Polskie Górnictwo Naftowe i Gazownictwo SA

CONSOLIDATED FINANCIAL STATEMENTS OF THE PGNiG GROUP FOR 2019

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

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Financial statements

Consolidated statement of profit or loss	2019	2018	
Revenue from sale of gas	30,496	29,628	*Note 3.1.*
Other revenue	11,527	11,606	*Note 3.1.*
Revenue	**42,023**	**41,234**	
Cost of gas	(26,686)	(24,941)	*Note 3.2.*
Other raw materials and consumables used	(2,977)	(2,519)	*Note 3.2.*
Employee benefits expense	(3,168)	(2,871)	*Note 3.2.*
Transmission services	(1,053)	(1,039)	
Other services	(1,828)	(1,865)	*Note 3.2.*
Taxes and charges	(782)	(819)	
Other income and expenses	(442)	(564)	*Note 3.3.*
Work performed by the entity and capitalised	1,076	962	
Recognition and reversal of impairment losses on property, plant and equipment and intangible assets	(659)	(463)	*Note 3.2.*
Operating profit before depreciation and amortisation (EBITDA)	**5,504**	**7,115**	*Note 2.2.*
Depreciation and amortisation expense	(3,056)	(2,720)	*Note 2.2.*
Operating profit (EBIT)	**2,448**	**4,395**	*Note 2.2.*
Net finance costs	(54)	(4)	*Note 3.4*
Profit/(loss) from equity-accounted investees	(235)	111	*Note 2.4.*
Profit before tax	**2,159**	**4,502**	
Income tax	(788)	(1,293)	*Note 4.1.*
Net profit	**1,371**	**3,209**	
Net profit attributable to:			
Owners of the parent	1,371	3,212	
Non-controlling interests	-	(3)	
Weighted average number of ordinary shares (million)	5,778	5,778	
Basic and diluted earnings per share (PLN)	0.24	0.56	*Note 2.8*

Consolidated statement of comprehensive income	2019	2018	
Net profit	**1,371**	**3,209**	
Exchange differences on translating foreign operations	(14)	(19)	
Hedge accounting	919	285	*Note 7.1.3*
Deferred tax	(156)	(15)	
Share of other comprehensive income of equity-accounted investees	-	4	
Other comprehensive income subject to reclassification to profit or loss	**749**	**255**	
Actuarial losses on employee benefits	(32)	(33)	
Deferred tax	6	6	
Share of other comprehensive income of equity-accounted investees	(7)	1	
Other comprehensive income not subject to reclassification to profit or loss	**(33)**	**(26)**	
Other comprehensive income, net	**716**	**229**	
Total comprehensive income	**2,087**	**3,438**	
Total comprehensive income attributable to:			
Owners of the parent	2,087	3,441	
Non-controlling interests	-	(3)	

(in PLN million, unless stated otherwise)

Consolidated statement of cash flows	2019	2018	
Cash flows from operating activities			
Net profit	1,371	3,209	
Depreciation and amortisation expense	3,056	2,720	
Current tax expense	788	1,293	
Net gain/(loss) on investing activities	433	(154)	
Other non-cash adjustments	(384)	432	*Note 5.5.2.*
Income tax paid	(852)	(1,060)	*Note 4.1.1.*
Movements in working capital	526	(626)	*Note 5.5.1.*
Net cash from operating activities	**4,938**	**5,814**	
Cash flows from investing activities			
Payments for acquisition of tangible exploration and evaluation assets under construction	(1,215)	(851)	*Note 2.2.*
Payments for other property, plant and equipment and intangible assets	(4,854)	(3,683)	*Note 2.2.*
Payments for shares in related entities	(1)	(90)	
Other items, net	(82)	(80)	
Net cash from investing activities	**(6,152)**	**(4,704)**	
Cash flows from financing activities			
Increase in debt	3,851	3,160	*Note 5.1.*
Decrease in debt	(2,868)	(2,510)	*Note 5.1.*
Dividends paid	(636)	(404)	*Note 3.5.*
Other items, net	(20)	(9)	
Net cash from financing activities	**327**	**237**	
Net cash flows	**(887)**	**1,347**	
Cash and cash equivalents at beginning of the period	3,928	2,581	
Foreign exchange differences on cash and cash equivalents	(1)	-	
Cash and cash equivalents at end of the period	**3,041**	**3,928**	*Note 5.5.3.*

(in PLN million, unless stated otherwise)

Consolidated statement of financial position	2019	2018	
ASSETS			
Property, plant and equipment	40,002	34,236	*Note 6.1.1.*
Intangible assets	729	1,173	*Note 6.1.2.*
Deferred tax assets	32	94	*Note 4.1.2.*
Equity-accounted investees	1,564	1,806	*Note 2.4.*
Derivative financial instruments	237	226	
Other assets	1,375	1,363	*Note 8.4.*
Non-current assets	**43,939**	**38,898**	
Inventories	4,042	3,364	*Note 6.2.1.*
Receivables	5,504	5,742	*Note 6.2.2.*
Derivative financial instruments	2,390	1,092	*Note 7.2.*
Other assets	259	204	*Note 8.4.*
Cash and cash equivalents	3,037	3,925	*Note 5.4.*
Assets held for sale	14	46	*Note 8.3.*
Current assets	**15,246**	**14,373**	
TOTAL ASSETS	**59,185**	**53,271**	
EQUITY AND LIABILITIES			
Share capital and share premium	7,518	7,518	
Hedging reserve	739	73	
Accumulated other comprehensive income	(246)	(203)	
Retained earnings	30,097	29,246	
Equity attributable to owners of the parent	38,108	36,634	
Equity attributable to non-controlling interests	(1)	(2)	
TOTAL EQUITY	**38,107**	**36,632**	
Financing liabilities	3,507	1,178	*Note 5.1.*
Derivative financial instruments	20	105	
Employee benefit obligations	890	808	*Note 6.3.1.*
Provision for well decommissioning costs	2,355	1,917	*Note 6.1.1.1.*
Other provisions	279	197	*Note 6.3.2.*
Grants	705	720	*Note 6.3.3.*
Deferred tax liabilities	2,383	2,066	*Note 4.1.2.*
Other liabilities	239	264	*Note 6.3.4.*
Non-current liabilities	**10,378**	**7,255**	
Financing liabilities	3,245	2,524	*Note 5.1.*
Derivative financial instruments	1,277	1,055	*Note 7.2.*
Trade and tax payables*	3,487	3,748	*Note 6.2.3.*
Employee benefit obligations	398	347	*Note 6.3.1.*
Provision for well decommissioning costs	34	91	*Note 6.1.1.1.*
Other provisions	728	675	*Note 6.3.2.*
Other liabilities	1,531	944	*Note 6.3.4.*
Current liabilities	**10,700**	**9,384**	
TOTAL LIABILITIES	**21,078**	**16,639**	
TOTAL EQUITY AND LIABILITIES	**59,185**	**53,271**	

* Including income tax of PLN 132m (2018: PLN 418m)

(in PLN million, unless stated otherwise)

Consolidated statement of changes in equity

	Equity attributable to owners of the parent										
	Share capital and share premium, including:		Hedging reserve	Accumulated other comprehensive income:				Retained earnings	Total	Equity attributable to non-controlling interests	Total equity
	Share capital	Share premium		Translation reserve	Revaluation of financial assets available for sale	Actuarial gains/(losses) on employee benefits	Share of other comprehensive income of equity-accounted investees				
As at Jan 1 2018	**5,778**	**1,740**	**7**	**(93)**	**(3)**	**(64)**	**(5)**	**26,266**	**33,626**	**1**	**33,627**
Impact of IFRS 9 and IFRS 15	-	-	-	-	3	-	-	172	**175**	**-**	**175**
Net profit	-	-	-	-	-	-	-	3,212	**3,212**	(3)	**3,209**
Other comprehensive income, net	-	-	270	(19)	-	(27)	5	-	**229**	-	**229**
Total comprehensive income	**-**	**-**	**270**	**(19)**	**-**	**(27)**	**5**	**3,212**	**3,441**	**(3)**	**3,438**
Change in equity recognised in inventories	-	-	(204)	-	-	-	-	-	**(204)**	-	**(204)**
Dividend	-	-	-	-	-	-	-	(404)	**(404)**	-	**(404)**
As at Dec 31 2018	**5,778**	**1,740**	**73**	**(112)**	**-**	**(91)**	**-**	**29,246**	**36,634**	**(2)**	**36,632**
Impact of IFRS 16	-	-	-	-	-	-	-	119	**119**	**-**	**119**
Net profit	-	-	-	-	-	-	-	1,371	**1,371**	-	**1,371**
Other comprehensive income, net	-	-	763	(14)	-	(26)	(7)	-	**716**	-	**716**
Total comprehensive income	**-**	**-**	**763**	**(14)**	**-**	**(26)**	**(7)**	**1,371**	**2,087**	**-**	**2,087**
Change in equity recognised in inventories	-	-	(97)	-	-	-	-	-	**(97)**	-	**(97)**
Dividend	-	-	-	-	-	-	-	(636)	**(636)**	-	**(636)**
Changes in the Group	-	-	-	4	-	-	-	(3)	**1**	1	**2**
As at Dec 31 2019	**5,778**	**1,740**	**739**	**(122)**	**-**	**(117)**	**(7)**	**30,097**	**38,108**	**(1)**	**38,107**

(in PLN million, unless stated otherwise)

1. General information

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

1.1.1. The Group

Parent's 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 of the National Court Register
NATIONAL COURT REGISTER (KRS) NO.	0000059492
Industry Identification Number (REGON)	012216736
Tax Identification Number (NIP)	525-000-80-28
Description of business	The Company's principal business activity is exploration for and production of natural gas and crude oil, import, storage and sale of gas and liquid fuels, and trade in electricity.

Polskie Górnictwo Naftowe i Gazownictwo Spółka Akcyjna is the parent ("PGNiG", "Company", "Parent") of the PGNiG Group ("PGNiG Group", "Group"). PGNiG shares are listed on the Warsaw Stock Exchange ("WSE").

