cash pooling agreement of December 22nd 2016, effective as of March 1st 2017, concluded with PKO BP S.A.

The main objective of these agreements is to enhance the management of the Group's financial liquidity. The cash pooling arrangement facilitates liquidity planning within the PGNiG Group and has reduced dependency on borrowed funds. The improved and more efficient utilisation of free cash also enabled the Group to reduce its borrowing costs.

Cash flows under the cash pooling arrangement as well as exchange differences on translating cash and cash equivalents are presented in the statement of financial position under cash and cash equivalents, and as an adjustment to cash and cash equivalents in the statement of cash flows. As at December 31st 2019 and December 31st 2018, the fair value of the Company's financial assets and liabilities measured at amortised cost did not materially differ from their carrying amounts.

(in PLN million, unless stated otherwise)

Change in gross carrying amount and impairment losses on cash pooling receivables

	Class 1 - 12-month expected loss	Class 3 - Impaired	Total
Gross carrying amount as at Jan 1 2019	**1,835**	**-**	**1,835**
Transfer to impaired group	(2)	-	(2)
Transfer from group with 12-month expected loss	-	2	2
Repaid receivables	(1,833)	(2)	(1,835)
Newly recognised receivables	2,507	5	2,512
Other effect	3	-	3
Gross carrying amount as at Dec 31 2019	**2,510**	**5**	**2,515**
Accumulated impairment losses as at Jan 1 2019	(10)	-	(10)
Recognition in correspondence with costs	(10)	(3)	(13)
Reversals in correspondence with income	9	-	9
Transfer to impaired group	2	-	2
Transfer from group with 12-month expected loss	-	(2)	(2)
Accumulated impairment losses as at Dec 31 2019	(9)	(5)	(14)
Net carrying amount as at Dec 31 2019	**2,501**	**-**	**2,501**
Gross carrying amount as at Jan 1 2018	**270**	**14**	**284**
Repaid receivables	(270)	(14)	(284)
Newly recognised receivables	1,833	-	1,833
Other effect	2	-	2
Gross carrying amount as at Dec 31 2018	**1,835**	**-**	**1,835**
Effect of IFRS 9	(6)	-	(6)
Accumulated impairment losses as at Jan 1 2018 (restated)	(6)	-	(6)
Recognition in correspondence with costs	(10)	-	(10)
Reversals in correspondence with income	7	-	7
Effect of exchange rate movements and other	(1)	-	(1)
Accumulated impairment losses as at Dec 31 2018	(10)	-	(10)
Net carrying amount as at Dec 31 2018	**1,825**	**-**	**1,825**

In 2018, there were no transfers between the classes.

4.4. Equity and capital management policies

Accounting policies

Share capital is disclosed at par value, in the amount specified in the Company's Articles of Association and entered 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 actuarial gains and losses on post-employment benefits, taken to equity.

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.

Capital reserve is created pursuant to the Company's Articles of Association in order to secure the financing of planned projects which entail considerable expenditures, such as, for example, share buy-backs, implementation of specific investment objectives.

Hedging reserve – comprises the effects of effective application of cash flow hedge accounting recognised in equity.

As at December 31st 2019 and December 31st 2018, the share capital comprised 5,778,314,857 shares with a par value of PLN 1 per share. Its total amount was PLN 5,778,314,857.

The key objective of the Company's capital management is to maintain the ability to continue its operations, taking into account investment plans, while increasing the Company's shareholder value.

	2019	2018	
Net debt	**1,205**	**(846)**	*Note 4.1.*
Equity	30,618	28,833	
Capital employed (equity + net debt)	31,823	27,987	
Leverage	**3.8%**	**-3.0%**	

4.5. Dividend paid

Dividend paid in the period	2019	2018
Dividend per share paid (PLN)	0.11	0.07
Number of shares (million)	5,778	5,778
Dividend paid (PLNm)	**636**	**404**
- cash dividend paid to the State Treasury	457	291
- cash dividend paid to other shareholders	179	113

On June 27th 2019, the General Meeting of PGNIG S.A. resolved to pay dividend to the Company's shareholders for the financial year 2018 in a total amount of PLN 1,040m, i.e. PLN 0.18 per share. The dividend record date and the dividend payment date were set for July 26th 2019 and August 7th 2019, respectively. The amount of dividend paid on August 7th 2019 was reduced by the amount of interim dividend from the Company's 2018 profit paid on December 3rd 2018. Accordingly , the amount of dividend paid in 2019 was PLN 636m, or PLN 0.11 per share.

On October 29th 2018, the Management Board of PGNiG S.A. decided to distribute an interim dividend of PLN 404m, or PLN 0.07 per share, for 2018 towards the dividend for 2018. Pursuant to Art. 349 of the Commercial Companies Code and Art. 22c of the Company's Articles of Association, the interim dividend will not exceed half of the financial profit for the first half of 2018 disclosed in the audited financial statements for the period ended June 30th 2018, increased by the amount of capital reserves and decreased by the accumulated losses.

(in PLN million, unless stated otherwise)

The interim dividend record date was set for November 26th 2018 and the interim dividend payment date for December 3rd 2018.

The resolution on allocation of the Company's 2018 net profit was adopted by the Annual General Meeting of PGNiG S.A. on June 27th 2019. The amount of PLN 1,000m was allocated to capital reserves to finance the extension and upgrade of the national gas distribution network, and PLN 1,249m was contributed the Company's statutory reserve funds.

4.6. 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.

The item 'Other cash' presents mainly security deposits under settlements of commodity exchange transactions.

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

	2019	2018
Cash at banks	379	616
Bank deposits	1,580	2,230
Other cash	156	298
Total	**2,115**	**3,144**

Risks associated with cash and cash equivalents include the credit risk and foreign exchange risk.

The Company measures the credit risk by regularly reviewing the banks' financial standings, as reflected in ratings assigned by rating agencies such as Standards&Poor's, Moody's, and Fitch. In the reporting period, the Company did not identify any material credit risk with respect to its cash and cash equivalents, therefore no impairment losses were recognised.

Financial rating for the balances of cash and cash equivalents is presented in the table below:

	2019	2018
Banks rated AA+ by JCR-VIS Credit Rating Company Limited	18	7
Banks rated A+ by Fitch	249	330
Banks rated A by Fitch/ A2 by Moody's	365	1,476
Banks rated A- by Fitch	331	5
Banks rated BBB+ by Fitch/ BAA1 by Moody's	1,152	1,235
Banks rated BBB by Fitch	-	91
Total cash at banks	**2,115**	**3,144**

As at December 31st 2019, 66% of cash and cash equivalents were denominated in PLN, 18% in USD and 16% in EUR (2018: 76% in PLN, 20% in USD and 4% in EUR). For more information on interest rate risk for cash and cash equivalents, see **Note 6.3.4.**

(in PLN million, unless stated otherwise)

Reconciliation of cash and cash equivalents as presented in the statement of cash flows with cash and cash equivalents as presented in the statement of financial position is presented in the table below.

	2019	2018
Cash and cash equivalents at end of the period in the statement of cash flows	**4,525**	**4,844**
Opening balance of net exchange differences	(3)	(2)
Opening balance of inflows/outflows of cash under cash pooling arrangement	(1,697)	306
Net exchange differences in the period	(1)	(1)
Inflows/(outflows) of cash under cash pooling arrangement in the period	(709)	(2,003)
Cash at end of the period in the statement of financial position	**2,115**	**3,144**

5. Notes on assets and other liabilities

5.1. Non-financial non-current assets

5.1.1. Property, plant and equipment

Accounting policies

Property, plant and equipment

The most important items of property, plant and equipment are buildings and structures, and plant and equipment associated with oil and gas exploration and production as well as trading and storage. The Company also holds vehicles and land. Tangible assets under construction include mostly exploration and evaluation expenditure, which is recognised as a separate item of assets until production commences or the assets are written off if exploration proves unsuccessful (for description of detailed accounting policies, see section ‘Exploration and evaluation expenditure’).

Property, plant and equipment are carried at cost less accumulated depreciation and impairment (for information on policies governing impairment testing and recognition of impairment, see **Note 5.1.4.**).

The initially recognised cost of gas pipelines and gas storage facilities developed internally, classified as 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 repairs 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:

Category	depreciation method	useful life
Buildings and structures	Straight-line method	2-50 years
Plant and equipment	Straight-line method	1-50 years
Vehicles and other property, plant and equipment	Straight-line method	2–35 years
Land and tangible assets under construction	Not depreciated	

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. Exploration for and evaluation of natural gas and/or crude oil deposits can be commenced once the Company obtains relevant licenses in accordance with the Geological and Mining Law (**Note 5.1.3.**).

Expenses on seismic surveys are capitalised under exploration and evaluation assets and disclosed as a separate exploration and evaluation asset.

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 Company analyses the areas and prospects to determine whether production would be economically viable. If following the appraisal process a decision is made to launch commercial production of hydrocarbons, the Company reclassifies the tangible exploration and evaluation assets under construction to property, plant and equipment after the production launch. If exploration is unsuccessful or the Company does not file for a licence for appraisal of natural gas and/or crude oil reserves following an analysis of the areas and prospects 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. Seismic survey expenses capitalised in prior periods and related to a given structure are also recognised in profit or loss.

The Company creates a provision for costs of abandonment of exploration, production and storage wells (for details see **Note 5.1.2.**). 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.

(in PLN million, unless stated otherwise)

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 Company. For information on lease liabilities and the accounting policies applied until December 31st 2018, see **Note 4.2.**

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. Depreciation periods for right-of-use assets are as follows:

Category	Depreciation period
Perpetual usufruct of land (PWUG)	2–99 years
Right-of-use asset – plots/land	2–49 years
Right-of-use asset – buildings and structures	2–19 years
Right-of-use asset – machinery and equipment	2–10 years
Right-of-use asset – vehicles	2–6 years

When determining the cost of a right-of-use asset, the Company estimated the expected land restoration costs based on current prices of restoration services.

Payments associated with all short-term leases and some leases of low-value assets are recognised on a straight-line basis as expense in profit or loss. For assets of low value, the Company selects the method of accounting treatment on a case-by-case basis – the Company 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.

Material 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. As a result, estimates may have a material effect on the value of the property, plant and equipment and the future depreciation charges.

As at December 31st 2019, the Company reviewed the useful lives of property, plant and equipment and their effects.

(in PLN million, unless stated otherwise)

	2019			2018		
	Gross carrying amount	Accumulated depreciation and impairment	Net carrying amount	Gross carrying amount	Accumulated depreciation and impairment	Net carrying amount
Land	28	(8)	20	46	(8)	38
Buildings and structures	15,286	(8,128)	7,158	14,536	(7,406)	7,130
Plant and equipment	5,540	(3,395)	2,145	5,445	(3,139)	2,306
Vehicles and other	307	(211)	96	304	(200)	104
Total own tangible assets	**21,161**	**(11,742)**	**9,419**	**20,331**	**(10,753)**	**9,578**
Tangible exploration and evaluation assets under construction	3,057	(832)	2,225	2,821	(847)	1,974
Other tangible assets under construction	463	(9)	454	574	(10)	564
Total tangible assets under construction	**3,520**	**(841)**	**2,679**	**3,395**	**(857)**	**2,538**
Perpetual usufruct rights to land	291	(42)	249	N/A	N/A	N/A
Right-of-use asset – land	62	(13)	49	N/A	N/A	N/A
Right-of-use asset – buildings and structures	13	(3)	10	N/A	N/A	N/A
Right-of-use asset – machinery and equipment	5	(2)	3	N/A	N/A	N/A
Right-of-use asset – vehicles	18	(4)	14	N/A	N/A	N/A
Total right-of-use assets	**389**	**(64)**	**325**	**N/A**	**N/A**	**N/A**
Total property, plant and equipment	**25,070**	**(12,647)**	**12,423**	**23,726**	**(11,610)**	**12,116**

N/A – non applicable; the items did not exist in 2018 and are a result of implementation of new IFRS 16 *Leases*.

In 2019, the Company incurred material expenditure of PLN 754m on tangible assets under construction, related to wells (2018: PLN 664m). The Company also spent PLN 33m on underground gas storage facilities (2018: PLN 88m) and PLN 67m on seismic surveys (2018: PLN 148m).

In 2019, capitalised borrowing costs were PLN 33m (2018: PLN 14m), with the capitalisation rate at 7.3% in 2019 (2018: 3.6%).

Under lease contracts, the Company uses:

- land used for perpetual usufruct, comprising property, plant and equipment owned by the Company and technical infrastructure used in the Company's day-to-day operations, acquired for consideration or free of charge by operation of law, for a period of 99 years. Fixed payments, but periodically updated based on decisions of local government units or the State Treasury. Some of them are subject to the obligation to rectify pollution,
- land leased for operating or investing purposes. Fixed payments, linked to inflation indices published by Statistics Poland,
- buildings (office space) leased for day-to-day operations, including parking spaces. Fixed lease payments depending on the leased area,
- means of transport (passenger cars and heavy-goods vehicles). Predetermined fixed payments defined in contract payment schedules, with end-of-lease purchase options,
- machinery and equipment (data transmission networks). Predetermined fixed payments defined in contracts.