As at the date of issue of these consolidated financial statements for 2019, the State Treasury, represented by the minister competent for energy matters, was the only shareholder holding 5% or more of total voting rights in PGNiG S.A.

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

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

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

1.1.2. Basis of preparation

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

Rules followed in the preparation of the consolidated financial statements

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

The financial statements of the entities which are consolidated and accounted for with the equity method have been prepared for the same reporting period.

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

Joint arrangements are accounted for in accordance with the policies presented in **Notes 2.4** and **8.6**.

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

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

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

These consolidated financial statements have been prepared on the assumption that the Group companies will continue as going concerns in the foreseeable future, with the exception of Geofizyka Kraków S.A. w likwidacji (in liquidation). As at the date of authorisation of these financial statements for issue, no circumstances were identified which would indicate any threat to the Group's continuing as a going concern.

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

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

Accounting policies

Items denominated in foreign currencies

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

At the end of a reporting period:

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

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

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

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

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

The date of issue of these financial statements is March 12th 2020.

(in PLN million, unless stated otherwise)

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

1.2.1. New and amended standards and interpretations

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

Standard	Description	Effect of implementation
IFRS 16 Leases	The new standard is effective for reporting periods beginning on or after January 1st 2019 and establishes principles for the recognition, measurement, presentation and disclosure of leases. Practically all lease transactions result in the lessee acquiring a right-of-use asset and incurring a lease liability. Thus, IFRS 16 Leases (IFRS 16) abolishes the operating and finance lease classification under IFRS 17 and provides a single lessee accounting model, The lessee will be required to recognise: • assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value, and • depreciation/amortisation of the leased asset separately from interest on lease liability in the statement of profit or loss. 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. However, in the case of subleases, intermediate lessors will classify a sublease contract by reference to a right-of-use asset rather than by reference to the underlying asset as defined in IAS 17, so there is an increased probability that a sublease previously classified as an operating lease will be classified as a finance lease under IFRS 16.	The impact of the amendments to IFRS 16 on the consolidated financial statements is presented in **Note 1.2.2.**

Amendments to the standards other than those referred to above were either not applicable or irrelevant to the Group's consolidated financial statements.

1.2.2. Effect of new standards and interpretations on the Group's financial statements

The Group applied the requirements of IFRS 16 using a modified retrospective method, with effect as of January 1st 2019 (without restating the comparative data).

The Group 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. Consequently, the data presented for 2018 and 2019 is not comparable.

The Group 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 Group recognised:

- the lease liability measured at the present value of the remaining lease payments, discounted at the Group'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 aggregate value is material). In particular, low-value assets comprise small office equipment and ICT equipment.

If the above-described exemptions are applied, the Group recognises lease payments as costs using the straight-line method over the lease term.

(in PLN million, unless stated otherwise)

In the case of leases previously classified as finance leases under IAS 17, the Group recognises 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.

The weighted average marginal borrowing rate used to measure lease liabilities falls within the range from 0.9% to 5.5%.

Use of practical expedients

The Group decided to use the following practical solutions permitted under IFRS 16:

- the Group applied a single discount rate to the portfolio of leases with similar characteristics (property, vehicles, equipment) and lease terms;
- they will rely on their 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;
- the Group did not 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, treating such contracts as short-term leases, and the Group will recognise lease payments as costs on a straight-line basis over the remaining lease term;
- the Group excluded initial direct costs in the measurement of the right-of-use asset on the date of initial application;
- the Group used hindsight to determine the lease term for contracts containing options to extend or terminate the lease.

In connection with the application of IFRS 16, the register of land property and the usufruct rights to land was significantly changed. As of January 1st 2019, at the date of initial recognition, the Group recognises rights of use for 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 were 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 acquisition cost of perpetual usufruct rights to land if an 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 the table below.

Operating lease liabilities as at December 31st 2018, in accordance with IAS 17	25
Finance lease liabilities as at December 31st 2018, in accordance with IAS 17	19
Exemptions (short-term leases, low-value assets, etc.)	(25)
Recognition of lease liabilities as at January 1st 2019 in accordance with IFRS 16	3,173
Effect of discounting at the marginal borrowing rate as at January 1st 2019	(1,356)
Lease liability as at January 1st 2019	**1,836**
non-current	793
current	1,043

The Group as a lessor

In accordance with IFRS 16, the Group 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. Therefore, in the case of contracts where the Group 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 Group 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 Group measured the present value of assets used under the contracts and as at January 1st 2019 recognised a right-to-use asset of PLN 1,938m and the corresponding lease liability.

(in PLN million, unless stated otherwise)

The Group 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 Group would recognise in profit or loss a restoration provision relating to the land held in perpetual usufruct received free of charge. IFRS 16 clearly specifies that the cost of a right-of-use asset should include estimated costs to be incurred by the lessee in connection with the restoration. The change in the recognition of the provision and the corresponding change in deferred tax were recognised under *Retained earnings*.

The effect of the application of IFRS 16 on the Group's financial statements is presented in the tables below.

Consolidated statement of financial position	As at Dec 31st 2018 before to the change	Effect of IFRS 16 on the consolidated statement of financial position	As at Jan 1 2019 after the change
ASSETS			
Non-current assets	**38,898**	**1,938**	**40,836**
including:			
Property, plant and equipment, including	34,236	2,568	36,804
Right-of-use asset	-	2,778	2,778
Land	-	2,246	2,246
Buildings and structures	-	278	278
Plant and equipment	-	213	213
Vehicles and other	-	38	38
Other tangible assets under construction	-	3	3
Intangible assets	1,173	(630)	543
Deferred tax assets	94	(5)	89
Other assets	1,363	5	1,368
Current assets	**14,373**	**1**	**14,374**
including:			
Assets held for sale	46	1	47
TOTAL ASSETS	**53,271**	**1,939**	**55,210**
EQUITY AND LIABILITIES			
TOTAL EQUITY	**36,632**	**118**	**36,750**
including:			
Retained earnings	29,246	118	29,364
Non-current liabilities	**7,255**	**787**	**8,042**
including:			
Financing liabilities	1,178	781	1,959
Other provisions	197	(17)	180
Deferred tax liabilities	2,066	23	2,089
Current liabilities	**9,384**	**1,034**	**10,418**
including:			
Financing liabilities	2,524	1,036	3,560
Other provisions	675	(2)	673
TOTAL LIABILITIES	**16,639**	**1,821**	**18,460**
TOTAL EQUITY AND LIABILITIES	**53,271**	**1,939**	**55,210**

Effect of IFRS 16 on the statement of financial position

- decrease in taxes, charges and services	175
- increase in interest expense	(77)
- higher depreciation and amortisation expense	(113)
Total	**(15)**

Effect of IFRS 16 on the statement of cash flows

- increase in net operating cash flows	200
- decrease in net financing cash flows	(316)
Total	**(116)**

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 Group 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 activities. The Group 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.

Change in significant judgements resulting in change of accounting policies

As at December 31st 2019, the Parent's Management Board reviewed a detailed analysis of the regulations related to recognition of lease contracts/administrative decisions concerning the Group's underground infrastructure. Further, in June 2019, the IFRS Interpretations Committee published an interpretation that addresses an analysis of satisfaction of the definition of a lease under IFRS 16 by underground infrastructure easement agreements. As indicated in the interim report for the three months ended September 30th 2019, there was no single market practice in this respect.

Based on the analysis and taking into account the interpretation, the Group was found to be a party, as at January 1st 2019, to lease contracts/administrative decisions concerning underground infrastructure which meet the definition of a lease under IFRS 16.

Following the change in the judgement, the Group recognised right-of-use assets and lease liabilities as at January 1st 2019. The adjustment also affected the financial data presented in the interim reports issued in 2019. The table below presents the effect of the adjustment on the consolidated financial statements of the PGNiG Group.

(in PLN million, unless stated otherwise)

Consolidated statement of financial position	As at January 1st 2019 before the adjustment	As at January 1st 2019 after the adjustment	Adjustment	As at Jun 30 2019 before the adjustment	As at Jun 30 2019 after the adjustment	Adjustment
ASSETS						
Non-current assets	**40,060**	**40,836**	**776**	**40,590**	**41,351**	**761**
including:						
Property, plant and equipment	36,028	36,804	776	36,713	37,474	761
TOTAL ASSETS	**54,434**	**55,210**	**776**	**53,312**	**54,073**	**761**
EQUITY AND LIABILITIES						
TOTAL EQUITY	**36,750**	**36,750**	**-**	**37,607**	**37,628**	**21**
including:						
Retained earnings	29,364	29,364	-	30,038	30,059	21
Non-current liabilities	**7,286**	**8,042**	**756**	**8,400**	**9,121**	**721**
including:						
Financing liabilities	1,203	1,959	756	2,115	2,836	721
Current liabilities	**10,398**	**10,418**	**20**	**7,305**	**7,324**	**19**
including:						
Financing liabilities	3,540	3,560	20	215	234	19
TOTAL LIABILITIES	**17,684**	**18,460**	**776**	**15,705**	**16,445**	**740**
TOTAL EQUITY AND LIABILITIES	**54,434**	**55,210**	**776**	**53,312**	**54,073**	**761**

Consolidated statement of profit or loss	Period ended Jun 30 2019 before the adjustment	Period ended Jun 30 2019 after the adjustment	Adjustment
Revenue	**22,624**	**22,624**	**-**
Operating expenses	**(19,498)**	**(19,444)**	**54**
including:			
Taxes and charges	(599)	(545)	54
Operating profit before depreciation and amortisation (EBITDA)	**3,126**	**3,180**	**54**
Depreciation and amortisation expense	(1,451)	(1,466)	(15)
Operating profit (EBIT)	**1,675**	**1,714**	**39**
Net finance costs	31	13	(18)
Profit before tax	**1,732**	**1,753**	**21**
Net profit	**1,311**	**1,332**	**21**