Obligations assumed under agreements to purchase of property, plant and equipment after the reporting date:

	2019	2018
Contractual obligations assumed	3,252	3,465
Portion discharged as at the reporting date	1,768	1,502
Contractual obligations after the reporting date	**1,484**	**1,963**

(in PLN million, unless stated otherwise)

Changes in property, plant and equipment

	Land	Buildings and structures	Plant and equipment	Vehicles and other	Total tangible	Tangible assets under construction: Exploration and evaluation assets	Tangible assets under construction: Other	Total own property, plant and equipment	
Net carrying amount as at Jan 1 2018	**43**	**6,981**	**2,386**	**102**	**9,512**	**2,055**	**454**	**12,021**	
Increase	-	-	1	-	**1**	802	419	**1,222**	
Decrease	-	(48)	(11)	-	**(59)**	(676)	(33)	**(768)**	
In-kind contribution	(5)	(49)	(22)	(4)	**(80)**	-	-	**(80)**	
Provision for well decommissioning costs	-	189	-	-	**189**	46	2	**237**	*Note 5.1.2.*
Transfers from tangible assets under construction and between asset groups	-	573	183	23	**779**	(643)	(278)	**(142)**	
Impairment losses	-	(50)	13	2	**(35)**	390	-	**355**	
Depreciation expense for the year	-	(466)	(244)	(19)	**(729)**	-	-	**(729)**	
Net carrying amount as at Dec 31 2018	**38**	**7,130**	**2,306**	**104**	**9,578**	**1,974**	**564**	**12,116**	
Effect of IFRS 16	(19)	-	-	-	**(19)**	-	-	**(19)**	
Net carrying amount as at Jan 1 2019 (restated)	**19**	**7,130**	**2,306**	**104**	**9,559**	**1,974**	**564**	**12,097**	
Increase	1	1	-	-	**2**	873	290	**1,165**	
Decrease	-	(65)	(11)	-	**(76)**	(253)	(7)	**(336)**	
Provision for well decommissioning costs	-	343	-	-	**343**	15	3	**361**	*Note 5.1.2.*
Transfers from tangible assets under construction and between asset groups	-	522	140	12	**674**	(401)	(396)	**(123)**	
Impairment losses	-	(268)	(39)	(3)	**(310)**	17	-	**(293)**	
Depreciation expense for the year	-	(505)	(251)	(17)	**(773)**	-	-	**(773)**	
Net carrying amount as at Dec 31 2019	**20**	**7,158**	**2,145**	**96**	**9,419**	**2,225**	**454**	**12,098**	

(in PLN million, unless stated otherwise)

Movements in right-of-use assets

	Perpetual usufruct right to land	Land	Buildings and structures	Plant and equipment	Vehicles and other	Total right-of-use assets
Net carrying amount as at Dec 31 2018	N/A	N/A	N/A	N/A	N/A	**N/A**
Effect of IFRS 16	286	63	18	4	15	**386**
Net carrying amount as at Jan 1 2019 (restated)	**286**	63	18	4	15	**386**
Increase (new contracts)	-	2	1	-	3	**6**
Decrease (expired contracts)	(2)	-	(6)	-	-	**(8)**
Modifications and changes to term estimate	(3)	(9)	-	-	-	**(12)**
Changes due to indexation of payments	9	6	-	1	-	**16**
Impairment losses	(38)	(9)	-	-	-	**(47)**
Depreciation expense for the year	(3)	(4)	(3)	(2)	(4)	**(16)**
Net carrying amount as at Dec 31 2019	**249**	**49**	**10**	**3**	**14**	**325**

N/A – non applicable; the items did not exist in 2018 and are a result of implementation of new IFRS 16 *Leases*.

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(in PLN million, unless stated otherwise)

5.1.2. Provisions for future well and extraction facility decommissioning costs

Accounting policies

Provisions for future well and extraction facility decommissioning costs

The Company recognises a provision for future well decommissioning costs and makes contributions to the Extraction Facilities Decommissioning Fund. The Fund assets are presented under non-current assets in the statement of financial position, as 'Other assets' (**Note 5.3.1.**).

The provision for well decommissioning costs is recognised when the Company has the obligation to properly decommission and abandon wells after production is discontinued. When the provision for well decommissioning costs is recognised with respect to wells classified as property, plant and equipment, the discounted amount of the provision is added to the initial value of the wells, and after the production phase starts, it is depreciated over the expected useful life of the wells (**Note 5.1.1.**). 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 (due to the passage of time) are taken to profit or loss. The amount of the provision for future costs of decommissioning of production and storage wells is adjusted for any unused contributions to the Extraction Facilities Decommissioning Fund.

The Extraction Facilities Decommissioning Fund is created pursuant to the Mining and Geological Law, which requires that the Company decommissions 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 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 and storage 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.

Material 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 units 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.

Contributions to the 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).

The assets accumulated in the Extraction Facilities Decommissioning Fund may be used only to cover the costs of decommissioning of an extraction facility or its specific part, in particular the costs of the abandonment of and securing production, storage and exploration wells.

	2019	2018	
At beginning of the period	**1,660**	**1,429**	
Recognised provision capitalised in the cost of property, plant and equipment	361	237	*Note 5.1.1.*
Recognised provision charged to profit or loss	56	54	*Note 2.4.*
Used	(36)	(28)	
Reversal	(86)	(34)	*Note 2.4.*
Interest on cash accumulated in the Extraction Facilities Decommissioning Fund	2	2	
At end of the period	**1,957**	**1,660**	
- long-term	1,923	1,569	
- short-term	34	91	

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(in PLN million, unless stated otherwise)

With respect to the costs of decommissioning of wells and site infrastructure, in 2019 the discount rate applied by the Company to calculate the provision for well decommissioning was -0.45%, and resulted from a 2.04% rate of return on assets and an inflation rate assumed in the NBP's continuous inflation target of 2.50% (as at the end of 2018, the discount rate was 0,24%, and resulted from the rates of 2.75% and 2.50%, respectively).

5.1.3. Licences, mining rights and rights to geological information

Accounting policies

Licences, mining rights and rights to geological information

In its exploration and production operations, the Company uses oil and gas exploration, appraisal and production licences obtained under the Geological and Mining Law, rights to geological information, and mining rights.

The licences and rights to geological information used by the Company in day-to-day operations are recognised under intangible assets and disclosed separately in the statement of financial position as licences, mining rights and rights to geological information.

Measurement

Subsequent to initial recognition, licences, mining rights and rights to geological information are carried at cost less accumulated amortisation and impairment (for applicable accounting policies, see **Note 5.1.4.**).

Amortisation is charged using the straight-line method based on amortisation rates that reflect the expected useful lives of the assets.

Useful lives applied for licences granted by way of a decision of a competent authority for a specified period are 1 to 9 years.

The initial value of mining rights is equal to the charges paid to the State Treasury for the grant of the rights.

Useful lives applied for mining rights and rights to geological information granted by way of a decision of a competent authority for a specified period are 1 to 46 years.

	2019	2018
Gross carrying amount at beginning of the period	**225**	**140**
Accumulated amortisation	(81)	(68)
Accumulated impairment loss	(24)	(18)
Net carrying amount at beginning of the period	**120**	**54**
Gross carrying amount at beginning of the period	**225**	**140**
Transfer from tangible assets under construction and between asset groups	69	100
Decrease	(7)	(15)
Gross carrying amount at end of the period	**287**	**225**
Accumulated impairment loss	(36)	(24)
Amortisation expense for the year	(27)	(26)
Accumulated amortisation excluding amortisation expense for the year	(75)	(55)
Net carrying amount at end of the period	**149**	**120**

(in PLN million, unless stated otherwise)

5.1.4. Impairment of non-financial assets

Material 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.

Impairment losses on non-financial assets

Impairment of non-financial assets	2019	2018
Land	(8)	(8)
Buildings and structures	(1,971)	(1,703)
Plant and equipment	(662)	(623)
Vehicles and other	(34)	(31)
Total impairment losses on tangible assets	**(2,675)**	**(2,365)**
Tangible exploration and evaluation assets under construction	(833)	(849)
Other tangible assets under construction	(9)	(10)
Total impairment losses on tangible assets under construction	**(842)**	**(859)**
Perpetual usufruct rights to land	(38)	N/A
Right-of-use asset – land	(9)	N/A
Total impairment losses on right-of-use assets	**(47)**	**N/A**
Total impairment losses on property, plant and equipment	**(3,564)**	**(3,224)**

N/A – non applicable; the items did not exist in 2018 and are a result of implementation of new IFRS 16 *Leases*.

(in PLN million, unless stated otherwise)

As at the end of the reporting period, reversible impairment losses on tangible assets were PLN 1,893m (2018: PLN 1,663m).

In the reporting year, an impairment test was performed for the Company's main operating assets: oil and gas production assets, gas fuel storage facilities, power generating unit, assets used by the Company under operating lease contracts (including, transmission assets, other property), LNG regasification stations, and tangible assets under construction (wells under construction). Below is presented basic information on the tests for those areas where impairment losses were recognised.

	2019		2018	
	impairment loss reversal	impairment loss recognition	impairment loss reversal	impairment loss recognition
Value in use of assets tested for impairment(PLN)	24,362		23,836	
Amount of recognised impairment loss (PLN)	339	882	189	533

Total effect of tested assets on impairment losses

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.*

	2019		2018	
	npairment loss reversal	ıpairment loss recognition	impairment loss reversal	impairment loss recognition
CGU	CGU - 162 production units		CGU - 159 production units	
Reasons for impairment / value increase	* Decrease in the WACC discount rate in 2019. * Update of productionforecast based on welltests and taking intoaccount 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.	* Change in priceforecasts. * Update of productionforecast based on welltests and taking intoaccount new wells brought on stream. * Decrease in transmission fee costs.	* Discount rate increase in 2018. *Update of production forecast to account for deterioration of reservoir conditions experienced by certain production units.
Value in use (PLN)	21,476		21,718	
Nominal pre-tax discount rate	Poland 10.32% -12.08% Pakistan: 19.30% - 21.42%		Poland 10.70% - 12.81% Pakistan: 19.52% - 25.35%	
Amount of recognised impairment loss (PLN)	185	576	137	298

(in PLN million, unless stated otherwise)

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

	2019		2018	
	impairment loss reversal	**impairment loss recognition**	**impairment loss reversal**	**impairment loss recognition**
CGU	CGU - 79 wells		CGU - 76 wells	
Reasons for impairment / value increase	* 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.	*Update of production forecast and reduction of planned expenditures. *Change in price forecasts - higher oil prices during production periods.	* Decision to abandon drilling plans following unsatisfactory results of geological work. * Update of production forecast following well tests. *Increase in WACC in 2018. * Increase in royalty costs.
Value in use (PLN)	2,741		2,030	
Nominal pre-tax discount rate	Poland 11.29% - 13.02%		Poland 11.75%- 13.86%	
Amount of recognised impairment loss (PLN)	152	281	51	226

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

	2019		2018	
	impairment loss reversal	**impairment loss recognition**	**impairment loss reversal**	**impairment loss recognition**
CGU	CGU – 167 units		CGU – 173 units	
Reasons for impairment / value increase	* 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	* Higher rental income from certain properties. * Lower cost of planned repairs and property maintenance costs.	* Significant decline in revenue and increase in property maintenance costs.
Value in use (PLN)	52		67	
Nominal pre-tax discount rate	7.56% - 8.52%		8.03% - 9.31%	
Amount of recognised impairment loss (PLN)	2	25	1.5	9

(in PLN million, unless stated otherwise)

5.2. Working capital

5.2.1. Inventories

Accounting policies

The Company's most material inventory items include:

- gas fuel,
- energy efficiency (white) certificates, purchased by the Company in order to be surrendered for cancellation and obtained in connection with efficiency enhancing measures taken under the Energy Efficiency Act,
- certificates of origin (coloured certificates) purchased by the Company in order to be surrendered for cancellation in connection with the requirement imposed on the Company by the Polish Energy Law,
- consumables used in investment projects and oil and gas production facilities - pipe storage facilities.

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

Gas fuel at storage facilities is 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 differences, are measured at the average weighted cost, which includes in particular: costs of purchase of gas fuel 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 rejection and regasification.

The Company is obliged to obtain and surrender for cancellation certificates of origin for electricity and energy efficiency certificates corresponding to the volume of electricity or gas sold to end customers connected to the grid in the territory of Poland. Property rights granted are disclosed as inventories at market value (in correspondence with revenue) when their receipt becomes probable. Purchased certificates of origin and energy efficiency certificates are recognised as inventory at cost. Changes in the certificates are measured using the weighted average method. Certificates of origin for energy and energy efficiency certificates are accounted for at the time of their cancellation in correspondence with the relevant provision (Note 5.4.2.).

Material estimates

Inventory write-downs

If the cost of inventories may be not recoverable, the Company recognises a write down to net realisable value.

The write-down on gas inventories is estimated by the Company based on the analysis of the loss of calorific value of gas and market valuation of gas inventories based on forecast selling prices.

	2019			2018		
	Initial value	Impairment losses	Net carrying amount	Initial value	Impairment losses	Net carrying amount
Materials	**3,585**	**(401)**	**3,184**	**2,687**	**(93)**	**2,594**
Gas fuel	3,331	(377)	2,954	2,465	(71)	2,394
Other materials	254	(24)	230	222	(22)	200
Crude oil	**19**	**-**	**19**	**15**	**-**	**15**
Merchandise	**27**	**-**	**27**	**119**	**(37)**	**82**
Certificates of origin for electricity	27	-	27	62	(37)	25
CO_2 emission allowances	-	-	-	57	-	57
Total	**3,631**	**(401)**	**3,230**	**2,821**	**(130)**	**2,691**

(in PLN million, unless stated otherwise)

Changes in write-downs	2019	2018
Write-downs at beginning of the period	**(130)**	**(103)**
Recognition	(381)	(108)
Reversal	110	81
Charged to profit or loss for current period	**(271)**	**(27)**
Write-downs at end of the period	**(401)**	**(130)**

5.2.2. Receivables

Accounting policies

Receivables include chiefly short-term trade receivables, mainly in connection with sale of gaseous fuel.

Short-term trade receivables that pass the SPPI test and are held in a "hold to collect" business model are classified at amortised cost less impairment losses.

VAT receivable is determined in the amount due to the Company in accordance with applicable laws and regulations.

In accordance with the adopted accounting policies, receivables are tested for impairment through the estimation of expected credit losses using the cluster approach or the case-by-case approach.

- the **cluster approach**, where impairment losses on financial assets are recognised for a large number of current financial assets of relatively small values (the homogeneous portfolio). Impairment losses are determined based on an analysis of historical data on payment of past due financial assets in particular ageing groups and the transition matrix method. The results of the analysis are used to calculate recovery ratios on the basis of which the amounts of impairment losses on financial assets in each ageing group are determined.
- the **case-by-case approach**, where expected credit losses are estimated for those items that could not be classified into a homogeneous portfolio, such as: material trade receivables, trade receivables with maturities over one year, receivables from Group companies and other receivables which do not qualify as homogenous as at the reporting date.

At each reporting date, the Company assesses whether there was a material increase in credit risk in a given class of financial assets and, consequently, whether lifetime expected credit losses need to be recognised. For more information see **Note 6.1.**

(in PLN million, unless stated otherwise)

Material estimates

Impairment losses on receivables

Impairment losses on receivables are estimated in accordance with the expected loss model.

When applying the **case-by-case approach**, the key measure used in risk analysis is the financial position of the debtor, and quantification is made using financial data that describe the debtor's operations. Impairment losses on receivables are estimated based on a statistical model that factors in the estimated probability of the debtor's bankruptcy/default, the collateral involved, and the estimated exposure of the Company at the time of the debtor's bankruptcy/default. In the case of corporate customers, the probability of bankruptcy or insolvency is assessed based on a score assigned to the trading partner in accordance with the trading partner creditworthiness evaluation model in place at PGNIG S.A. The score comprises a qualitative (behavioural) score and a quantitative score determined on the basis of the most recent available financial data.

In applying the **cluster approach**, the Company uses the transition matrix. The estimate of expected losses is based on an analysis of payment delay dynamics. Conclusions drawn from historical data provide the basis for the calculation of impairment losses on homogeneous receivables as at the reporting date.

	2019			2018			
	Gross carrying amount	Impairment losses	Net carrying amount	Gross carrying amount	Impairment losses	Net carrying amount	
Receivables from non-related entities	**2,033**	**(391)**	**1,642**	**2,633**	**(456)**	**2,177**	
Trade receivables	1,566	(147)	1,419	2,157	(212)	1,945	
VAT receivable	182	-	182	206	-	206	
Other taxes, customs duties and social security receivable	4	-	4	10	-	10	
Other receivables	281	(244)	37	260	(244)	16	
Receivables from related entities	**253**	**(9)**	**244**	**218**	**(30)**	**188**	
Trade receivables	173	(9)	164	177	(30)	147	*Note 7.4.1.*
Other receivables	80	-	80	41	-	41	
Total	**2,286**	**(400)**	**1,886**	**2,851**	**(486)**	**2,365**	

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(in PLN million, unless stated otherwise)

Change in gross carrying amount of and impairment losses on trade receivables

	Trade receivables covered by cluster analysis		Trade receivables covered by case-by-case analysis			Total
	Class 2 - Lifetime expected loss	Class 3 - impaired	Class 1 - 12-month expected loss	Class 2 - Lifetime expected loss	Class 3 - impaired	
Gross carrying amount as at Jan 1 2019	**365**	**18**	**1,429**	**13**	**509**	**2,334**
Transfer from group with 12-month expected loss	15	-	-	-	-	15
Transfer to group with lifetime expected loss	-	-	(15)	-	-	(15)
Transfer to impaired group	(2)	-	-	-	-	(2)
Transfer from group with lifetime expected loss	-	2	-	-	-	2
Repaid receivables	(3,683)	(15)	(23,324)	-	(901)	(27,923)
Newly recognised receivables	3,579	15	23,003	22	670	27,289
Write-off due to use of impairment losses	(1)	-	-	-	-	(1)
Other effect	5	-	80	-	(45)	40
Gross carrying amount as at Dec 31 2019	**278**	**20**	**1,173**	**35**	**233**	**1,739**
Accumulated impairment loss as at Jan 1 2019	**-**	**(12)**	**(10)**	**-**	**(221)**	**(243)**
Recognition in correspondence with costs	(5)	(4)	(67)	-	(137)	(213)
Reversals in correspondence with income	1	6	75	-	214	296
Transfer to impaired group	2	-	-	-	-	2
Transfer from group with lifetime expected loss	-	(2)	-	-	-	(2)
Newly recognised receivables	-	1	-	-	-	1
Effect of exchange rate movements and other	(1)	-	-	-	4	3
Accumulated impairment loss as at Dec 31 2019	(3)	(11)	(2)	-	(140)	(156)
Net carrying amount as at Dec 31 2019	**275**	**9**	**1,171**	**35**	**93**	**1,583**
Statistical estimate of default rate	0.2% - 12.2%	48.3% - 100%				
Gross carrying amount as at Jan 1 2018	**305**	**10**	**1,602**	**-**	**296**	**2,213**
Transfer to impaired group	(1)	-	-	-	-	(1)
Transfer from group with 12-month expected loss	-	1	-	-	-	1
Repaid receivables	(2,687)	(4)	(22,829)	-	(1,022)	(26,542)
Newly recognised receivables	2,872	9	22,621	13	1,197	26,712
Other effect	(124)	2	35	-	38	(49)
Gross carrying amount as at Dec 31 2018	**365**	**18**	**1,429**	**13**	**509**	**2,334**
Accumulated impairment loss as at Jan 1 2018	(2)	(9)	(2)	-	(61)	(74)
Effect of IFRS 9	(1)	-	(2)	-	7	4
Accumulated impairment loss as at Jan 1 2018 (restated)	(3)	(9)	(4)	-	(54)	(70)
Recognition in correspondence with costs	(7)	(4)	(21)	(1)	(337)	(370)
Reversals in correspondence with income	10	5	15	1	172	203
Effect of exchange rate movements and other	-	(3)	-	-	(2)	(5)
Accumulated impairment loss as at Dec 31 2018	-	(11)	(10)	-	(221)	(242)
Net carrying amount as at Dec 31 2018	**365**	**7**	**1,419**	**13**	**288**	**2,092**
Statistical estimate of default rate	0.2% - 11.4%	53.2% - 100%				

(in PLN million, unless stated otherwise)

Change in gross carrying amount and impairment losses on other receivables

	Other receivables covered by cluster analysis		Other receivables covered by case-by-case analysis			Total
	Class 2 - Lifetime expected loss	Class 3 - impaired	Class 1 - 12-month expected loss	Class 2 - Lifetime expected loss	Class 3 - impaired	
Gross carrying amount as at Jan 1 2019	**11**	**170**	**36**	**-**	**84**	**301**
Repaid financial assets	(32)	(3)	(1,996)	(26)	-	(2,057)
Newly recognised financial assets	34	3	1,921	-	-	1,958
Other effect	(2)	1	117	26	17	159
Gross carrying amount as at Dec 31 2019	**11**	**171**	**78**	**-**	**101**	**361**
Accumulated impairment loss as at Jan 1 2019	-	(168)	-	-	(76)	(244)
Recognition in correspondence with costs	-	-	(18)	-	-	(18)
Reversals in correspondence with income	-	-	18	-	-	18
Accumulated impairment losses as at Dec 31 2019	-	(168)	-	-	(76)	(244)
Net carrying amount as at Dec 31 2019	**11**	**3**	**78**	**-**	**25**	**117**
Statistical estimate of default rate	0.2% - 12.2%	48.3% - 100%				
Gross carrying amount as at Jan 1 2018	**21**	**170**	**84**	**-**	**88**	**363**
Repaid financial assets	(88)	(2)	(2,284)	-	(37)	(2,411)
Newly recognised financial assets	86	3	2,174	-	13	2,276
Other effect	(8)	(1)	62	-	20	73
Gross carrying amount as at Dec 31 2018	**11**	**170**	**36**	**-**	**84**	**301**
Accumulated impairment loss as at Jan 1 2018	-	(170)	-	-	(76)	(246)
Effect of IFRS 9	-	-	-	-	(17)	(17)
Accumulated impairment loss as at Jan 1 2018 (restated)	-	(170)	-	-	(93)	(263)
Recognition in correspondence with costs	-	-	(6)	-	(76)	(82)
Reversals in correspondence with income	-	-	6	-	93	99
Effect of exchange rate movements and other	-	2	-	-	-	2
Accumulated impairment loss as at Dec 31 2018	-	(168)	-	-	(76)	(244)
Net carrying amount as at Dec 31 2018	**11**	**2**	**36**	**-**	**8**	**57**
Statistical estimate of default rate	0.2% - 11.4%	53.2% - 100%				

In 2019 and 2018, there were no transfers between the classes.

Trade receivables are the source of the Company's credit and currency risk exposure. For information on credit risk management, credit risk concentration, and assessment of the credit quality of receivables, see **Note 6.3.1.** For information on currency risk related to receivables, see **Note 6.3.3**. As at December 31st 2019 and December 31st 2018, the fair value receivables did not differ materially from the respective carrying amounts.

(in PLN million, unless stated otherwise)

5.2.3. Trade and tax payables

Accounting policies

Short-term trade payables and liabilities under purchase of non-financial non-current assets 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.

VAT payable and other tax payables are determined in amounts due from the Company in accordance with applicable laws and regulations.

	2019	2018	
Amounts payable to non-related entities	**2,357**	**1,434**	
Trade payables	900	336	
VAT payable	780	793	
Other taxes, customs duties and social security payable	128	106	
Amounts payable under purchase of non-financial non-current assets	26	53	
Corporate income tax payable	32	37	*Note 3.1.2.*
Amounts payable under purchase of exploration and evaluation assets	36	44	
Liabilities under security and other deposits	440	11	
Other	15	54	
Amounts payable to related entities	**445**	**760**	
Trade payables	316	682	*Note 7.4.1.*
Amounts payable under purchase of non-financial non-current assets	35	30	
Amounts payable under purchase of exploration and evaluation assets	68	43	
Other	26	5	
Total	**2,802**	**2,194**	

The Company is exposed to currency risk and liquidity risk in relation to trade payables and liabilities under purchase of non-financial non-current assets. For information on those risks, see **Note 6.3.3** and **Note 6.3.5.**, respectively.

As at December 31st 2019 and December 31st 2018, the fair values of trade payables did not differ materially from their respective carrying amounts.

5.2.4. Reconciliation of movements in working capital with the statement of cash flows

2019	Difference resulting from the statement of financial position	Net cash from investing activities	Net cash from financing activities	Elimination of non-cash items	Effect of IFRS 16	Net cash from operating activities (movements in working capital)
Inventories	(539)	-	-	-	-	(539)
Receivables	(1,974)	2,501	-	(14)	-	513
Employee benefit obligations	40	-	-	-	-	40
Provisions	265	(328)	-	28	19	(16)
Other liabilities	602	6	(35)	-	-	573
Other assets	212	(150)	19	-	(30)	51
Total working capital	**(1,394)**	**2,029**	**(16)**	**14**	**(11)**	**622**

(in PLN million, unless stated otherwise)

2018	Difference resulting from the statement of financial position	Net cash from investing activities	Net cash flows from financing activities	Elimination of non-cash items	Effect of IFRS 9	Net cash from operating activities (movements in working capital)
Inventories	(460)	-	-	-	-	(460)
Receivables	198	(69)	-	(28)	(121)	(20)
Employee benefit obligations	45	-	-	-	-	45
Provisions	289	(211)	-	(21)	(18)	39
Other liabilities	316	10	(35)	-	(4)	287
Other assets	62	-	(4)	-	-	58
Total working capital	**450**	**(270)**	**(39)**	**(49)**	**(143)**	**(51)**

5.3. Notes on other assets

5.3.1. Other non-current assets

Accounting policies

Cash of the Extraction Facilities Decommissioning Fund is accumulated by the Company 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. and may be used only to cover the costs of decommissioning of an extraction facility or its specific part. Due to formal and legal limitations 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 Company'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 5.1.2.**).

Other intangible assets include mainly software, patents and licences. The Company initially recognises those intangible assets at cost. Subsequent to initial recognition, intangible assets are carried at cost less accumulated amortisation and impairment (**Note 5.1.4.**) Intangible assets are amortised using the straight-line method based on amortisation rates that reflect the expected useful lives of the assets.

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.

Connection charge is disclosed under accrued income. The charge amount is accounted for throughout the average useful lives of the relevant asset to which that charge relates.

	2019	2018
Cash of the Extraction Facilities Decommissioning Fund	158	172
Other intangible assets	127	142
Finance lease receivables	1	37
Connection charge	88	92
Other	57	77
Total	**431**	**520**

(in PLN million, unless stated otherwise)

Finance lease receivables

Following the sale of the gas pipeline and land on the route from the Kościan Gas Production Facility to KGHM Polkowice/Żukowice route and in December 2019 of the gas pipeline and land in the coastal strip, in March 2019, the Company derecognised lease receivables from Polska Spółka Gazownictwa Sp. z o.o.

Finance lease receivables as at December 31st 2018 resulted from the following lease contracts with Polska Spółka Gazownictwa Sp. z o.o.:

1) contract for lease of gas pipelines and land in the coastal strip of 2011;
2) contract for lease of gas pipelines and land on the route from the Kościan Gas Production Facility to KGHM Polkowice/Żukowice of 2013.