Consolidated statement of cash flows	Period ended Jun 30 2019 before the adjustment	Period ended Jun 30 2019 after the adjustment	Adjustment
Net cash from operating activities	**3,988**	**4,063**	**75**
Net cash from investing activities	**(2,280)**	**(2,280)**	**-**
Net cash from financing activities, including:	**(2,527)**	**(2,602)**	**(75)**
Decrease in debt	(2,630)	(2,705)	(75)
Net cash flows	**(819)**	**(819)**	**-**
Cash and cash equivalents at beginning of the period	3,928	3,928	-
Cash and cash equivalents at end of the period	**3,109**	**3,109**	**-**

(in PLN million, unless stated otherwise)

Consolidated statement of financial position	As at Mar 31 2019 before the adjustment	As at Mar 31 2019 after the adjustment	Adjustment	As at Sep 30 2019 before the adjustment	As at Sep 30 2019 after the adjustment	Adjustment
ASSETS						
Non-current assets	**40,441**	**41,209**	**768**	**41,504**	**42,257**	**753**
including:						
Property, plant and equipment	36,631	37,399	768	37,673	38,426	753
TOTAL ASSETS	**53,892**	**54,660**	**768**	**54,012**	**54,765**	**753**
EQUITY AND LIABILITIES						
TOTAL EQUITY	**38,025**	**38,062**	**37**	**37,755**	**37,760**	**5**
including:						
Retained earnings	30,435	30,472	37	30,068	30,073	5
Non-current liabilities	**8,351**	**9,063**	**712**	**8,549**	**9,278**	**729**
including:						
Financing liabilities	2,195	2,907	712	2,130	2,859	729
Current liabilities	**7,516**	**7,535**	**19**	**7,708**	**7,727**	**19**
including:						
Financing liabilities	216	235	19	1,831	1,850	19
TOTAL LIABILITIES	**15,867**	**16,598**	**731**	**16,257**	**17,005**	**748**
TOTAL EQUITY AND LIABILITIES	**53,892**	**54,660**	**768**	**54,012**	**54,765**	**753**

Consolidated statement of profit or loss	Period ended Mar 31st 2019 before the adjustment	Period ended Mar 31st 2019 after the adjustment	Adjustment	Period ended Sep 30 2019 before the adjustment	Period ended Sep 30 2019 after the adjustment	Adjustment
Revenue	**14,340**	**14,340**	**-**	**29,653**	**29,653**	**-**
Operating expenses	**(12,175)**	**(12,122)**	**53**	**(25,724)**	**(25,670)**	**54**
including:						
Taxes and charges	(553)	(500)	53	(702)	(648)	54
Operating profit before depreciation and amortisation (EBITDA)	**2,165**	**2,218**	**53**	**3,929**	**3,983**	**54**
Depreciation and amortisation expense	(782)	(789)	(7)	(2,113)	(2,135)	(22)
Operating profit (EBIT)	**1,383**	**1,429**	**46**	**1,816**	**1,848**	**32**
Net finance costs	15	6	(9)	(37)	(64)	(27)
Profit before tax	**1,410**	**1,447**	**37**	**1,814**	**1,819**	**5**
Net profit	**1,063**	**1,100**	**37**	**1,341**	**1,346**	**5**

Consolidated statement of cash flows	Period ended Mar 31st 2019 before the adjustment	Period ended Mar 31st 2019 after the adjustment	Adjustment	Period ended Sep 30 2019 before the adjustment	Period ended Sep 30 2019 after the adjustment	Adjustment
Net cash from operating activities	**2,792**	**2,847**	**55**	**4,203**	**4,288**	**85**
Net cash from investing activities	**(1,231)**	**(1,231)**	**-**	**(3,718)**	**(3,718)**	**-**
Net cash from financing activities, including:	**(2,428)**	**(2,483)**	**(55)**	**(1,613)**	**(1,698)**	**(85)**
Decrease in debt	(2,498)	(2,553)	(55)	(2,735)	(2,820)	(85)
Net cash flows	**(867)**	**(867)**	**-**	**(1,128)**	**(1,128)**	**-**
Cash and cash equivalents at beginning of the period	3,928	3,928	-	3,928	3,928	-
Cash and cash equivalents at end of the period	**3,061**	**3,061**	**-**	**2,800**	**2,800**	**-**

2. Description of the Group and its reportable segments

2.1. Key information on the Group and its reportable segments.

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

- 15 direct subsidiaries of PGNiG, and
- 8 indirect subsidiaries of PGNiG.

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

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

The assets and liabilities of companies in which the Group holds non-controlling interests are not material.

The Group identifies five reportable segments.

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

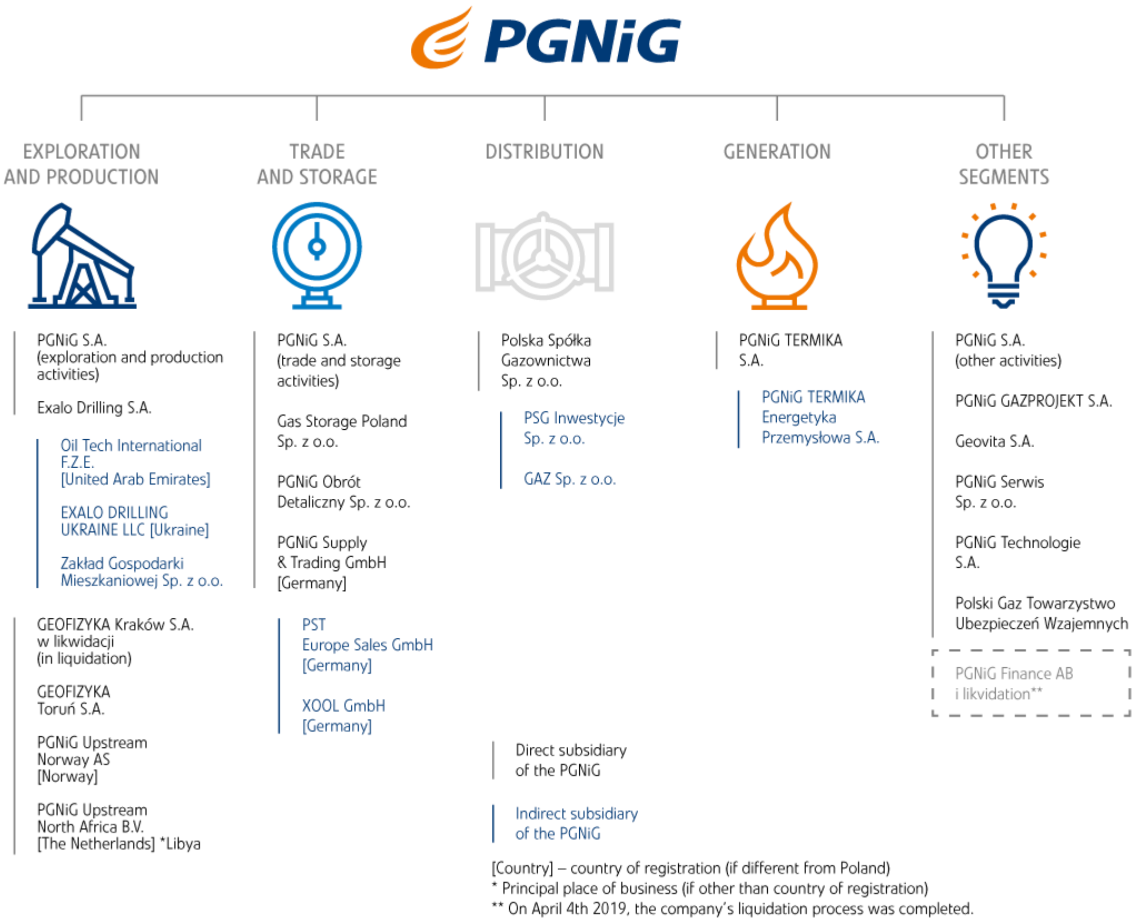

Figure 1 ***Group structure by operating segments***

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

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

(in PLN million, unless stated otherwise)

2.2. Key data on the reportable segments

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

*Inter-company aliminations and consolidation adjustments
*Excluding employees of equity-accounted investees.

2018	Exploration and Production	Trade and Storage	Distribution	Generation	Other Segments	Total	Reconciliation with consolidated data*	Total
Sales to external customers	3,795	31,038	4,604	1,617	180	**41,234**		
Inter-segment sales	3,876	666	323	770	323	**5,958**		
Total revenue	7,671	31,704	4,927	2,387	503	**47,192**	(5,958)	**41,234**
EBITDA	5,019	(848)	2,385	788	(214)	**7,130**	(15)	**7,115**
Depreciation and amortisation expense	(1,063)	(189)	(927)	(472)	(70)	**(2,721)**	1	**(2,720)**
EBIT (operating profit)	3,956	(1,037)	1,458	316	(284)	**4,409**	(14)	**4,395**
Recognition and reversal of impairment losses on property, plant and equipment, intangible assets, and rights to use assets	(484)	-	(2)	16	7	**(463)**	-	**(463)**
Profit/(loss) from equity-accounted investees	93	-	-	-	18	**111**	-	**111**
Expenditure on acquisition of property, plant and equipment and intangible assets	(2,216)	(54)	(1,713)	(391)	(142)	**(4,516)**	(18)	**(4,534)**
Property, plant and equipment	13,132	3,196	14,018	3,588	528	**34,462**	(226)	**34,236**
Employment**	6,958	3,051	11,542	1,813	1,510	**24,874**		

*Inter-company aliminations and consolidation adjustments
*Excluding employees of equity-accounted investees.