Minimum lease payment	2018
Less than 1 year	157
1–5 years	19
Over 5 years	23
Future minimum lease payments	**199**
Future interest income	32
Present value of finance lease liabilities	
Less than 1 year	130
1–5 years	15
Over 5 years	22
Total, of which:	**167**
- current	130
- non-current	37

	Class 2 - Lifetime expected loss
Gross carrying amount as at Jan 1 2019	**167**
Repaid finance lease liabilities	(7)
Derecognition	(153)
Other effect	(6)
Gross carrying amount as at Dec 31 2019	**1**
Net carrying amount as at Dec 31 2019	**1**
Gross carrying amount as at Jan 1 2018	**176**
Repaid finance lease liabilities	(14)
Other effect	5
Gross carrying amount as at Dec 31 2018	**167**
Net carrying amount as at Dec 31 2018	**167**

(in PLN million, unless stated otherwise)

5.3.2. Other current assets

	2019			2018		
	Gross carrying amount	Impairment losses	Net carrying amount	Gross carrying amount	Impairment losses	Net carrying amount
Debt instruments (notes) from related parties	39	(39)	-	39	(39)	-
Finance lease receivables	-	-	-	130	-	130
Other	30	-	30	51	-	51
Total	**69**	**(39)**	**30**	**220**	**(39)**	**181**

Debt instruments relate to the acquisition of corporate bonds of Geofizyka Kraków S.A. w likwidacji (in liquidation) under the Short-Term Note Programme Agreement of May 6th 2014, of PLN 39m. As the notes were not redeemed by Geofizyka Kraków S.A. w likwidacji (in liquidation), the asset was fully impaired and classified into the category of impaired assets.

(in PLN million, unless stated otherwise)

5.4. Notes on provisions and liabilities

5.4.1. 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 Company 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 Company 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, and in the case of profit-sharing and bonus payments – when the following conditions are met:

- the Company has a legal or constructive obligation to make such payments as a result of past events, and
- the expected cost can be reliably estimated.

The Company recognises provisions for unused holiday entitlements.

Long-term employee benefits

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

- Benefits paid during the employment period,
- Post-employment benefits.

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

Benefits paid during the employment period include mainly length-of-service awards.

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.

	2019		2018	
	Non-current	Current	Non-current	Current
Liabilities under length-of-service awards	176	13	150	12
Liabilities under severance payments	76	2	62	1
Liabilities under awards and annual and other bonuses	-	59	-	59
Amounts payable for unused holiday entitlements	-	21	-	19
Termination benefits	-	9	-	15
Other employee benefit obligations (Company Social Benefits Fund)	45	3	43	3
Total	**297**	**107**	**255**	**109**

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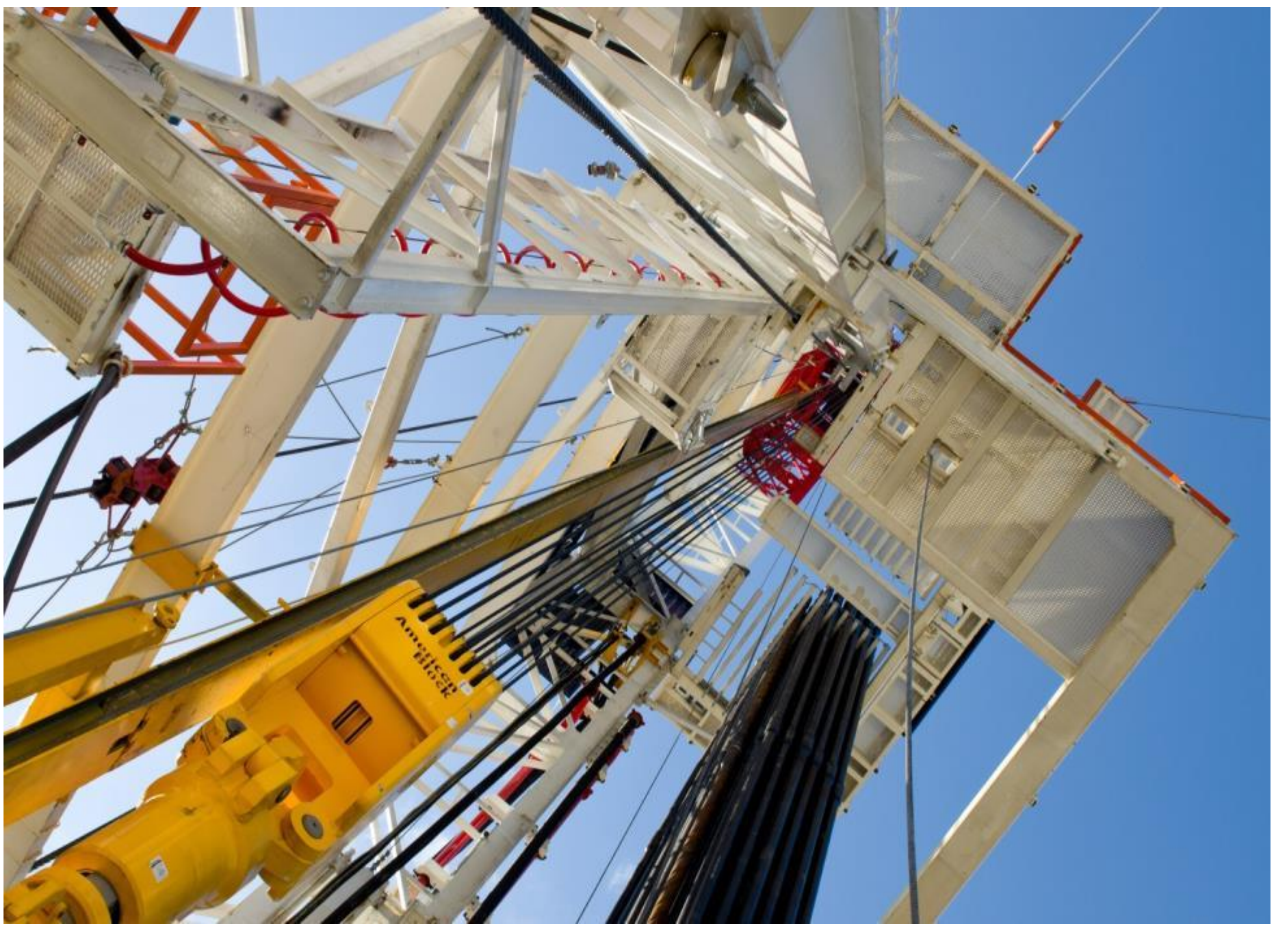
(in PLN million, unless stated otherwise)

The change in employee benefit obligations relating to length-of-service awards and retirement severance pay is as follows:

	Benefits paid during the employment period		Post-employment benefits	
	2019	2018	2019	2018
Obligations at beginning of the period	**162**	**144**	**109**	**95**
Interest expense	4	4	3	3
Current service cost	11	8	3	3
Benefits paid	(17)	(16)	(5)	(4)
Actuarial gain/loss − changes in financial assumptions	7	10	7	9
Actuarial gain/loss − changes in demographic assumptions	22	12	9	3
Obligations at end of the period	**189**	**162**	**126**	**109**

The technical rate applied to calculate the discounted value of future payments under employee benefits was -0.5%, and resulted from a 2.1% annual return on long-term Treasury bonds and a 2.6% forecast annual salary growth (at the end of 2018 the applied technical rate was -0.1%, and resulted from the rates of 2.8% and 2.9%, respectively).



5.4.2. Other provisions

Accounting policies

The Company recognises a provision if it has a present obligation (legal or constructive) which is likely to result in an outflow of economic benefits and whose amount can be reliably estimated. Detailed rules for recognising and measuring provisions (by items) are presented below.

Provision for certificates of origin and energy efficiency certificates

If at a reporting date the number of certificates in not sufficient to meet the requirements stipulated in the 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 and the registered certificates of origin disclosed under inventories are accounted for at the time of registering their cancellation in the Register of Certificates of Origin maintained by the Polish Power Exchange (PPX).

Provision for liabilities associated with exploration work abroad

Owing to the Force Majeure risk present in Libya, operating activities were suspended in that country. Therefore, the Company has been maintaining a provision for licence obligations under licence agreements concluded with the Libyan government.

Provision for environmental liabilities

The Company recognises a provision for future costs of rectifying pollution of water or restoring mined land, required under the applicable laws. The provision recognised for such liabilities reflects estimated costs projected to be incurred, which are estimated and reviewed periodically based on current prices. The Company also recognises provisions for future costs of rehabilitation of leased land / land plots prior to their return to the lessors.

Provision for claims under extra-contractual use of land

In the ordinary course of business, the Company installs technical equipment used for transmission and distribution of gas on land owned by third parties, which are often natural persons.

Where possible, at the time of installing the elements of the infrastructure, the Company entered into agreements establishing standard land easements and transmission easements.

The Company recognises a provision for claims under extra-contractual use of land. The provision for claims under extra-contractual use of land is estimated in respect of those claims in the case of which correspondence has been exchanged with the claimant in the last three years and which have been confirmed to be valid (see ‘Material estimates’).

Provision for financial guarantees

A provision for financial guarantees is recognised if a surety has been granted to a creditor and the debtor defaults.

Material estimates

Provision for certificates of origin and energy efficiency certificates

The provision for certificates of origin is recognised as at the end of each reporting period based on the volumes of electricity consumed (excluding internally generated electricity consumed) and electricity sold to end customers, the regulatory percentage ratios applicable to individual certificates, and the price of individual certificates quoted on the Polish Power Exchange on 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 (excluding 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

The amount of the provision is estimated based on the valuation of obligations contracted under the licence agreements, but not met.

Provision for environmental liabilities

The amount of the provision 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 take place. Changes in the amount of the provision resulting from a change in the discount rate (as a result of passage of time) is recognised in profit or loss, while changes in the estimated restoration costs are remeasured to the value of the right-of-use asset

Provision for claims under extra-contractual use of land

The Company estimates the amount of 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 six years), or
- If it is not possible to obtain reliable data required to apply the method described above, the Company 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 underlying variables, the actual amounts of the consideration (compensation) for extra-contractual use of land that the Company will be required to pay may differ from amounts of the related provisions.

Provision for financial guarantees

The impairment amount is estimated in accordance with the expected loss model appropriate for the case-by-case approach, taking into account the credit risk profile of a company, the guarantee amount, the expected repayment date, and the premium received in respect of the guarantee.

The credit risk of a company is assessed based on an internal scoring model using the qualitative behavioural analysis and quantitative analysis of the company’s historical financial data.

(in PLN million, unless stated otherwise)

	Provision for certificates of origin and energy efficiency certificates	Provision for liabilities associated with exploration work abroad *	Provisions for environmental liabilities	Provision for UOKiK fine **	Provision for claims under extra-contractual use of land	Provision for financial guarantees	Other provisions	Total
As at Jan 1 2019	**70**	**175**	**26**	**-**	**4**	**15**	**25**	**315**
Effect of IFRS 16	-	-	(19)	-	-	-	-	(19)
As at Jan 1 2019 (restated)	**70**	**175**	**7**	**-**	**4**	**15**	**25**	**296**
Increase	47	2	5	6	-	4	1	**65**
Used	(48)	-	-	-	-	-	-	**(48)**
Reversal	(21)	-	-	-	-	(5)	(4)	**(30)**
As at Dec 31 2019	**48**	**177**	**12**	**6**	**4**	**14**	**22**	**283**
- non-current	-	5	12	-	-	-	-	17
- current	48	172	-	6	4	14	22	266
As at Jan 1 2018	**38**	**162**	**26**	**10**	**6**	**-**	**15**	**257**
Effect of IFRS 9	-	-	-	-	-	18	-	18
As at Jan 1 2018 (restated)	**38**	**162**	**26**	**10**	**6**	**18**	**15**	**275**
Increase	34	13	-	-	1	-	15	**63**
Used	(1)	-	-	(10)	-	-	-	**(11)**
Reversal	(1)	-	-	-	(3)	(3)	(5)	**(12)**
As at Dec 31 2018	**70**	**175**	**26**	**-**	**4**	15	**25**	**315**
- non-current	-	4	24	-	-	-	-	28
- current	70	171	2	-	4	15	25	287

* Provision for liabilities associated with exploration work in Pakistan and Libya relates to foreign operations.

For more information, see **section 8.2. in the Directors' Report on the operations of the PGNiG Group. Proceedings before the President of the Office of Competition and Consumer Protection (UOKiK).

(in PLN million, unless stated otherwise)

5.4.3. Grants

Accounting policies

The Company recognises grants related to assets, receivable on condition that the Company purchases, produces, or otherwise obtains plant, property and equipment.

Grants related to assets are recognised in the statement of financial position under 'Grants' (non-current portion) and 'Other liabilities' (current portion), and subsequently taken – through equal annual charges – to profit or loss under 'Other revenue' pro rata to the depreciation charges recognised in operating expenses, throughout the expected useful life of the assets.

	2019	2018
Grants related to assets		
Kosakowo Underground Gas Storage Facility	62	71
Wierzchowice Underground Gas Storage Facility	378	399
Strachocina Underground Gas Storage Facility	51	53
Conversion of Ełk and Olecko to E gas	4	4
Husów Underground Gas Storage Facility	25	27
Total	**520**	**554**
- non-current	484	519
- current	36	35

Grants related to assets

In 2019 and 2018, the Company did not receive any significant co-financing for property, plant and equipment.

5.4.4. Other liabilities

	2019	2018
Non-current		
Deferred revenue other than grants	-	3
Liabilities under licences, rights to geological information and mining rights	44	46
Other	23	26
Total	**67**	**75**
Current		
Grants	36	35
Other deferred income	-	5
Liabilities under licences, rights to geological information and mining rights	14	13
Total	**50**	**53**

6. Financial instruments and financial risk management

6.1. Financial instruments and financial risk management

Accounting policies

The Company holds the following categories of financial assets and liabilities:

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

The Company classifies financial assets based on:

- the Company's business model of financial asset management. The model concerns the way in which the Company manages its financial assets in order to generate cash flows. The objective of the business model adopted by the Company is to hold assets in order to collect contractual cash flows (the "hold" model).
- assessment of the profile of contractual cash flows. At the time of initial recognition of a financial asset, the 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.

Classification of financial assets and liabilities is as follows:

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

Based on an assessment of the Company's business model and its cash flow characteristics, the following items are classified as assets measured at amortised cost:

- Trade receivables (**Note 5.2.2.**),
- Loans (**Note 7.4.**),
- Cash pooling receivables (**Note 4.3.**),
- Cash and cash equivalents (**Note 4.6.**).

Financial assets at fair value through profit or loss

Based on an assessment of the Company's business model and its cash flow characteristics, the following items are classified as assets measured at fair value through profit or loss:

- Gain on remeasurement of derivative instruments (**Note 6.2.**).

Financial liabilities at amortised cost

This item comprises mainly:

- Trade payables (**Note 5.2.3.**),
- Amounts payable under purchase of non-financial non-current assets (**Note 5.2.3.**),
- Financing liabilities (**Note 4.1.**),
- Cash pooling liabilities (**Note 4.3.**).

Financial liabilities measured at fair value through profit or loss

- Loss on remeasurement of derivative instruments (**Note 6.2.**).

Hedge derivatives

This category comprises derivative instruments to which the Company applies hedge accounting. For description of the applied hedge accounting policies, see **Note 6.2.**

Impairment of financial assets

The Company monitors changes in credit risk relating to a given financial asset and classifies financial assets within three classes of determination of impairment related to future expected loss:

Class 1 – Not impaired exposures, where the risk of impairment in the exposure's lifetime is not significantly higher than the risk of a given exposure as at the grant date. The expected credit loss for exposures in this class is calculated for a term of the next 12 months or shorter, depending on the maturity date of the exposure.

Financial assets in this class are characterised by low risk and high level of creditworthiness confirmed by external rating institutions.

Class 2 – Not impaired exposures, where the risk of impairment in the exposure's lifetime is significantly higher than the risk related to a given exposure as at the date of grant, and not impaired. The expected credit loss for exposures in this class is calculated over the period until the maturity date of the exposure.

Class 3- Impaired exposures, recognised when the asset was held by the Company. For this class, the probability of an insolvency event is calculated for the lifetime of the asset. 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.

Impairment approaches

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

- the **cluster approach**, where impairment losses on financial assets are recognised for a large number of current financial assets of relatively small values (the homogeneous portfolio). Impairment losses are determined based on an analysis of historical data on payment of past due financial assets in particular ageing groups and the transition matrix method. The results of the analysis are used to calculate recovery ratios on the basis of which the amounts of impairment losses on financial assets in each ageing group are determined.

- the **case-by-case approach**, where expected credit losses are estimated for those items that could not be classified into a homogeneous portfolio, such as:

  - corporate loans,
  - lease receivables,
  - acquired debt issues,
  - material trade receivables (all trade receivables with a total value exceeding the minimum amount defined by the Company based on historical data as at the reporting date of the financial statements),
  - trade receivables with initial maturity of more than one year,
  - receivables from sale of shares,
  - receivables from Group entities (including tax receivables, dividends),

As at each reporting date, the Company analyses the credit risk of receivables classified into a non-homogeneous portfolio and the credit risk of debtors. The analysis covers such factors as:

- information directly affecting the financial and legal situation of the debtor, including: - a decrease in financial results, termination of a credit agreement by a bank, loss of a material market or trading partner, pending material court proceedings, restructuring or other material changes concerning the undertaking itself which may affect its business,
- macroeconomic environment: legislative changes adversely affecting the business, significant changes in sales and supply markets (including exchange rates), natural disasters, etc.

Expected impairment for credit risk exposures of receivables classified to the non-homogeneous portfolio is calculated by reference to three classes:

Class 1 – the amount of the impairment loss is calculated for receivables that are not past due or are past due for an insignificant amount of time and there is no reasonable indication of an increase in the exposure to the credit risk or of deterioration of the debtor's risk,

Class 2 – the amount of the impairment loss is calculated for receivables that are more than 30 days past due and/or there are circumstance (e.g. downgrade of the entity's rating, loss of the market, ongoing restructuring proceedings, etc.) which may adversely affect the debtor's financial or legal standing,

Class 3 – the amount of the impairment loss is the amount of receivables that are more than 90 days past due and/or of receivables from debtors subject to insolvency proceedings.

The descriptions take into account the value of collateral obtained from debtors.

Impairment losses are charged to profit or loss as a separate item.

Modification of contractual cash flows

In the event of renegotiation or other modification in contractual cash flows, the following scenarios may occur:

- renegotiation or modification of contractual cash flows which does not lead to derecognition of the original financial asset – minor modification; or
- renegotiation or modification of contractual cash flows which leads to derecognition and elimination from the balance sheet of the financial asset – major modification.

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

The **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.

Qualitative criteria:

- change of the variable interest rate into a fixed interest rate and vice versa;
- deep restructuring of the 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 passing 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 Company 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 Company uses a new effective interest rate to measure such asset.

Since PGNiG S.A. represents a dominant part of the PGNiG Group, a significant portion of disclosures relating to financial instruments in the Company's separate financial statements overlaps with the PGNiG Group's consolidated financial statements. Therefore, the Company has opted to use the cross-reference option provided for in IFRS 7 (paragraph B6), under which the disclosures required under paragraphs 31–42 of IFRS 7 may be incorporated by cross-reference from the financial statements to some other statement that is available to users of the financial statements on the same terms as the financial statements and at the same time. The Company meets this requirement by including in relevant Notes of these separate financial statements cross-references to the disclosures in the PGNiG Group's consolidated financial statements, which are available to the users of these separate financial statements on the same terms and at the same time as these separate financial statements

(in PLN million, unless stated otherwise)

6.2. Derivative financial instruments

Accounting policies

Derivative financial instruments not designated for hedge accounting

Derivative financial instruments which are not hedging instruments in hedge accounting are classified as financial assets/liabilities at fair value through profit or loss. The instruments are economic hedges.

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 remeasured at fair value, with gains or losses from the measurement recognised in the statement of profit or loss under:

- other finance income or finance expenses − measurement of Cross Currency Interest Rate Swap (CCIRS) transactions hedging a loan advanced to the subsidiary, PGNiG Norway Upstream AS, and
- other income and expenses – including transactions hedging the purchase of CO_2 emission allowances and energy prices.

Hedge accounting

The Company applies cash flow hedge accounting with respect to:

- Currency risk arising in connection with future, highly probable cash flows associated with foreign-currency costs incurred by the Company to purchase gas and petroleum products;
- Commodity price risk arising in connection with future, highly probable cash flows associated with purchase / sale of gas and petroleum products.

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 – **Note 4.4.**). The ineffective portion is charged to profit or loss. The effective hedge taken to equity over its lifetime is reclassified to initial cost of inventories or affects profit or loss on gas sales.

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 Company hedges

- currency risk related to foreign currency costs incurred to purchase gas and petroleum products under contracts settled in foreign currencies by using appropriate foreign exchange derivatives,
- risk of gas prices and petroleum products by entering into relevant derivative contracts for indices used in the pricing formulas of contracts for the purchase or sale of gas and petroleum products, arising from appropriate layers designed in projected revenue or costs, depending on which position predominates.

The Company determines whether there is an economic relationship between the hedged item, based on a given gas price index or petroleum product price index, and the hedging instrument, by comparing the key terms of the hedged item and the hedge.

With respect to hedging relationships in which the hedged item is based on a number of gas price indices taken together and the hedging instrument is based on different but correlated gas price indices, the Company determines whether there is an economic relationship between the hedged item and the hedging instrument based on:

- An analysis of the correlation coefficients between the relevant indices, and
- A numerical test performed using linear regression for the assumed scenarios of behaviour of relevant index levels.

	2019		2018	
	Assets	Liabilities	Assets	Liabilities
Derivative instruments covered by cash flow hedge accounting	1,088	306	390	358
Derivative instruments not covered by hedge accounting	980	432	277	153
	2,068	**738**	**667**	**511**

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(in PLN million, unless stated otherwise)

6.2.1. Derivative instruments not designated for hedge accounting

Type of derivative instrument	2019	2018
Derivative instruments hedging interest rate risk and currency risk		
CCIRS	91	94
Derivative instruments hedging currency risk		
Forwards	(1)	-
Average rate forwards/currency swaps (EUR)	40	-
	39	-
Derivative instruments hedging commodity risk		
Commodity swap	407	21
	407	21
Derivative instruments used as economic hedges of electricity purchase prices		
Forwards	11	11
	11	11
Derivative instruments used to hedge purchase prices of CO_2 emission allowances		
Forwards	(2)	8
Futures	2	(10)
	-	(2)
Total, including:	**548**	**124**
Assets	980	277
Liabilities	(432)	(153)

For more information on the notional amounts of derivatives not designated for hedge accounting, see **Note 7.2.**. In the PGNiG Group's consolidated financial statements (pursuant to paragraph B6 of IFRS 7, the Company does not disclose the same information in the separate financial statements).

Measurement of derivative financial assets and derivative financial liabilities is classified as level 1 and 2 in the fair value hierarchy (i.e. valuation based on observable inputs other than quoted prices).

Instrument	Valuation method	Key inputs
Currency call options	Garman Kohlhagen model	Market data such as interest rates, foreign-exchange rates, basis spreads, commodity prices and volatility of commodity prices
Asian commodity call and put options	Espen Levy model	
Forwards, average rate forwards, currency swaps, commodity swaps, CCIRS and IRS	Discount method	

6.2.2. Hedging instruments designated for hedge accounting

For detailed information on the notional amounts and exercise prices of derivative instruments designated for cash-flow hedge accounting, see **Note 7.2.** in the PGNiG Group's consolidated financial statements (pursuant to paragraph B6 of IFRS 7, the Company does not disclose the same information in the separate financial statements).

Currency risk hedges

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 Company 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 appropriate foreign exchange derivatives.

The main objective of the Company's currency risk hedging activities is to mitigate volatility of net revenue from trading in gas and petroleum products 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 Company 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 Company 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.

Analyses performed by the Company confirmed that currency exchange movements have a material impact on gas prices in Poland. 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 Company finds that such component can be separated and reliably measured.

Based on historical analyses performed for the last two years, the Company determined that in the past changes in the exchange rate accounted for approximately 20% of the volatility of the price of gas purchased/sold at the intraday price.

Commodity risk hedges

The Company 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 Company hedges against a covert risk component being the value of the TTF DA index. In the case of contracts based on price formulas including the prices of BRENT and other petroleum products, the Company hedges against the risk component being the price of BRENT crude oil.

Based on historical analyses performed for the last two years, the Company determined that in the past the change in the TTF index accounted for approximately 120% of the volatility of the price of gas purchased/sold at the intraday price on the PPX. The Company also determined that there is a negative correlation between the TTF index and the currency exchange rate.

TTF – Natural Gas at the Title Transfer Facility
MA – month-ahead;
DA – day-ahead

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(in PLN million, unless stated otherwise)

Impact of cash flow hedge accounting on the statement of profit and loss and other comprehensive income

Type of hedging instrument	Notional amount	Carrying amount as at Dec 31 2019		Period when cash flow will occur and affect the financial result	Change in fair value of hedging instrument used as basis for recognising hedge ineffectiveness in a given period	Hedging gains or losses for the reporting period, recognised in other comprehensive income	Amount of hedge ineffectiveness recognised in profit or loss	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) which includes the reclassification adjustment
		Assets	Liabilities						
CASH FLOW HEDGES									
CURRENCY RISK									
Forward contracts for currency purchase (USD/PLN)	3,688	54	39	up to 3 years	287	72	-	Not applicable	Not applicable
Forward contracts to purchase USD for EUR (EUR/USD)	186	2	-	up to 3 years	2	2	-	-	Revenue from sale of gas
Average rate forwards (EUR/PLN)	4,133	120	-	up to 3 years	444	129	288	(25)	Revenue from sale of gas
COMMODITY PRICE RISK									
Basis swap contracts for gas price indices	88	1	1	up to 3 years	396	286	85	(276)	Revenue from sale of gas
Swap contracts for gas price indices	2,899	911	254	up to 3 years	1,547	1,013	713	(270)	Revenue from sale of gas
Swap contracts for HH price indices	128	-	11	up to 3 years	(18)	(11)	(6)	Not applicable	Not applicable
Total	**11,122**	**1,088**	**305**		**2,658**	**1,491**	**1,080**	**(571)**	

(in PLN million, unless stated otherwise)

Type of hedging instrument	Notional amount	Carrying amount as at Dec 31 2018		Period when cash flow will occur and affect the financial result	Change in fair value of hedging instrument used as basis for recognising hedge ineffectiveness in a given period	Hedging gains or losses for the period, recognised in other comprehensive income	Amount of hedge ineffectiveness recognised in profit or loss	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) which includes the reclassification adjustment
		Assets	Liabilities						
CASH FLOW HEDGES									
CURRENCY RISK									
Forward contracts for currency purchase (USD)	3,678	216	1	up to 2 years	215	418	-	Not applicable	Not applicable
Average rate forwards (EUR)	7,707	50	18	up to 2 years	26	29	-	(3)	Revenue from sale of gas
COMMODITY PRICE RISK									
Basis swap contracts for gas price indices	208	34	9	up to 3 years	26	(192)	-	217	Revenue from sale of gas
Swap contracts for gas price indices	3,081	90	330	up to 3 years	(189)	(359)	(10)	164	Revenue from sale of gas
Swap contracts for petroleum product price indices	-	-	-	up to 3 years	-	28	-	Not applicable	Not applicable
Total	**14,674**	**390**	**358**		**78**	**(76)**	**(10)**	**378**	

(in PLN million, unless stated otherwise)