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

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

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

Definition adopted by the Group:

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

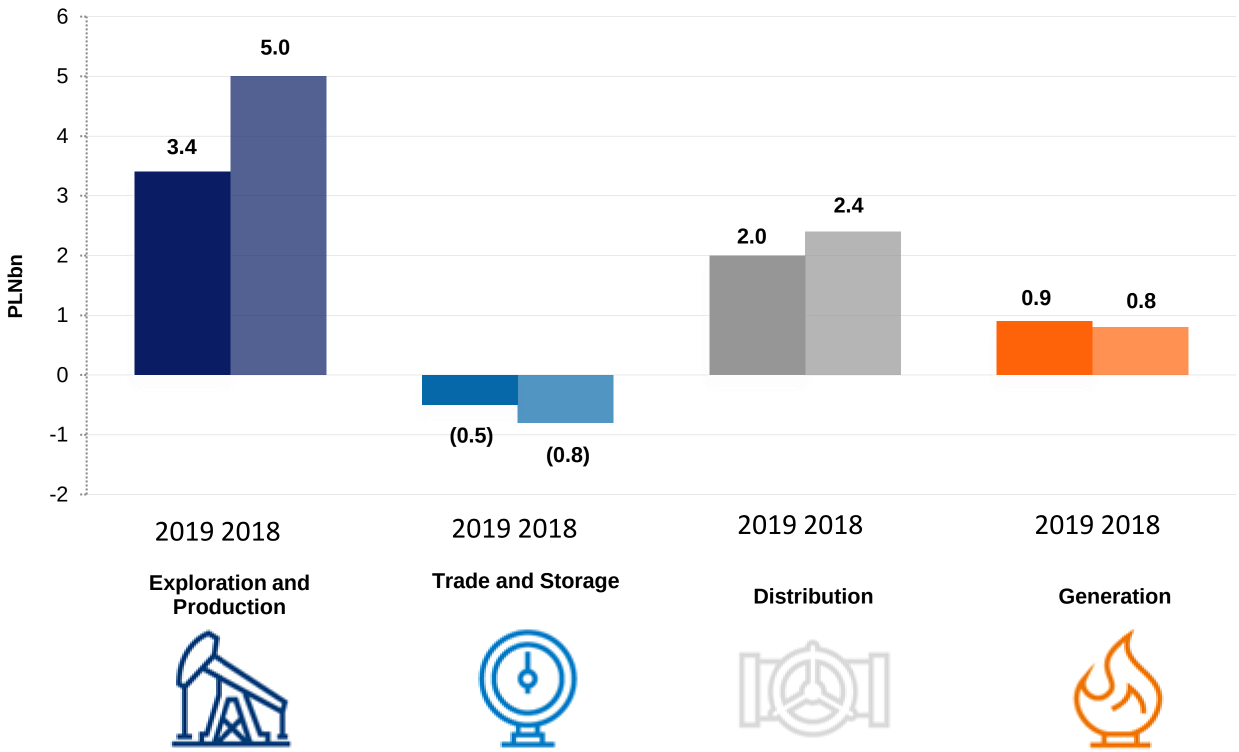

Chart 1 ***Segments' contributions to the Group's EBITDA (PLNbn)***

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

(in PLN million, unless stated otherwise)

2.3. Revenue by segment

2019	Exploration and Production	Trade and Storage	Distribution	Generation	Other Segments	Reconciliation with consolidated data*	Total
Revenue from sale of gas, including:	**3,183**	**30,008**	**-**	**-**	**-**	**(2,695)**	**30,496**
High-methane gas	1,929	28,455	-	-	-	(2,099)	**28,285**
Nitrogen-rich gas	1,157	879	-	-	-	(589)	**1,447**
LNG	31	60	-	-	-	(8)	**83**
CNG	-	44	-	-	-	1	**45**
Propane-butane gas	66	-	-	-	-	-	**66**
Adjustment to gas sales due to hedging transactions	-	570	-	-	-	-	**570**
Other revenue, including:	**2,639**	**3,242**	**4,587**	**2,565**	**500**	**(2,006)**	**11,527**
Gas and heat distribution	-	-	4,208	75	-	(40)	**4,243**
Crude oil and natural gasoline	2,017	-	-	-	-	-	**2,017**
NGL	95	-	-	-	-	-	**95**
Sale of heat	-	-	1	1,330	-	-	**1,331**
Sales of electricity	-	2,488	-	997	-	(1,027)	**2,458**
Revenue from rendering of services:							
- drilling and oilfield services	133	-	-	-	-	(4)	**129**
- geophysical and geological services	144	-	-	-	-	-	**144**
- construction and assembly services	46	2	-	-	96	(71)	**73**
- connection charge	-	-	208	-	-	-	**208**
- other	26	222	28	36	377	(280)	**409**
Other	178	530	142	127	27	(584)	**420**
Total revenue	**5,822**	**33,250**	**4,587**	**2,565**	**500**	**(4,701)**	**42,023**

*Inter-company aliminations and consolidation adjustments

2018	Exploration and Production	Trade and Storage	Distribution	Generation	Other Segments	Reconciliation with consolidated data*	Total
Revenue from sale of gas, including:	**4,648**	**29,220**	**-**	**-**	**-**	**(4,240)**	**29,628**
High-methane gas	3,106	28,611	-	-	-	(3,379)	**28,338**
Nitrogen-rich gas	1,430	892	-	-	-	(854)	**1,468**
LNG	38	60	-	-	-	(7)	**91**
CNG	-	35	-	-	-	-	**35**
Propane-butane gas	74	-	-	-	-	-	**74**
Adjustment to gas sales due to hedging transactions	-	(378)	-	-	-	-	**(378)**
Other revenue, including:	**3,023**	**2,484**	**4,927**	**2,387**	**503**	**(1,718)**	**11,606**
Gas and heat distribution	-	-	4,414	74	-	(21)	**4,467**
Crude oil and natural gasoline	2,426	-	-	-	-	-	**2,426**
NGL	128	-	-	-	-	-	**128**
Sale of heat	-	-	1	1,322	-	-	**1,323**
Sales of electricity	-	2,010	-	802	-	(847)	**1,965**
Revenue from rendering of services:							
- drilling and oilfield services	172	-	-	-	-	(12)	**160**
- geophysical and geological services	103	-	-	-	-	(1)	**102**
- construction and assembly services	58	-	-	-	140	(52)	**146**
- connection charge	-	-	171	-	-	-	**171**
- other	31	269	33	32	339	(294)	**410**
Other	105	205	308	157	24	(491)	**308**
Total revenue	**7,671**	**31,704**	**4,927**	**2,387**	**503**	**(5,958)**	**41,234**

*Inter-company aliminations and consolidation adjustments

2.4. Equity-accounted investees

Accounting policies

Joint arrangements

Joint arrangements include:

- Joint operations (see **Note 8.7**),
- Joint ventures.

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

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

Material estimates

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

As at the end of each reporting period, the Parent tests its investment in SGT EUROPOL GAZ S.A. (a jointly controlled entity accounted for with the equity method) for impairment and measures the investment's value in use using the discounted cash flow (DCF) method. The valuation was based on the Inter-Governmental Protocol of October 29th 2010, which specified the company's expected net profit.
The company's value estimated with the DCF method as at December 31st 2019 was PLN 840m.
The calculations were based on the assumption that in each year in 2011−2021 net profit earned by SGT EUROPOL GAZ S.A. (EUROPOL GAZ) will be PLN 21m. The discounted cash flows include all cash flows generated by EUROPOL GAZ, including cash flows related to the servicing of interest-bearing borrowings (interest expense and principal repayments) and other risks known to the issuer. The cash flows were discounted using a discount rate of 5.64% (in real terms).
As at the end of 2019, the value of the Parent's interest in EUROPOL GAZ determined using the equity method was PLN 917m. Therefore, a PLN 28m impairment loss was recognised in the current reporting period to align the equity method valuation of the interest with the DCF valuation of the interest.
The impairment test result is sensitive to the adopted assumptions regarding future cash flows (which depend on whether the provisions of the Inter-Governmental Protocol with respect to net profit to be earned in each of the years are implemented by the company) and discount rate. Changes in those assumptions following from updates of the company's financial forecasts and changes in the discount rate due to general or company-specific factors, may have a material effect on the company's future value.

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

The PGNiG Group's joint control of Polska Grupa Górnicza S.A. (PGG), a joint venture, is exercised the equity interest held by PGNiG TERMIKA S.A. (a subsidiary of PGNIG S.A.) in PGG. A test for impairment of PGG shares carried out by PGNiG TERMIKA S.A. at the end of 2019 put the value in use of the shares at PLN 612m. The value in use was determined using the discounted cash flow method. The main reasons for the impairment test were:

- the key assumptions of Poland's energy policy,
- lower expected future cash flows due to lower coal production forecasts,
- employment at PGG maintained above the originally planned level.

Accordingly, an impairment loss was recognised for the shares in PGG which in the consolidated financial statements of the PGNiG Group are accounted for with the equity method. Taking into account the new value in use of the shares, the investment was impaired down to PLN 612m. For more information on the recognised impairment loss, see **Note 2.4.1.**

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

Following execution, on February 20th 2020, of an agreement between the PGG Management Board and the company's trade unions, which provides for a 6% increase in salaries and wages at PGG as of January 1st 2020, PGNiG Termika S.A. initially estimated the potential impact of the increase on the result of the test for impairment of the PGG shares. However, taking into account the written assurance of the PGG that the impact of pay rise will be balanced by savings in other areas of PGG's business, the PGNiG Group decided to maintain the value in use of PGG shares at PLN 612m.

(in PLN million, unless stated otherwise)

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

Polska Grupa Górnicza S.A.

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

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

Elektrociepłownia Stalowa Wola S.A. (ECSW)

The ECSW construction project is under way. On March 8th 2018, Elektrociepłownia Stalowa Wola S.A. signed a loan agreement with Bank Gospodarstwa Krajowego and PGNiG, under which each of the sponsors granted the company a PLN 450m facility to refinance its debt and finance further capital expenditure. The facility is due for repayment on June 14th 2030.

As at December 31st 2019, the amount drawn under the facility was PLN 900m.

The table below presents equity-accounted investees.