Cash flow hedge

Hedged items as at December 31 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 of all hedging relationships for which hedge accounting is no longer applied remaining in cash flow hedging reserve
CURRENCY RISK			
Natural gas (USD/PLN)	(287)	16	-
Natural gas (EUR/USD)	(2)	2	-
Natural gas (EUR/PLN)	(156)	93	38
COMMODITY PRICE RISK			
Gas contracts indexed to monthly gas price indices	(310)	33	1
Gas contracts indexed to daily gas price indices	(846)	606	133
Gas contracts indexed to monthly petroleum product indices	15	(11)	-
TOTAL	**(1,586)**	**739**	**172**

Hedged items as at December 31st 2018	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 of all hedging relationships for which hedge accounting is no longer applied remaining in cash flow hedging reserve
CURRENCY RISK			
Natural gas (USD)	215	215	Not applicable
Natural gas (EUR)	(26)	31	(5)
COMMODITY PRICE RISK			
Gas contracts indexed to monthly gas price indices	(26)	25	1
Gas contracts indexed to daily gas price indices	179	(182)	2
Gas contracts indexed to monthly petroleum product indices	Not applicable	Not applicable	Not applicable
TOTAL	**342**	**89**	**(2)**

(in PLN million, unless stated otherwise)

Reconciliation of hedging reserve for the use of hedge accounting

	2019	2018
Gross amount at beginning of the period	89	8
Net amount at beginning of the period	72	6
CURRENCY RISK		
Hedging gains or losses recognised in other comprehensive income during reporting period	202	448
Amount reclassified from cash flow hedging reserve to statement of profit or loss as reclassification adjustment	(25)	(3)
Amount transferred from cash flow hedging reserve and recognised as adjustment to carrying amount of inventories	(270)	(194)
Gross hedging reserve	**(93)**	**251**
Deferred tax on settlement and measurement of hedging instruments	(18)	48
Net hedging reserve	**(75)**	**203**
COMMODITY PRICE RISK		
Hedging gains or losses recognised in other comprehensive income during reporting period	1,288	(523)
Part of loss taken to statement of profit or loss as hedged item was not expected to occur	-	(1)
Gas contracts indexed to monthly gas price indices	(546)	381
Amount transferred from cash flow hedging reserve and recognised as adjustment to carrying amount of inventories	174	(11)
Amount reclassified from cash flow hedging reserve to statement of profit or loss as reclassification adjustment for those hedging relationships to which hedge accounting is no longer applied	(1)	(16)
Gross hedging reserve	**915**	**(170)**
Deferred tax on settlement and measurement of hedging instruments	174	(32)
Net hedging reserve	**741**	**(138)**
Gross amount at end of the period	**911**	**89**
Net amount at end of the period	**738**	**72**

6.3. Financial risk management

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

- credit risk,
- market risks, including currency risk, interest rate risk and commodity price risk (gas fuels, oil, electricity and related products),
- liquidity risk.

The nature, extent and management of the Company's and the Group's financial risks overlap to a considerable extent, since PGNiG S.A. is the PGNiG Group's parent. Therefore, the Company has taken advantage of the cross-reference option provided for in IFRS 7 (paragraph B6), and does not present all the disclosures required under paragraphs 31–42 of IFRS 7 in these separate financial statements insofar as they overlap with the disclosures presented in the PGNiG Group's consolidated financial statements. Instead, cross-references to the relevant Notes in the consolidated financial statements are given.

6.3.1. Credit risk

The Company is mainly exposed to credit risk under:

- Cash and cash equivalents (cash at banks and bank deposits),
- Trade receivables,
- loans,
- Cash pooling receivables,
- Positive value of derivative financial instruments,
- Financial guarantees issued.

The nature, scope and management of credit risk is presented in **Note 7.3.1.** to the consolidated financial statements of the PGNiG Group (simplified procedure permitted by IFRS 7, paragraph B6). This note presents disclosures pertaining only to those items that are eliminated from the consolidated financial statements of the PGNiG Group. In relation to other items, there are no material differences between the Company's and the Group's concentration of credit risk and credit ratings.

Credit risk exposure equals the carrying amount of an item, with the exception of guarantees issued.

The Company defines credit risk in respect of its trade debtors as the risk of loss or adverse change in its financial position as a result of counterparty default, including concentration risk following from excessive exposure to one entity.

In 2019, the Group implemented uniform rules 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, among other things, credit risk exposures and for monitoring past due receivables.

The Company effectively manages its credit risk by setting trade credit limits by assessing the creditworthiness of its trading partners, taking into account both their financial position and overall macroeconomic conditions. Any instances of exceeding the limits are analysed as they occur by the unit responsible for managing counterparty credit risk, which subsequently implements measures to mitigate the risk. Also, in line with applicable internal procedures, the Company uses various types of hedging instruments that are incorporated into commercial contracts.

The Company has a concentration of credit risk related to its trade debtors, With receivables from its three largest customers accounting for 41% of the total. Considering the long-standing business relationships with the those customers and their established position in the Polish market, the Company considers the credit quality of the receivables as good.

In the case of trade receivables from related entities (**Note 5.2.2.**), there is significant credit risk concentration. Receivables from a single related entity account for 69% of total trade receivables from related entities. Despite the concentration, the Company considers the credit risk of these receivables to be low as the debtor is a PGNiG Group company.

As regards receivables under loans to PGNiG Group companies (**Note 7.4.**), there is credit risk concentration. As at December 31st 2019, the balance represented 21% (29% in 2018) of PGNiG Upstream Norway AS's receivables, 42% of PGNiG Termika S.A.'s receivables (37% in 2018), 12% of the Company's receivables from Elektrociepłownia Stalowa Wola S.A. (20% in 2018) and 18% of its receivables from Polska Spółka Gazownictwa. Credit risk related to those receivables is limited as these entities are related parties within the PGNiG Group. Moreover, in the Company's opinion, credit quality of the receivables is good.

In the case of cash pooling receivables (**Note 4.3.**), there is a credit risk concentration. Credit risk related to those receivables is limited as these entities are PGNiG Group subsidiaries. The credit quality of the receivables is assessed as very good.

Credit risk associated with guarantees issued is limited to the amount of guarantees for liabilities of the PGNiG Group companies. The highest-value guarantee secures PGNiG Upstream Norway AS's liabilities up to PLN 2,672m, or EUR 627.5m (2018: PLN 2,698m, or EUR 627.5m). In 2019, it accounts for more than 61% of the total amount of all financial guarantees issued by PGNiG S.A. (2018: 68%).

6.3.2. Commodity price risk

To hedge against commodity risk, in 2019 and 2018 the Company applied cash flow hedge accounting. For details, see **Note 6.2.**

The nature, scope and management of price risk are presented in **Note 7.3.2.1.** to the consolidated financial statements of the PGNiG Group (simplified procedure permitted by IFRS 7, paragraph B6).

6.3.3. Currency risk

Currency risk to the Company largely arises on account of fluctuations in the EUR/PLN, USD/PLN and NOK/PLN exchange rates. The key sources of exposure include:

- Trade payables/receivables (mainly in respect of natural gas purchased by the Company (**Note 5.2.3.**),
- Receivables under a loan denominated in NOK granted to PGNiG Upstream Norway AS (**Note 7.4.**),
- Cash and cash equivalents (**Note 4.6.**).

The nature, scope and management of currency risk are presented in **Note 7.3.2.2.** to the consolidated financial statements of the PGNiG Group (simplified procedure permitted by IFRS 7, paragraph B6). This note presents disclosures pertaining only to those items that are not disclosed in the consolidated financial statements of the PGNiG Group.

Currency risk related to receivables under the loan advanced to PGNiG Upstream Norway AS is secured with CCIRS derivatives. Any changes in the valuation of the currency loan granted to PGNiG Upstream Norway AS are offset in the statement of profit and loss by changes in the valuation of the hedging instruments.

There are no material differences between the Company's and the Group's sensitivity to exchange rate fluctuations. For relevant disclosures, see **Note 7.3.2.2.** to the consolidated financial statements of the PGNiG Group.

6.3.4. Interest rate risk

The Company is exposed to interest rate risk primarily in connection with:

- Loans advanced to subsidiaries, including mainly PGNiG Upstream Norway AS (**Note 7.4.**),
- Cross-currency interest rate swaps not designated for hedge accounting, hedging a loan granted to the subsidiary PGNiG Upstream Norway AS (**Note 6.2.**).

The nature, scope and management of interest rate risk are presented in **Note 7.3.2.3.** to the consolidated financial statements of the PGNiG Group (simplified procedure permitted by IFRS 7, paragraph B6). This note presents disclosures pertaining only to those items that are not disclosed in the consolidated financial statements of the PGNiG Group.

(in PLN million, unless stated otherwise)

The risk related to receivables under the loan advanced to PGNiG Upstream Norway AS is hedged with CCIRS. For details, see **Note 6.2.**

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

	2019			2018			
	Carrying amount	**Balances bearing interest at variable rate**	**Interest rate movement: +/- 30 bp**	**Carrying amount**	**Balances bearing interest at variable rate**	**Interest rate movement: +/- 30 bp**	
Loans advanced (intra-group loans)	5,926	5,534	+/- 17	3,473	3,171	+/- 10	*Note 7.4*
Cash and cash equivalents	2,115	-	-	3,144	-	-	*Note 4.6*
Financing liabilities	3,320	3,002	+/- 9	2,298	-	-	*Note 4.2*
Total effect			**+/- 26**			**+/- 10**	

6.3.5. Liquidity risk

The nature, scope and management of liquidity risk are presented in **Note 7.3.3.** to the consolidated financial statements of the PGNiG Group (simplified procedure permitted by IFRS 7, paragraph B6). The Company uses the cash pooling system , notes issues and the syndicated credit facility as additional liquidity management tools:

- The cash pooling system (**Note 4.3.**) arranged with Bank Pekao S.A. and PKO BP S.A. is used to improve the effectiveness of liquidity management at the PGNiG Group. The arrangement facilitates liquidity planning within the Group and has reduced dependency on borrowed funds. More efficient use of free cash helped to reduce financing costs within the Group.
- In addition, in order to optimise cash management processes at the Group level, in 2019 PGNIG S.A. entered into a five-year 10,000m working capital facility agreement with a syndicate of nine banks, comprising: Bank Gospodarstwa Krajowego, Bank Polska Kasa Opieki S.A., BNP Paribas Bank Polska S.A., Caixa Bank SA Branch in Poland, ING Bank Śląski S.A., Intesa Sanpaolo SpA S.A. Branch in Poland, Powszechna Kasa Oszczędności Bank Polski S.A., Santander Bank Polska S.A., and Société Générale S.A. The facility replaced the financing in the form of two underwritten note programmes for a total amount of PLN 8,000m. 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.
- PGNiG S.A. is also a party to a PLN 5,000m debt securities programme agreement. The agreement was not performed in the reporting period.

(in PLN million, unless stated otherwise)

The table below presents the maturity structure of the main financial liabilities.

	2019					2018				
	up to 1 year	**1-5 years**	**above 5 years**	**Total undiscounted flows**	**Carrying amount**	**up to 1 year**	**1-5 years**	**above 5 years**	**Total undiscounted flows**	**Carrying amount**
Financing liabilities	3,025	91	748	3,864	3,320	2,298	-	-	2,298	2,298
Borrowings	3,002	-	-	3,002	3,002	-	-	-	-	-
Debt securities	-	-	-	-	-	2,298	-	-	2,298	2,298
Lease liabilities	23	91	748	862	318	-	-	-	-	-
Trade and tax payables	2,802	-	-	2,802	2,802	2,194	-	-	2,194	2,194
Trade payables	2,698	-	-	2,698	2,698	2,106	-	-	2,106	2,106
Amounts payable under purchase of non-current non-financial exploration and evaluation assets	104	-	-	104	104	88	-	-	88	88
Cash pooling liabilities	119	-	-	119	119	171	-	-	171	171
Total, net of derivatives	**5,946**	**91**	**748**	**6,785**	**6,241**	**4,663**	**-**	**-**	**4,663**	**4,663**
Financial guarantees issued	163	177	456	796	796	103	175	411	689	689
Derivative financial instruments (liabilities only as at the reporting date)										
IRS, CCIRS										
- inflows	1,119	-	-	1,119	1,119	46	1,132	-	1,178	1,178
- outflows	(1,001)	-	-	(1,001)	(1,001)	(33)	(1,039)	-	(1,072)	(1,072)
Forward and futures contracts										
- inflows	274	-	-	274	274	5,109	1,092	-	6,201	6,201
- outflows	(350)	(15)	-	(365)	(365)	(5,160)	(1,069)	-	(6,229)	(6,229)
Commodity swaps										
- inflows	-	-	-	-	-	101	62	-	163	163
- outflows	(563)	(5)	-	(568)	(568)	(263)	(94)	-	(357)	(357)
Total inflows, net of inflows from derivatives	**(1,914)**	**(20)**	**-**	**(1,934)**	**(1,934)**	**(5,456)**	**(2,202)**	**-**	**(7,658)**	**(7,658)**
Total inflows, including inflows from derivatives	**(521)**	**(20)**	**-**	**(541)**	**(541)**	**(200)**	**84**	-	**(116)**	**(116)**

(in PLN million, unless stated otherwise)

The Company holds a significant amount of perpetual usufruct rights to land, which are recognised as leases as of January 1st 2019. For more information on lease liabilities, see **Note 4.2.** Pursuant to applicable laws, the annual perpetual usufruct charge for those rights is set at 1% or 3% of the value of the property. The amount of the annual fee for the perpetual usufruct of land property may be updated no more frequently than once every three years. This means that the annual fee may change in the future and affect the value of the liability. In the absence of a statutory limit on the increase of the annual perpetual usufruct fee, it is not possible to determine the percentage increase of the perpetual usufruct fee liability.