	2019				2018			
	Joint venture				Joint venture			
	SGT EUROPOL GAZ S.A.	Polska Grupa Górnicza S.A.	Elektro-ciepłownia Stalowa Wola S.A.	Polimex-Mostostal S.A. Group	SGT EUROPOL GAZ S.A.	Polska Grupa Górnicza S.A.	Elektro-ciepłownia Stalowa Wola S.A.	Polimex-Mostostal S.A. Group
At beginning of the period	**840**	**858**	**-**	**108**	**840**	**674**	**-**	**87**
Acquisition of shares	-	-	-	-	-	90	-	-
Changes accounted for in profit/(loss) from equity-accounted investees, including:								
Share of net profit/(loss)	28	(87)	(192)	4	47	101	(21)	19
Elimination of unrealised profits between the Group and the joint venture	-	4	-	-	2	(8)	-	(1)
Goodwill write-off	-	(13)	-	-	-	-	-	-
Reversal of negative value of equity-accounted interests*	-	-	192	-	-	-	21	-
Impairment losses	(28)	(143)	-	-	(49)	-	-	-
Changes accounted for in other comprehensive income from equity-accounted investees	-	(7)	-	-	-	1	-	3
At end of the period	**840**	**612**	**-**	**112**	**840**	**858**	**-**	**108**

* Reversal due to the share in the entity's losses being higher than the value of the interest in the jointly controlled entity as disclosed in the PGNiG Group's accounts (IAS 28.38). As at December 31st 2019, the PGNiG Group did not accept any legal or constructive obligation or make any payment on behalf of Elektrociepłownia Stalowa Wola S.A.

(in PLN million, unless stated otherwise)

	2019			2018		
	SGT EUROPOL GAZ S.A.*	**Polska Grupa Górnicza S.A.**	**GK Polimex-Mostostal S.A.*****	**SGT EUROPOL GAZ S.A.***	**Polska Grupa Górnicza S.A.****	**GK Polimex-Mostostal S.A.*****
PGNiG Group's ownership interest	**51.18%**	**20.43%**	**16.48%**	**51.18%**	**20.43%**	**16.48%**
Description of business	Transmission of natural gas	Production of coal	Construction	Transmission of natural gas	Production of coal	Construction
Key financial data******						
Non-current assets	1,453	10,220	809	1,697	9,528	801
Current assets	2,490	2,226	964	2,223	2,759	1,223
including cash and cash equivalents	2,284	555	-	2,012	583	396
Non-current liabilities	13	4,695	316	13	4,435	535
including non-current financial liabilities	-	2,510	388	-	2,316	388
Current liabilities	66	4,040	780	89	3,679	828
including current financial liabilities	-	476	22	1	175	22
Net assets	**3,864**	**3,711**	**677**	**3,818**	**4,173**	**661**
Revenue	875	9,012	1,477	896	9,371	1,519
Depreciation and amortisation expense	327	2,193	32	312	1,892	24
Interest income	42	34	3	37	35	5
Interest expense	-	137	23	3	100	26
Income tax	13	55	(1)	22	(131)	16
Net profit/(loss)	46	(427)	(4)	85	493	(1)
Other comprehensive income	-	(36)	3	-	6	1
Carrying amount of the investment						
Share of net assets	**1,978**	**758**	**112**	**1,954**	**852**	**109**
Adjustment to ensure consistency of accounting policies with those of the Group	(39)	-	(16)	(43)	-	(17)
Elimination of unrealised profits between the Group and the joint venture	(182)	(3)	(1)	(182)	(7)	(1)
Goodwill	6	13	17	6	13	17
Goodwill write-off	(6)	(13)	-	(6)	-	-
Impairment losses	(917)	(143)	-	(889)	-	-
Carrying amount of the investment in the consolidated statement of financial position	**840**	**612**	**112**	**840**	**858**	**108**

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

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

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

**** Financial data for the Polimex-Mostostal Group for 11 months of the year.

3. Notes to the statement of profit or loss

3.1. Revenue

Accounting policies

Revenue from contracts with customers

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

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

The Group companies also earn revenue from construction contracts.

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

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

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

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

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

The Group recognises revenue when it satisfies the performance obligation by transferring to the customer the goods or services promised (i.e. when the customer takes control of the goods or services).
The Group recognises revenue in the amount of the transaction price (excluding estimated elements of variable consideration which are subject to limitations) which was allocated to the given performance obligation.
The transaction price is the contractually agreed amount of consideration that the entity expects to obtain in exchange for the transfer of the goods and services promised in the contract. The transaction price is adjusted for the time value of money if the contract includes a significant financing arrangement, and in the case of any consideration payable to the client. If the consideration is variable, the Group estimates the amount of consideration to which it will be entitled in exchange for the promised goods or services. The estimated amount of variable consideration will be included in the transaction price only if, and to the extent that, it is highly probable that its inclusion will not result in a significant revenue reversal in the future when the uncertainty relating to variable consideration has been subsequently resolved.
In accordance with IFRS 15, refunds due to customers are presented as contractual liabilities.

Material estimates

Estimating natural gas sales

In order to correctly recognise revenue from sale of gas in appropriate reporting periods, at the end of each reporting period the Group estimates the quantity and value of gas delivered to retail customers but not invoiced.

The value of natural gas supplied to retail customers but not invoiced is estimated on the basis of the customers' historical consumption patterns in comparable reporting periods. The value of estimated gas sales is calculated as the product of quantities assigned to the individual tariff groups and the rates defined in the applicable tariff. There is a risk that the actual final volume of gas fuel sold might differ from the estimate. Accordingly, profit or loss for a given period may account for a portion of the estimated sales volume which will never be realised.

In addition, as price discounts are applied, a liability to return the consideration related to discounts is recognised. The discount amount is recognised as a decrease in revenue from sale of gas in the statement of comprehensive income.

(in PLN million, unless stated otherwise)

At the end of 2019 , an estimated amount of PLN 19.5m was recognised as an adjustment reducing the invoiced revenue, while gas sales revenue for 2018 was increased by an estimated amount of PLN 103m.

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

Revenue from sale of crude oil

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

As at the end of 2019, the volume of crude oil sold was higher than the Group's share in production, which in the consolidated statement of financial position for 2019 was recognised under *Other liabilities* (*Other deferred income*, current portion) in the amount of PLN 51m. An analogous situation occurred at the end of 2018, when in the consolidated statement of financial position for 2018 a PLN 39m liability was recognised under *Other liabilities* (*Other deferred income*, current portion).

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

Revenue from sale of services provided over time

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

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

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

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

	2019			2018		
	Domestic sales	Export sales*	Total	Domestic sales	Export sales*	Total
Revenue from sale of gas, including:	**26,385**	**4,111**	**30,496**	**25,575**	**4,053**	**29,628**
High-methane gas	24,286	3,999	28,285	24,413	3,925	28,338
Nitrogen-rich gas	1,335	112	1,447	1,340	128	1,468
LNG	83	-	83	91	-	91
CNG	45	-	45	35	-	35
Propane-butane gas	66	-	66	74	-	74
Adjustment to gas sales due to hedging transactions	570	-	570	(378)	-	(378)
Other revenue, including:	**9,526**	**2,001**	**11,527**	**9,022**	**2,584**	**11,606**
Gas and heat distribution	4,243	-	4,243	4,467	-	4,467
Crude oil and natural gasoline	965	1,052	2,017	1,086	1,340	2,426
NGL	-	95	95	-	128	128
Sale of heat	1,331	-	1,331	1,323	-	1,323
Sales of electricity	1,989	469	2,458	1,211	754	1,965
Revenue from rendering of services:						
- drilling and oilfield services	51	78	129	46	114	160
- geophysical and geological services	36	108	144	70	32	102
- construction and assembly services	73	-	73	146	-	146
- connection charge	208	-	208	171	-	171
- other	344	65	409	274	136	410
Other	286	134	420	228	80	308
Total revenue	**35,911**	**6,112**	**42,023**	**34,597**	**6,637**	**41,234**

*By customer's country.

The Group does not have any single external customer who would account for 10% or more of the Group's total revenue. The Group companies did not identify any significant financing component in their contracts nor did they incur any additional significant cost to obtain contracts. On foreign markets the Group sells its products and services mainly to customers in Germany (33% of export sales), the Netherlands (33%) and the UK (12%).

(in PLN million, unless stated otherwise)

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

Revenue-generating non-current assets

	2019	2018
Value of non-current assets other than financial instruments located in Poland	34,772	30,844
Value of non-current assets other than financial instruments located abroad*	6,112	4,718
Total	**40,884**	**35,562**
% share of assets located outside of Poland in total assets	**14.95%**	**13.27%**
*Including PGNiG Upstream Norway AS (PUN)	5,325	4,083

3.2. Operating expenses

Accounting policies

Cost of gas

This item comprises the cost of gas purchased on gas exchanges and from trading partners. The cost of gas purchased includes an appropriate portion of costs of system and transaction charges, costs of domestically produced gas, costs of denitrification and regasification. For details of the valuation of those items, see **Note 6.2.1.**

Raw materials and consumables used

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

Employee benefits expense

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

Transmission and distribution services

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

Other services

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

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

Taxes and charges

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

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

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

Depreciation and amortisation expense

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

(in PLN million, unless stated otherwise)

	2019	2018	
Cost of gas	**(26,686)**	**(24,941)**	
Gas fuel	(26,687)	(24,957)	
Cost of transactions hedging gas prices	1	16	
Other raw materials and consumables used	**(2,977)**	**(2,519)**	
Fuels for electricity and heat generation	(958)	(875)	
Electricity for trading purposes	(1,483)	(1,151)	
Other raw materials and consumables used	(536)	(493)	
Employee benefits expense	**(3,168)**	**(2,871)**	
Salaries and wages	(2,344)	(2,178)	
Social security contributions	(519)	(468)	
Long-term employee benefits	(95)	(27)	
Other employee benefits expense	(210)	(198)	
Transmission services	**(1,053)**	**(1,039)**	
Other services	**(1,828)**	**(1,865)**	
Regasification services	(370)	(366)	
Repair and construction services	(277)	(271)	
Mineral resources production services	(141)	(244)	
Rental services	(86)	(117)	
Other services	(954)	(867)	
Taxes and charges	**(782)**	**(819)**	
Recognition and reversal of impairment losses on property, plant and equipment and intangible assets	**(659)**	**(463)**	*Note 2.2.*
Cost of exploration and evaluation assets written-off	(259)	(687)	
Impairment losses on property, plant and equipment	(388)	222	
Impairment losses on intangible assets	(12)	2	
Depreciation and amortisation	**(3,056)**	**(2,720)**	*Note 2.2.*
Total	**(40,209)**	**(37,237)**	

Costs of lease liability recognised in the statement of comprehensive income

In the year ended December 31st 2019, costs of other services included:

- short-term lease expense of PLN 6m,
- expense on leases of low-value assets, other than short-term lease expense, of PLN 1m.

In the year ended December 31st 2018, the Group incurred the following lease expenses:

- operating lease expense of PLN 5m,
- rental costs: PLN 112m,
- perpetual usufruct charges of PLN 31m.

(in PLN million, unless stated otherwise)

3.3. Other income and expenses

	2019	2018	
Compensation, penalties, and fines received	26	40	
Exchange differences related to operating activities	(9)	16	
Measurement and exercise of derivative financial instruments	239	45	
Change in inventory write-downs	(258)	(11)	*Note 6.2.1.*
Change in impairment losses on trade and other receivables	42	(127)	
Change in other impairment losses	1	(1)	
Change in provision for well decommissioning costs	26	(20)	*Note 6.1.1.1.*
Change in provision for certificates of origin and energy efficiency certificates	(206)	(80)	*Note 6.3.2.*
Change in other provisions	(53)	(57)	
Change in underlift/overlift*	(12)	(109)	
Cost of merchandise and materials sold**	(103)	(185)	
Other income and expenses	(135)	(75)	
Total other income and expenses	**(442)**	**(564)**	

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

** The item was adjusted for the comparative period by PLN 158m in correspondence with 'Work performed by the entity and capitalised'. The change was made to ensure comparability with the current period data.

3.4. Net finance costs

	2019	2018
Interest on debt (excluding leases, including fees)	(48)	(44)
Interest on lease liabilities	(69)	(1)
Foreign exchange differences	15	30
Measurement and exercise of derivative financial instruments not designated for hedge accounting	(7)	(13)
Fair value measurement of financial assets	(1)	20
Other net finance costs	56	4
Total net finance costs	**(54)**	**(4)**

3.5. Dividend paid and proposed

	2019	2018
Dividend paid in the period		
Dividend per share paid (PLN)*	0.11	0.07
Number of shares	5,778	5,778
Dividend paid	**636**	**404**
dividend paid to owners of the parent	636	404

*In 2018, an interim dividend for 2018 of PLN 0.07 per share was paid.

4. Notes on taxation

4.1. Income tax

Accounting policies

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

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

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

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

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

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

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

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

Tax group

PGNiG S.A. represents the PGNiG Tax Group which, under the agreement concluded 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. (wcześniej PGNiG SPV 5 Sp. z o.o.), PGNiG SPV 6 Sp. z o.o., PGNiG SPV 7 Sp. z o.o., GEOFIZYKA Toruń S.A., PGNiG Technologie S.A. and PGNiG Serwis Sp. z o.o.

In accordance with the applicable tax laws, the companies included in the PGNiG Tax Group lost their separate status as payers of corporate income tax and such status was acquired by the PGNiG Tax Group, which 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 it 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 is a separate payer of value-added tax and of tax on civil-law transactions, and a separate remitter of personal income tax withholdings. The other companies of the PGNiG Group are separate payers of corporate income tax.

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 settlement by one entity only.

(in PLN million, unless stated otherwise)

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

Reconciliation of effective tax rate	2019	2018	
Profit before tax	2,159	4,502	
Corporate income tax at the 19% statutory rate applicable in Poland	(410)	(855)	
Differences in tax rates of the Group companies (from 22% to 78% for Norway, 33% for Germany, from 9% to 40% for other)	(99)	(384)	
Deductible temporary differences with respect to which no deferred tax was recognised	(279)	(54)	
Income tax expense disclosed in the statement of profit or loss	**(788)**	**(1,293)**	
Including:			
Current tax expense	(586)	(1,253)	
Deferred tax expense	(202)	(40)	*Note 4.1.2.*
Effective tax rate	36%	29%	

In the case of PGNiG Upstream Norway AS ("PUN"), the tax rate is 78%. PUN's activities in the Norwegian Continental Shelf in 2019 were subject to taxation under two separate tax regimes:

- the corporate income tax regime (tax rate of 22%; in 2018: 23%), and
- the petroleum tax regime (additional tax rate of 56%; in 2018: 55%).

The high tax rate in Norway comes with a wide range of investment incentives and additional deductions.

- For instance, the company may apply a high depreciation/amortisation rate (the annual depreciation/amortisation rate is 16.67%) and commence depreciation/amortisation immediately after capital expenditure is incurred. In the year in which capital expenditure is incurred, the company is entitled to charge depreciation/amortisation for the full year, regardless of the date when it was actually incurred.
- The company may benefit from an investment incentive of 5.2% per annum for four years under the petroleum tax regime. The incentive relates to capital expenditure made in the Norwegian Continental Shelf (excluding exploration expenditure) and amounts to 20.8% of depreciable expenditure (over four years). The incentive is deducted only from income taxable with the petroleum tax (56% rate; in 2018: 55%) and does not apply to income tax. If the incentive amount exceeds income generated in a given year, it becomes deductible in subsequent years.
- Total expenditure on exploration activities may be deducted from revenue. If the company does not generate income from which expenditure on exploration could be deducted, it is entitled to the reimbursement of 78% of the exploration expenditure. The funds are returned in cash by the end of the year following the year covered by the tax return.
- Finance costs may be deducted under both taxation systems.

Under the Norwegian tax system there is no time limit within which tax losses should be used, and interest accrues on losses carried forward. The interest rate applicable to such losses is calculated as a risk-free interest rate, net of income tax. Tax losses incurred by PUN in earlier years (until 2012), increased by interest, reduced its current tax expense. Therefore, in 2013-2017, the company did not pay any income tax in Norway as it recognised a tax loss brought forward. In connection with the full settlement of the tax loss, the company started paying corporate income tax in Norway in August 2018.

Current income tax	2019	2018
At beginning of the period (tax receivables and payables, net)	(370)	(179)
Income tax expense recognised in profit or loss for the period	(586)	(1,253)
Tax paid in the period	852	1,060
Other changes	14	2
At end of the period (tax receivables and payables, net)	**(90)**	**(370)**
including:		
- receivables	42	48
- payables	(132)	(418)

(in PLN million, unless stated otherwise)

4.1.2. Deferred tax expense

		CREDITED/(CHARGED)								CREDITED/(CHARGED)			
	Jan 1 2018	Effect of amended IFRS 9	Net profit/(loss)	Other comprehensive income	Currency translation differences	Other changes	Dec 31 2018	Effect of amended IFRS 9	Net profit/(loss)	Other comprehensive income	Currency translation differences	Other changes	Dec 31 2019
Deferred tax assets													
Employee benefits expense	134	-	9	5	-	1	149	-	10	5	-	-	164
Provision for well decommissioning costs	151	-	26	-	-	-	177	-	21	-	-	-	198
Other provisions	130	-	(75)	1	(1)	(1)	54	(5)	13	1	1	-	64
Investment tax credit (Norway)	36	-	(38)	-	2	-	-	-	-	-	-	-	-
Measurement of derivative instruments	126	-	80	-	4	-	210	-	31	-	(1)	-	240
Impairment of property, plant and equipment	191	-	(81)	-	-	-	110	-	(2)	-	-	-	108
Tax loss	32	-	36	-	-	-	68	-	(16)	-	-	-	52
Other	201	(44)	5	-	-	-	162	-	87	-	-		249
Total	**1,001**	**(44)**	**(38)**	**6**	**5**	**-**	**930**	**(5)**	**144**	**6**	**-**	**-**	**1,075**
Deferred tax liabilities													
Difference between tax and accounting value of non-current assets	1,832	-	82	-	10	-	1,924	24	52	-	1	-	2,001
Measurement of derivative financial instruments	155	-	56	15	4	-	230	-	127	156	(1)	-	512
Other	892	-	(136)	-	17	(25)	748	-	167	-	(1)	(1)	913
Total	**2,879**	**-**	**2**	**15**	**31**	**(25)**	**2,902**	**24**	**346**	**156**	**(1)**	**(1)**	**3,426**
Set-off of assets and liabilities	**(860)**						**(836)**						**(1,043)**
After set-off													
Assets	**141**		**(38)**				**94**		**144**				**32**
Liabilities	**2,019**		**2**				**2,066**		**346**				**2,383**
Net effect of changes in the period		**(44)**	**(40)**	**(9)**	**(26)**	**25**		**(29)**	**(202)**	**(150)**	**1**	**1**	

(in PLN million, unless stated otherwise)

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

5.1. Debt reconciliation

Accounting policies

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

Net debt	2019	2018	
Bank borrowings	1,712	1,166	
Lease liabilities	1,775	12	
Other	20	-	
Total liabilities under non-current debt	**3,507**	**1,178**	
Bank borrowings	3,181	219	
Debt securities	-	2,298	
Lease liabilities	64	7	
Total liabilities under current debt	**3,245**	**2,524**	
Total debt	**6,752**	**3,702**	
Cash and cash equivalents	3,037	3,925	*Note 5.4.*
Net debt	**3,715**	**(223)**	
EBITDA	**5,504**	**7,115**	*Note 2.2.*
Net debt / EBITDA	**0.67**	**(0.03)**	

The chart below presents the change in net debt at the PGNiG Group.