A 1% increase would result in a PLN 7.5m increase in the liability.

7. Investments in related entities and related-party transactions

7.1. Shares

Accounting policies

Shares comprise shares in subsidiaries, associates and joint ventures. The carrying amount of shares in subsidiaries includes non-repayable contributions paid to the subsidiaries, including a contribution made to offset losses recognised in the financial statements of a subsidiary. Shares are recognised at cost less impairment, if any.

Impairment tests are performed where there is an indication of impairment, by comparing the carrying amount of an investment with the higher of its fair value less costs to sell and its value in use. Impairment losses are disclosed in finance costs.

	2019			2018			
	Gross carrying amount	Impairment losses	Net carrying amount	Gross carrying amount	Impairment losses	Net carrying amount	
Shares in subsidiaries	12,976	(2,732)	10,244	12,530	(2,725)	9,805	*Note 7.3*
Shares in joint ventures	38	-	38	39	(1)	38	*Note 7.3*
Shares in associates	12	(10)	2	12	(10)	2	*Note 7.3*
Other	24	(23)	1	25	(24)	1	
Total	**13,050**	**(2,765)**	**10,285**	**12,606**	**(2,760)**	**9,846**	

In 2019, PGNIG S.A. acquired shares in PGNiG Upstream Norway AS worth PLN 436m and increased its equity interests in: PGNiG Upstream North Africa B.V. by PLN 8m, PGNiG Gazoprojekt S.A. by PLN 2m, and PGNiG Ventures Sp. z o.o. (until December 30th 2019: PGNiG SPV 5 Sp. z o.o.) by PLN 1m.

In 2018, PGNiG S.A. increased its equity interests in the following companies: Polska Spółka Gazownictwa Sp. z o.o. by PLN 35m, Geovita S.A. by PLN 27m, PGNiG Obrót Detaliczny Sp. z o.o. by PLN 25m, PGNiG Upstream Africa North B.V. by PLN 12m, and Towarzystwo Ubezpieczeń Wzajemnych Polski Gaz by PLN 20m.

The impairment losses include an adjustment of the book value of the in-kind contribution to its fair value as at the moment of the share issue. As at December 31st 2019 and December 31st 2018, the adjustment was PLN 2,015m and mainly concerned the following companies: Polska Spółka Gazownictwa Sp. z o.o. (PLN 1,516m), PGNiG Obrót Detaliczny Sp. z o.o. (PLN 344m), PGNiG Technologie S.A. (PLN 82m) and Geovita S.A. (PLN 42m).

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(in PLN million, unless stated otherwise)

7.2. Impairment losses on shares

In 2019, the Company recognised an additional impairment loss of PLN 8m on shares in PGNiG Upstream North Africa B.V. (2018: PLN 12m). As a result, the impairment loss on the asset totalled PLN 522m as at December 31st 2019 (December 31st 2018: PLN 514m), which means the asset was fully impaired.

The operations of PGNiG Upstream North Africa B.V continue to be affected by a force majeure event, which occurred on August 15th 2014 and as a result of which all operations and exploration work was put on hold. Any decision to continue the work will depend on the political developments in Libya.

7.3. Detailed information on subsidiaries, associates and joint ventures

		Country of registration	Direct percentage interest in share capital (equal to share of voting rights)		Carrying amount	
p.	Name		2019	2018	2019	2018
	Subsidiaries					
1	GEOFIZYKA Kraków S.A. w likwidacji (in liquidation)	Poland	100.00%	100.00%	-	-
2	GEOFIZYKA Toruń S.A.	Poland	100.00%	100.00%	68	68
3	EXALO Drilling S.A.	Poland	100.00%	100.00%	333	333
4	PGNiG Upstream Norway AS	Norway	100.00%	100.00%	1,110	674
5	PGNiG Upstream North Africa B.V.	The Netherlands	100.00%	100.00%	-	-
6	Geovita S.A.	Poland	100.00%	100.00%	36	36
7	PGNiG Technologie S.A.	Poland	100.00%	100.00%	83	83
8	PGNiG Supply & Trading GmbH	Germany	100.00%	100.00%	40	40
9	PGNiG Finance AB w likwidacji (in liquidation)	Sweden	-	100.00%	-	1
10	PGNiG Termika S.A.	Poland	100.00%	100.00%	2,772	2,772
11	Gas Storage Poland Sp. z o.o.	Poland	100.00%	100.00%	6	6
12	PGNiG Serwis Sp. z o.o.	Poland	100.00%	100.00%	10	10
13	Polska Spółka Gazownictwa Sp. z o.o.	Poland	100.00%	100.00%	4,908	4,908
14	PGNiG Obrót Detaliczny Sp. z o.o.	Poland	100.00%	100.00%	772	772
15	PGNIG Ventures (former PGNiG SPV 5 Sp. z o.o.)	Poland	100.00%	100.00%	1	-
16	PGNiG SPV 6 Sp. z o.o.	Poland	100.00%	100.00%	51	51
17	PGNiG SPV 7 Sp. z o.o.	Poland	100.00%	100.00%	-	-
18	PGNiG Gazoprojekt S.A.	Poland	93.73%	75.00%	13	10
19	GAS-TRADING S.A.	Poland	43.41%	43.41%	1	1
20	Polski Gaz Towarzystwo Ubezpieczeń Wzajemnych	Poland	100.00%	100.00%	40	40
					10,244	**9,805**
	Joint ventures					
1	SGT EUROPOL GAZ S.A.	Poland	48.00%	48.00%	38	38
					38	**38**
	Associates					
1	PFK GASKON S.A.	Poland	45.94%	45.94%	-	-
2	ZWUG INTERGAZ Sp. z o.o.	Poland	38.30%	38.30%	2	2
3	Dewon ZSA	Ukraine	36.38%	36.38%	-	-
					2	**2**

The Company is also the sole founder of the PGNiG S.A. Ignacy Łukasiewicz Foundation.

(in PLN million, unless stated otherwise)

7.4. Loans advanced

Accounting policies

Loans are measured based on the Company's business model of financial assets management ('hold') and on the assessment of their contractual cash flow characteristics. At the time of initial recognition of a financial asset, the Company determines whether the contractual cash flows are solely payments of principal and interest on the principal amount outstanding, and thus whether they are consistent with the underlying loan agreement (the SPPI test).

Loans are measured:

- at amortised cost, if they pass the SPPI test,
- at fair value through profit or loss, if the SPPI test is not passed.

In line with the adopted accounting policies, loans are tested for impairment in accordance with the expected credit loss model, using the case-by-case approach. For information on the case-by-case approach, see **Note 6.1.**

Material estimates

Impairment losses on loans

For the calculation of the expected credit loss on loans, the Company assumes that the risk to be reviewed is the borrower's financial condition. Impairment losses on loans are estimated based on a statistical model that factors in the estimated probability of the debtor's bankruptcy/default, the collateral involved, and the estimated exposure of the Company at the time of the debtor's bankruptcy/default.

	2019			2018		
	Loans to direct subsidiaries	**Loans to indirect subsidiaries and associates**	**Total**	**Loans to direct subsidiaries**	**Loans to indirect subsidiaries and associates**	**Total**
At beginning of the period	**2,641**	**832**	**3,473**	**2,834**	**761**	**3,595**
Effect of IFRS 9 on gross carrying amount of loans	-	-	-	-	(22)	(22)
Effect of IFRS 9 on impairment losses on loans	-	-	-	(26)	(55)	(81)
At beginning of the period (restated)	2,641	832	3,473	2,808	684	3,492
Loans advanced	3,055	138	3,193	416	498	914
Interest accrued	128	51	179	111	48	159
Exchange differences	(1)	3	2	19	6	25
Principal repayments	(819)	(25)	(844)	(601)	(342)	(943)
Interest paid	(136)	(22)	(158)	(104)	(13)	(117)
Financial valuation	3	(7)	(4)	(15)	(8)	(23)
Modification	94	(3)	91	-	-	-
Derecognition of loan principal	8	-	8	(7)	(80)	(87)
Derecognition of impairment losses	-	-	-	9	9	18
Impairment losses – other	(12)	(2)	(14)	5	30	35
Balance at end of the period	**4,961**	**965**	**5,926**	**2,641**	**832**	**3,473**
- long-term	4,431	932	5,363	2,133	748	2,881
- short-term	530	33	563	508	84	592

As at December 31st 2019, the Company calculated the fair value of loans. The tests performed showed that the difference between the fair value of the loans and their carrying amount does not exceed 2%. The same results was obtained by testing the fair value of loans for the year ended December 31st 2018.

(in PLN million, unless stated otherwise)

No.	Borrower	Purpose	Currency	Interest rate	Due date	Balance 2019	Balance 2018
1	Elektrociepłownia Stalowa Wola S.A. (ECSW S.A.)	a) consolidation agreement – subordinated loan advanced to satisfy the conditions for receiving financing for Elektrociepłownia Stalowa Wola S.A. from Bank Gospodarstwa Krajowego and PGNiG S.A.	PLN	fixed interest rate of 7.93%	Jun 30 2033	246	228
		b) syndicated loan from Bank Gospodarstwa Krajowego and PGNiG S.A. (tranches A and B)	PLN	6M WIBOR + margin of 1.45%	Jun 14 2030	421	304
		c) other loans advanced in connection with project costs incurred at the design, construction and commissioning stage of the CCGT project in Stalowa Wola − loans subordinated to the financing specified in item b)	PLN	fixed interest rates 7,93%, 7,51% or 7,63%	Jun 30 2033	22	16
		d) VAT loan	PLN	1M WIBOR + margin of 2.5%	Sep 30 2020	5	3
2	PGNiG Termika S.A.	a) co-financing of the acquisition of 99.8% of shares in Vattenfall Heat Poland S.A.	PLN	3M WIBOR +1.15%	Dec 31 2021	581	950
		b) revolving loan to finance investments and liquidity	PLN	3M WIBOR + margin of 1.31%	Jun 30 2028	1,899	350
3	PGNiG Upstream Norway AS	Financing of general corporate needs of PGNiG Upstream Norway AS, in particular financing of the Skarv project (including acquisition of interests in the production licences on the Norwegian Continental Shelf covering the Skarv, Snadd and Gro fields)	NOK	3M NIBOR +margin of 3%	Dec 31 2031	1,271	1,026
4	Polska Spółka Gazownictwa Sp. z o.o.	a) financing of expansion and modernisation the national gas distribution network	PLN	3M WIBOR + margin of 1.81%	Dec 31 2025	806	148
		b) Early repayment of contracts concluded in 2007-2013 and financing of day-to-day operations and investment activities		3M WIBOR + margin of 1.64%	Jun 30 2029	236	-
5	PGNiG TERMIKA Energetyka Przemysłowa S.A.	Financing of the investment programme covered by the SEJ Group Business Plan and refinancing of bond issue	PLN	6M WIBOR + margin of 1.56%	Dec 31 2023	270	281
6	Other					169	167
						5,926	**3,473**

Material changes in loans in the current reporting period

Loans to Elektrociepłownia Stalowa Wola S.A.

In 2019, further tranches of the syndicated facility (advanced in 2018 under an agreement executed by PGNIG S.A., Elektrociepłownia Stalowa Wola S.A. and Bank Gospodarstwa Krajowego) were disbursed, for a total amount of PLN 123m. As at December 31st 2019, PGNiG S.A.'s capital exposure under the agreement was PLN 450m. At year-end 2019, the gross carrying amount of the loan measured at amortised cost was PLN 425m, and the impairment-adjusted amount was PLN 421m.

As at December 31st 2019, the gross carrying amount of the loans advanced to Elektrociepłownia Stalowa Wola S.A. by PGNIG S.A. was PLN 704m, and the impairment-adjusted amount was PLN 694m.

 Electronically signed document

Loans to PGNiG TERMIKA S.A.

In 2019, a PLN 370m loan granted to PGNIG Termika S.A. under the agreement of August 23rd 2011, amended on July 1st 2018, was repaid. As at December 31st 2019, PGNiG S.A.'s capital exposure under the agreement was PLN 586m. The gross carrying amount of the loan measured at amortised cost was PLN 584m, and the impairment-adjusted amount was PLN 581m.The loan was granted to purchase 99.84% of shares in Vattenfall Heat Poland S.A. The loan is secured by a blank promissory note with a promissory note declaration.

In 2019, tranches of the loan granted on July 30th 2018 were disbursed for a total amount of PLN 1,550m. As at December 31st 2019, PGNiG S.A.'s capital exposure under the agreement was PLN 1,900m. The gross carrying amount of the loan measured at amortised cost was PLN 1,910m, and the net carrying amount was PLN 1,899m. The loan was advanced to finance the investing and liquidity needs of PGNiG TERMIKA S.A. The loan is secured by a blank promissory note with a promissory note declaration.

As at December 31st 2019, the gross carrying amount of the loans advanced to PGNiG Termika S.A. by PGNIG S.A. was PLN 2,494m, and the impairment-adjusted amount was PLN 2,480m.

Loan to PGNiG Upstream Norway AS

In 2019, another tranche, of PLN 171m, was disbursed under the loan agreement of August 27th 2010 to finance general corporate needs, in particular the SKARV field. At year-end 2019, PGNiG S.A.'s capital exposure under the agreement was PLN 1,347m. As at December 31st 2019, the gross carrying amount of the loan measured at amortised cost was PLN 1,278m, and its net carrying amount was PLN 1,271m. On June 19th 2019, the parties executed Annex 5 to loan agreement No. 3 of August 27th 2010, whereby the repayment date was extended by six years (to December 31st 2031) and the interest payment schedule was amended. The amendment resulted in recognition of a PLN 97m increase in finance income in 2019. Under the agreement of October 28th 2019, PGNIG S.A. advanced a PLN 384m loan to finance the purchase of 20% interest in the Duva field in the Norwegian Shelf. The loan was repaid in December 2019.

Loans to Polska Spółka Gazownictwa Sp. z o.o.

In 2019, PLN 17m of the loans advanced to Polska Spółka Gazownictwa Sp. z o.o. to finance its day-to-day operations and investment projects was repaid. On February 19th 2019, a revolving loan agreement was executed to finance the expansion and modernisation of the Polish gas distribution network, with a maximum loan amount of PLN 866m, repayable by December 31st 2025. The loan is secured by a blank promissory note with a promissory note declaration. As at December 31st 2019, PGNIG S.A.'s capital exposure under the loans advanced to Polska Spółka Gazownictwa Sp. z o.o. was PLN 800m. On July 31st 2019, a PLN 1,133m revolving loan agreement was signed, resulting in consolidation of loan tranches with different repayment terms, extension of the repayment date until March 31st 2029, and introduction of a uniform interest computation method based on 3M WIBOR. The amendment resulted in recognition of PLN 4m in profit or loss for 2019. A PLN 100m tranche of the loan was disbursed on August 13th 2019.

As at December 31st 2019, the gross carrying amount of the loans advanced to Polska Spółka Gazownictwa Sp. z o.o. measured at amortised cost was PLN 1,044m, and the-impairment adjusted amount was PLN 1,042m.

(in PLN million, unless stated otherwise)

	Class 1 - 12-month expected loss	Class 2 - Lifetime expected loss	Class 3 - Impaired	Total
Gross carrying amount as at Jan 1 2019	**3,394**	**-**	**157**	**3,551**
Transfer to group with lifetime expected loss	(9)	-	-	(9)
Transfer from group with 12-month expected loss	-	9	-	9
Principal repayments	(840)	-	(4)	(844)
Loans advanced	3,193	-	-	3,193
Other effect	113	-	6	119
Gross carrying amount as at Dec 31 2019	**5,851**	**9**	**159**	**6,019**
Accumulated impairment loss as at Jan 1 2019	(24)	-	(54)	(78)
Recognition in correspondence with costs	(25)	(2)	(3)	(30)
Reversals in correspondence with income	12	-	4	16
Effect of exchange rate movements and other	-	-	(1)	(1)
Accumulated impairment loss as at Dec 31 2019	(37)	(2)	(54)	(93)
Net carrying amount as at Dec 31 2019	**5,814**	**7**	**105**	**5,926**

Gross carrying amount as at Jan 1 2018	**3,499**	**-**	**146**	**3,645**
Effect of IFRS 9	(22)	-	-	(22)
Gross carrying amount as at Jan 1 2018 (restated)	**3,477**	**-**	**146**	**3,623**
Derecognition	(87)	-	-	(87)
Principal repayments	(940)	-	(3)	(943)
Loans advanced	914	-	-	914
Other effect	30	-	14	44
Gross carrying amount as at Dec 31 2018	**3,394**	**-**	**157**	**3,551**
Accumulated impairment loss as at Jan 1 2018	-	-	(50)	(50)
Effect of IFRS 9	(81)	-	-	(81)
Accumulated impairment loss as at Jan 1 2018 (restated)	(81)	-	(50)	(131)
Recognition in correspondence with costs	(102)	-	(4)	(106)
Reversals in correspondence with income	141	-	4	145
Derecognition	18	-	-	18
Effect of exchange rate movements and other	-	-	(4)	(4)
Accumulated impairment loss as at Dec 31 2018	(24)	-	(54)	(78)
Net carrying amount as at Dec 31 2018	**3,370**	**-**	**103**	**3,473**

In 2018, there were no transfers between the classes.

(in PLN million, unless stated otherwise)

7.4.1. Related-party transactions

	Subsidiaries		Associates		Joint ventures		
	2019	**2018**	**2019**	**2018**	**2019**	**2018**	
Turnover and revenue/expenses in reporting year							
Sale of products and services to related entities	1,923	1,615	-	-	41	46	
Purchases from related entities	5,895	4,090	-	-	54	-	
Dividends received	1,343	1,724	1	2	-	-	
Finance income, interest income calculated using the effective interest rate and gain or loss on derecognition of financial assets measured at amortised cost	285	143	3	4	35	26	
Finance costs	2	17	-	-	-	(80)	
At end of the period							
Trade receivables from related entities	158	144	-	-	6	3	*Note 5.2.2*
Loans to related entities net of impairment losses	5,232	2,922	-	-	694	551	*Note 7.4*
Including impairment losses	*28*	*15*	*54*	*54*	*11*	*9*	
Trade payables to related entities	311	677	-	-	5	5	*Note 5.2.3*
Financing liabilities	9	-	-	-	-	-	*Note 4.2*

Purchases from related entities mainly includes transmission and distribution services.

In 2019 and 2018, the Company did not enter into any material transactions with related entities other than on arm's length terms.

(in PLN million, unless stated otherwise)

7.4.2. 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 Company's day-to-day operations, i.e. natural gas trading, sale of crude oil, and sale of electricity.

In 2019–2018, PGNiG S.A. generated the highest turnover in transactions with the following entities in which the State Treasury holds equity interests: Operator Gazociągów Przesyłowych GAZ-SYSTEM S.A., Polski Koncern Naftowy ORLEN S.A., ORLEN Południe S.A., PGE Energia Ciepła S.A. (former PGE Górnictwo i Energetyka Konwencjonalna S.A.) Grupa LOTOS S.A., Grupa Azoty Zakłady Azotowe PUŁAWY S.A., Grupa Azoty S.A., Grupa Azoty Zakłady Azotowe Kędzierzyn S.A., Grupa Azoty Zakłady Chemiczne POLICE S.A., KGHM Polska Miedź S.A.

7.4.3. Benefits received by the Company's key management personnel

	2019			2018		
	Management Board	**Supervisory Board**	**Total**	**Management Board**	**Supervisory Board**	**Total**
Short-term employee benefits	10.646	0.695	11.341	5.986	0.662	6.648
Termination benefits	0.443	-	0.443	0.086	-	0.086
Total	**11.089**	**0.695**	**11.784**	**6.072**	**0.662**	**6.734**

For detailed information on remuneration of the key management personnel at PGNiG S.A., see **section 6.3.** "Remuneration of members of the governing bodies" of the Directors' Report on the operations of PGNiG S.A. and the PGNiG Group.

8. Other notes

8.1. Contingent assets and liabilities

Contingent liabilities	2019	2018
Sureties	702	456
Guarantees	3,508	3,496
Promissory notes	552	542
Total	**4,762**	**4,494**

Guarantees are the largest item of contingent liabilities. As at December 31st 2019 and as at December 31st 2018, the largest item is a guarantee for the licence held by PGNiG Upstream Norway AS in the Skarv field on the Norwegian Continental Shelf, measured at PLN 2,672m (2018: PLN 2,698m). Guarantees also include security for gas supplies and an overdraft facility granted to the PGNiG Group companies by financial institutions, with the largest item being a security guarantee provided for PGNiG Supply&Trading GmbH for a total amount of PLN 555m in 2019 (2018: PLN 256m).

(in PLN million, unless stated otherwise)

8.2. Joint operations

Accounting policies

Joint operations

In relation to its interest in joint operations, the Company, 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 sale of its share of the output arising from the joint operations;
- its share of the revenue from sale of the output as part of the joint operations; and
- its expenses, including its share of any expenses incurred jointly.

As assets, liabilities, revenues and expenses relating to the joint operations are disclosed in these separate financial statements of the Company, these items are not subject to adjustment or other consolidation procedures when preparing the financial statements.

In the reporting period, the Company was involved in joint operations mainly in Poland, and also in Pakistan. The joint operations consist mostly in exploration for and production of crude oil and gas.

For detailed information on the joint operations as at December 31st 2019, see **section 5.1.3.** ‘Operations in Poland’ and **section 5.1.4.** ‘Foreign operations’ in the Directors’ Report on the operations of PGNiG S.A. and the PGNiG Group.

8.3. Selected financial figures of the Company, disclosed under Art. 44.2 of the Polish Energy Law

The tables below present information on revenue, expenses, profit and loss, as well as assets, equity and liabilities, broken down into gas fuel trading and other activities.

	2019			2018		
	Gas fuel trading	**Other activities**	**Total (PLN)**	**Gas fuel trading**	**Other activities**	**Total (PLN)**
Statement of profit or loss						
Revenue	16,332	6,283	22,615	16,719	5,625	22,344
Operating expenses	(17,763)	(4,467)	(22,230)	(16,876)	(3,629)	(20,505)
Operating profit/loss	**(1,431)**	**1,816**	**385**	**(157)**	**1,996**	**1,839**
Finance income and costs	-	1,604	1,604	-	1,838	1,838
Profit/loss before tax	**(1,431)**	**3,420**	**1,989**	**(157)**	**3,834**	**3,677**
Income tax	-	(241)	(241)	-	(388)	(388)
Net profit/loss	**(1,431)**	**3,179**	**1,748**	**(157)**	**3,446**	**3,289**
Statement of financial position						
Non-current assets	-	28,885	28,885	-	25,742	25,742
Receivables	1,178	708	1,886	1,755	610	2,365
Inventories	2,955	275	3,230	2,394	297	2,691
Other current assets	-	7,043	7,043	-	6,195	6,195
Total assets	**4,133**	**36,911**	**41,044**	**4,149**	**32,844**	**36,993**
Trade and tax payables	1,268	1,534	2,802	1,112	1,082	2,194
Equity and other items of equity and liabilities	25	38,217	38,242	29	34,770	34,799
Total equity and liabilities	**1,293**	**39,751**	**41,044**	**1,141**	**35,852**	**36,993**

(in PLN million, unless stated otherwise)

Under Art. 44.1 of the Energy Law of April 10th 1997 (Dz.U. of 1997 No. 54, item 348, as amended), the Company is required to keep its accounting records in such a manner as to enable calculation of revenues, expenses, profit and loss separately for each type of business.

The records are kept in accordance with a controlling model, which provides management accounting information based on data used for the purposes of financial accounting. Costs directly attributable to a given type of business are posted to properly categorised control objects assigned to a given product. Any other costs are allocated according to a stated formula, based on statistical indicators serving as the cost allocation keys.

The last step in the cost accounting process are the result orders. Types of business, which are one of the characteristics determining result orders, are used to aggregate costs and revenues within appropriate businesses.

Receivables, inventories and liabilities recognised as at the end of the reporting period were allocated to gas fuel trading by way of direct identification based on detailed analysis of accounting records.

Other items of assets and equity and liabilities in the Company's statement of financial position were allocated to other activities as they are not related to gas fuel trading or do not have a material share in its figures.

8.4. Fees paid to the auditing firm for the mandatory audit of the full-year financial statements of the Company and for other services

	2019	2018
Audit of full-year separate financial statements and consolidated financial statements of the Group	0.24	0.24
Other assurance services, including review of financial statements	0.36	0.37
Total	**0.60**	**0.61**

In the period ended December 31st 2019, PKF Consult Sp. z o.o. Sp. k. was authorised to audit the financial statements of PGNIG S.A. and the consolidated financial statements of the PGNiG Group. Under the agreement of April 12th 2019, PKF Consult Sp. z o.o. Sp. k. performed interim reviews and audits of separate and consolidated financial statements for 2019−2020. The separate financial statements for the period ended December 31st 2018 were audited by Deloitte Audyt Sp. z o.o. Sp.k.

8.5. Other relevant information

Proceedings before the President of the Office of Competition and Consumer Protection (UOKiK) − for detailed information, see **section 8.2.** "Court proceedings" in the Directors' Report on the operations of PGNiG S.A. and the PGNiG Group.

Contracts for supplies of gas fuel and crude oil – for detailed information, see **section 4.2.2.** "Wholesale business" in the Directors' Report on the operations of PGNiG S.A. and the PGNiG Group.

Contracts for purchase of gas fuel – for detailed information, see **section 4.2.2.** "Wholesale business" in the Directors' Report on the operations of PGNiG S.A. and the PGNiG Group.

Amendments to existing contracts – for detailed information, see **section 4.2.2.** "Wholesale business" in the Directors' Report on the operations of PGNiG S.A. and the PGNiG Group.

Renegotiation of the price terms under the Yamal contract – for detailed information see **section 4.2.2.** "Wholesale business" in the Directors' Report on the operations of PGNiG S.A. and the PGNiG Group.

Decisions by the President of the Energy Regulatory Office imposing fines on PGNiG S.A. – for detailed information, see **section 8.2.** "Court proceedings" in the Directors' Report on the operations of PGNiG S.A. and the PGNiG Group.

For detailed information on remuneration of the key management personnel at PGNiG S.A., see **section 6.3.** "Remuneration of members of the governing bodies" in the Directors' Report on the operations of PGNiG S.A. and the PGNiG Group.

8.6. Events subsequent to the reporting date

1. On January 9th 2020, the Company's Supervisory Board appointed a new member of the PGNIG S.A. Board for a joint term of office, with effect as of January 10th 2020. For details, see **section 6.2.1.** "Management Board" in the Directors' Report on the operations of PGNIG S.A. and the PGNiG Group.

2. On February 25th 2020, the Company's Management Board called an Extraordinary General Meeting to be held on March 25th 2020. For details, see **section 8.6.** "Events subsequent to the reporting date" in the Directors' Report on the operations of PGNIG S.A. and the PGNiG Group.

3. On February 27th 2020, the Company's Supervisory Board appointed Magdalena Zegarska as Vice President of the PGNIG Management Board, with effect as of February 27th 2020, for the 6th term of office. The joint term of office of the Company's Management Board is three years, and expires on January 10th 2023. For details, see **section 6.2.1.** "Management Board" in the Directors' Report on the operations of PGNIG S.A. and the PGNiG Group.