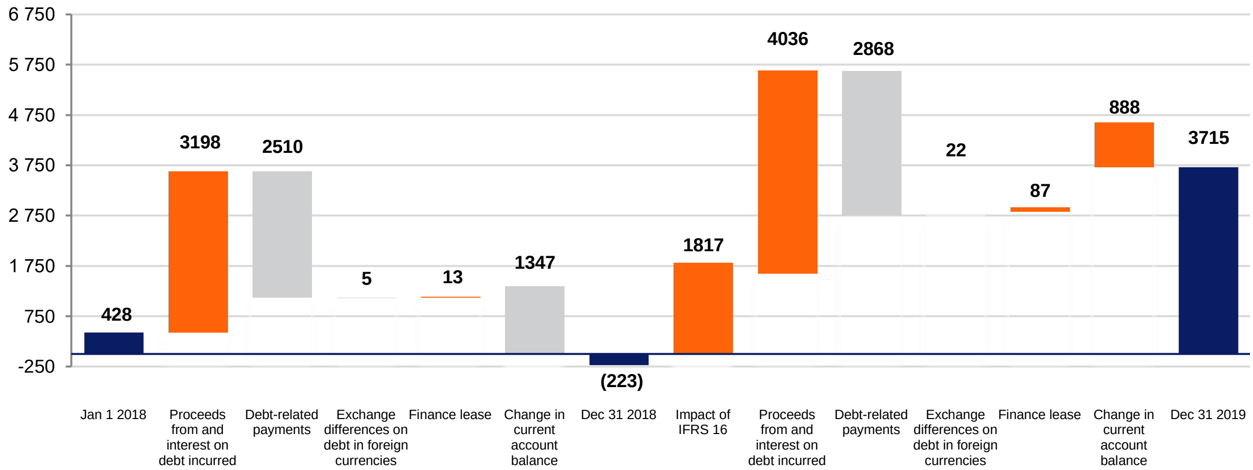

Chart 2 ***Change in net debt at the PGNiG Group (PLNm)***

(in PLN million, unless stated otherwise)

Change in debt	Bank borrowings	Debt securities	Lease liabilities	Other	Total
As at Jan 1st 2018	**1,085**	**1,898**	**23**	**-**	**3,006**
Increase in debt	874	2,295	-	-	3,169
financing received	865	2,295	-	-	3,160
transaction costs	9	-	-	-	9
Interest accrued	27	1	1	-	29
Debt-related payments	(597)	(1,896)	(17)	-	(2,510)
principal repayments	(562)	(1,896)	(16)	-	(2,474)
interest paid	(25)	-	(1)	-	(26)
commission fees paid	(10)	-	-	-	(10)
Exchange differences on debt in foreign currencies	(4)	-	(1)	-	(5)
Finance lease	-	-	13	-	13
As at Dec 31st 2018	**1,385**	**2,298**	**19**	**-**	**3,702**
Impact of IFRS 16	-	-	1,817	-	1,817
Increase in debt	3,871	-	-	20	3,891
financing received	3,831	-	-	20	3,851
transaction costs	40	-	-	-	40
Interest accrued	59	7	77	2	145
Increase (new agreements)	-	-	95	-	95
Decrease (expired agreements)	-	-	(8)	-	(8)
Debt-related payments	(398)	(2,305)	(163)	(2)	(2,868)
principal repayments	(281)	(2,290)	(153)	-	(2,724)
interest paid	(58)	(15)	(10)	(2)	(85)
commission fees paid	(59)	-	-	-	(59)
Exchange differences on debt in foreign currencies	(24)	-	2	-	(22)
As at Dec 31st 2019	**4,893**	**-**	**1,839**	**20**	**6,752**

5.2. Financing liabilities

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 policy applied as of January 1st 2019

Leases are recognised as right-of-use assets and liabilities to pay for those rights as at the date when the leased assets are available for use by the Group. Right-of-use assets are presented in **Note 6.**

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

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

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.

Accounting policy applied until December 31st 2018

Leases where substantially all the risks and rewards incidental to the ownership were not transferred to the Group as a lessee were classified as operating leases. Lease payments under operating leases (after taking into account all lease benefits received from the lessor) were 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 Group will exercise the extension option or will not exercise the termination option is made if a significant event or a significant change in circumstances occurs that affects such assessment and the Group can control the change or the circumstances.

Discount rates applied in the valuation of lease liabilities.

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

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

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

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

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

As at December 31st 2019, the Group's future payments for short-term leases was PLN 16m.

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

The value of payments not included in the valuation of the lease liability is PLN 3.6m and relates to lease contracts not yet commenced but which the lessee is obliged to enter into.

The lease contracts outstanding as at December 31st 2019 do not impose any covenants on the Group.

In 2019 and 2018, the Group'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 that could trigger accelerated repayment, including with respect to the covenants under either of the programmes.

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

2019	In functional currency – PLN	In foreign currency		
		EUR	USD	Other
Bank borrowings	3,218	688	987	-
Lease liabilities	1,774	-	59	7
Other	20	-	-	-
Total, including:	**5,012**	**688**	**1,046**	**7**
floating-rate	3,357	688	1,046	6
fixed-rate	1,655	-	-	1

2018	In functional currency – PLN	In foreign currency	
		EUR	USD
Bank borrowings	214	356	815
Debt securities	2,298	-	-
Lease liabilities	16	-	3
Total, including:	**2,528**	**356**	**818**
floating-rate	219	356	818
fixed-rate	2,309	-	-

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

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

In the reporting period, the Group operated the following debt security programmes:

					Utilisation (%) as at	Outstanding debt (PLNbn) as at	
Start date	**End date**	**Issuance Programme**	**Participating banks as at the reporting date**	**Limit**	**Dec 31 2019**	**Dec 31 2019**	**Dec 31 2018**
Authorised issuer: **PGNiG S.A.**							
June 10th 2010	July 31st 2020 early termination in as per agreement of June 24th 2019	Programme for short-term discount notes and coupon-bearing notes with maturities from one to twelve months	Bank Pekao S.A. ING Bank Śląski S.A. PKO BP S.A. Bank Handlowy w Warszawie S.A. Societe Generale S.A., BNP Paribas S.A. Oddział w Polsce mBank S.A. Bank Zachodni WBK S.A.	PLN 7bn	-	-	2.3
October 2nd 2014	September 30th 2024 early termination in as per agreement of June 24th 2019	Note programme for notes with maturities of at least 12 months	Bank Gospodarstwa Krajowego	PLN 1bn	-	-	-
December 21st 2017	December 21st 2022	Note programme	Bank Pekao S.A. ING Bank Śląski S.A. Bank Handlowy w Warszawie S.A. BGŻ BNP Paribas S.A.	PLN 5bn	-	-	-

On June 24th 2019, PGNiG S.A. entered into an agreement terminating the PLN 7bn and PLN 1bn note programmes, replacing them with a PLN 10bn syndicated loan agreement with a five-year availability period. The agreement was concluded with a syndicate of nine banks. The facility will replace the funding in the form of the two note programmes with a PLN 8bn underwriting commitment. The funds made available under the loan are intended to be used by the Company to e.g. finance the day-to-day operations and capital expenditure of PGNiG and the PGNiG Group companies.

					Utilisation (%) as at	Outstanding debt (PLNbn) as at	
Start date	End date	Issuance Programme	Syndicate banks	Facility limit	Dec 31 2019	Dec 31 2019	Dec 31 2018
June 24th 2019	June 24th 2024	Credit facility	Bank Gospodarstwa Krajowego Bank Pekao S.A. ING Bank Śląski S.A. PKO BP S.A. Caixa Bank S.A. Oddział w Polsce BNP Paribas Bank Polska S.A. Societe Generale S.A. Santander Bank Polska S.A. Intesa Sanpaolo S.P.A	PLN 10bn	30	3.0	-

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

5.2.1. Financing available but not drawn

	2019			2018		
	Facility limit	Drawn amount	Available amount	Facility limit	Drawn amount	Available amount
Credit facilities	12,203	(4,725)	7,478	1,524	(1,180)	344
Debt securities	5,000	-	5,000	13,000	(2,300)	10,700
Total	**17,203**	**(4,725)**	**12,478**	**14,524**	**(3,480)**	**11,044**

5.3. Equity and capital management policy

Accounting policies

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

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

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

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

PGNiG S.A.'s largest shareholder is the State Treasury, which as at December 31st 2019 held 71.88% of the Company shares and controlled the Group. For detailed information on the shareholding structure, see the Directors' Report on the operations of PGNiG S.A. and the PGNiG Group.

As at the end of 2018, the Company's share capital comprised 5,778,314,857 shares with a par value of PLN 1 per share.

There were no changes in the Company's share capital relative to the previous reporting period.

On June 27th 2019, the Annual General Meeting of PGNIG S.A. resolved to allocate PGNiG's net profit for the financial year 2018 of PLN 3,289,305,045.15 as follows:

- PLN 1,040,096,674.26 to dividend payment,
- PLN 1,000,000,000.00 to capital reserves to finance the extension and upgrade of the national gas distribution network; and
- PLN 1,249,208,370.89 to the Company's statutory reserve funds.

(in PLN million, unless stated otherwise)

The dividend of PLN 0.18 per share was paid from 5,778,314,857 shares.

The dividend record date and the dividend payment date were set for July 26th 2019 and August 7th 2019, respectively. The dividend amount paid on August 7th 2019 was reduced by the amount of interim dividend for 2018 paid on December 3rd 2018 (the amount of the interim dividend was PLN 404,482,039.99).

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

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

5.4. Cash and cash equivalents

Accounting policies

Cash and cash equivalents include cash at bank and in hand as well as highly liquid current financial assets with the original maturity of up to three months, which are readily convertible into specific cash amounts and subject to an insignificant risk of fluctuation in value. This item also includes amounts deposited in VAT split payment accounts.
Cash and cash equivalents are tested for impairment using individual analysis based on an assessment of the creditworthiness of the financial institutions they are deposited with, in accordance with the expected loss model.
The Group tests cash and cash equivalents for impairment in accordance with the expected loss model.

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

	2019	2018
Cash at banks	874	922
Bank deposits	1,767	2,355
Other cash	396	648
Total	**3,037**	**3,925**
including restricted cash	634	792

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

(in PLN million, unless stated otherwise)

5.5. Additional information on consolidated statement of cash flows

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

2019	Difference resulting from the statement of financial position	Change in current tax receivable/payable	Net cash from investing activities	Net cash from financing activities	Changes in the Group	Non-cash transactions	Other	Net cash from operating activities (movements in working capital)
Inventories	(678)	-	-	-	-	-	-	(678)
Receivables	238	(6)	160	-	-	(81)	-	311
Other assets	(55)	-	(104)	19	-	74	-	(66)
Trade and tax payables	(261)	286	132	-	-	18	-	175
Employee benefit obligations	51	-	-	-	-	82	-	133
Provision for well decommissioning costs	(57)	-	(385)	-	-	438	-	(4)
Other provisions	53	-	-	-	-	100	-	153
Other liabilities	587	-	(27)	-	-	(58)	-	502
Total working capital	**(122)**	**280**	**(224)**	**19**	**-**	**573**	**-**	**526**

2018	Difference resulting from the statement of financial position	Change in current tax receivable/payable	Net cash from investing activities	Net cash from financing activities	Changes in the Group	Non-cash transactions	Other	Net cash from operating activities (movements in working capital)
Inventories	(616)	-	-	-	-	-	-	(616)
Receivables	39	10	20	-	-	(404)	-	(335)
Other assets	12	-	(4)	(5)	-	42	-	45
Trade and tax payables	499	(201)	(91)	-	-	(21)	-	186
Employee benefit obligations	(24)	-	-	-	-	83	-	59
Provision for well decommissioning costs	38	-	(232)	-	-	201	-	7
Other provisions	54	-	-	-	-	(1)	-	53
Other liabilities	43	-	11	-	-	(79)	-	(25)
Total working capital	**45**	**(191)**	**(296)**	**(5)**	**-**	**(179)**	**-**	**(626)**

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

	2019	2018
Net interest and dividend	42	16
Net foreign exchange gains/(losses)	(13)	(17)
Profit/(loss) from equity-accounted investees	236	(111)
Derivative financial instruments	(351)	67
Written-off expenditure on non-financial non-current assets	261	698
Acquired CO_2 emission allowances	(470)	(158)
Other items, net	(89)	(63)
Other non-cash adjustments	**(384)**	**432**

(in PLN million, unless stated otherwise)

5.5.3. Reconciliation of cash as presented in the statement of cash flows with the statement of financial position

	2019	2018
1) Cash in the statement of financial position at beginning of the period	3,925	2,578
a) Net exchange differences on cash at beginning of the period	(3)	(3)
Cash and cash equivalents in the statement of cash flows at beginning of the period (1-a)	**3,928**	**2,581**
2) Cash in the statement of financial position at end of the period	3,037	3,925
b) Net exchange differences on cash at end of the period	(4)	(3)
Cash and cash equivalents in the statement of cash flows at end of the period (2-b)	**3,041**	**3,928**
I. Change in cash in the statement of financial position (2-1)	(888)	1,347
II. Change in net exchange differences on cash (b-a)	(1)	-
Change in cash in the statement of cash flows (I. - II.)	**(887)**	**1,347**

(in PLN million, unless stated otherwise)

6. Notes to the statement of financial position

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

6.1.1. Property, plant and equipment and related provisions

Accounting policies

Property, plant and equipment

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

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

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

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

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

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

The Group uses the following depreciation methods and periods:

Category	Depreciation method	Useful life	Average remaining useful life as at the reporting date
Buildings and structures	Straight-line method	1–58 years	32
Plant and equipment	Straight-line method	1–50 years	18
Vehicles	Straight-line method	2–35 years	11
Other property, plant and equipment	Straight-line method	1–35 years	14
Reserves in the Norwegian Continental Shelf	Units of production method*	more than 10 years	more than 10 years
Land	Not depreciated		
Tangible assets under construction	Not depreciated		

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

Exploration and evaluation expenditure

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

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

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

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

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

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

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

The Group recognises provisions for costs of decommissioning of exploration, production and storage wells (for details, see **Note 6.1.1.1.**). Discounted amounts of such provisions are added to the initial cost of wells recognised as exploration and evaluation assets or as property, plant and equipment, and in the latter case are depreciated over the useful lives of the items to which they relate.

Right-of-use assets

Leases are recognised as right-of-use assets and liabilities to pay for those rights as at the date when the leased assets are available for use by the Group. For information on the accounting for lease liabilities and the accounting policy applied until December 31st 2018, see **Note 5.2.**

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

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

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

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

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

- right-of-use asset – plot/land and usufruct right to land 1–96 years
- right-of-use asset – buildings and structures 1–40 years
- right-of-use asset – machinery and technical equipment 1–40 years
- right-of-use asset – vehicles and other assets 1–10 years

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

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

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

Low-cost assets include small office and ICT equipment.

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, and ultimately have a material effect on the value of the property, plant and equipment and the future depreciation charges.

The Group reviews the useful lives of property, plant and equipment on an annual basis. As a result of the most recent review, made as at December 31st 2019, depreciation expense was reduced by about PLN 16m.

(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	142	(12)	130	117	(11)	106
Buildings and structures	37,445	(17,640)	19,805	35,382	(16,342)	19,040
Plant and equipment	18,631	(10,433)	8,198	18,171	(9,614)	8,557
Vehicles and other	3,303	(2,031)	1,272	3,153	(1,944)	1,209
Total own tangible assets	**59,521**	**(30,116)**	**29,405**	**56,823**	**(27,911)**	**28,912**
Right-of-use asset – land	2,386	(141)	2,245	-	-	-
Right-of-use asset – buildings and structures	377	(99)	278	-	-	-
Right-of-use asset – machinery and equipment	186	(24)	162	-	-	-
Right-of-use asset – vehicles	45	(10)	35	-	-	-
Total right-of-use assets	**2,994**	**(274)**	**2,720**	**-**	**-**	**-**
Tangible exploration and evaluation assets under construction	3,725	(1,164)	2,561	3,185	(1,177)	2,008
Other tangible assets under construction	5,357	(41)	5,316	3,363	(47)	3,316
Total property, plant and equipment	**71,597**	**(31,595)**	**40,002**	**63,371**	**(29,135)**	**34,236**

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

	2019	2018
Obligations assumed under agreements on acquisition of property, plant and equipment	9,395	7,112
Portion discharged as at the reporting date	(4,183)	(2,431)
Contractual obligations to be met after the reporting date	**5,212**	**4,681**

(in PLN million, unless stated otherwise)

	Land	Buildings and structures	Plant and equipment	Vehicles and other	Total own tangible assets	Other tangible assets under construction		Total property, plant and equipment	
						Exploration and evaluation assets	Other		
Gross carrying amount as at Jan 1st 2018	**112**	**33,513**	**17,223**	**2,959**	**53,807**	**3,693**	**2,208**	**59,708**	
Accumulated amortisation	-	(13,520)	(7,905)	(1,793)	**(23,218)**	-	-	**(23,218)**	
Impairment losses	(11)	(1,691)	(706)	(39)	**(2,447)**	(1,539)	(52)	**(4,038)**	
Net carrying amount as at Jan 1st 2018	**101**	**18,302**	**8,612**	**1,127**	**28,142**	**2,154**	**2,156**	**32,452**	
Exchange differences on translating foreign operations	-	-	72	-	**72**	25	(23)	**74**	
Acquisition	-	-	-	-	**-**	821	3,812	**4,633**	
Disposal	-	(5)	(1)	(2)	**(8)**	-	(17)	**(25)**	
Provision for well decommissioning costs	-	189	-	-	**189**	46	2	**237**	*Note 6.1.1.1.*
Transfer from tangible assets under construction	9	1,831	1,000	324	**3,164**	(729)	(2,653)	**(218)**	
Transfers between asset groups and between items of the statement of financial position	(2)	(4)	(4)	2	**(8)**	5	(5)	**(8)**	
Depreciation and amortisation expense	-	(1,113)	(1,078)	(239)	**(2,430)**	-	-	**(2,430)**	
Impairment losses	-	(84)	(41)	(2)	**(127)**	362	5	**240**	
Capitalised interest	-	-	-	-	**-**	5	13	**18**	
Retirement	-	(32)	(13)	(5)	**(50)**	-	-	**(50)**	
Tangible assets under construction written off without bringing economic effects	-	-	-	-	**-**	(687)	(11)	**(698)**	
Other changes	(2)	(44)	10	4	**(32)**	6	37	**11**	
Gross carrying amount as at Dec 31st 2018	**117**	**35,382**	**18,171**	**3,153**	**56,823**	**3,185**	**3,363**	**63,371**	
Accumulated amortisation	-	(14,567)	(8,867)	(1,903)	**(25,337)**	-	-	**(25,337)**	
Impairment losses	(11)	(1,775)	(747)	(41)	**(2,574)**	(1,177)	(47)	**(3,798)**	
Net carrying amount as at Dec 31st 2018	**106**	**19,040**	**8,557**	**1,209**	**28,912**	**2,008**	**3,316**	**34,236**	
IFRS 16 adjustment	20	(166)	(57)	(7)	**(210)**	-	-	**(210)**	
Exchange differences on translating foreign operations	-	-	(1)	-	**(1)**	-	(13)	**(14)**	
Acquisition	-	-	-	-	**-**	1,184	4,848	**6,032**	
Disposal	-	(7)	(7)	(5)	**(19)**	-	-	**(19)**	
Provision for well decommissioning costs	-	343	-	-	**343**	15	83	**441**	*Note 6.1.1.1.*
Transfer from tangible assets under construction	-	2,110	746	323	**3,179**	(405)	(3,037)	**(263)**	
Transfers between asset groups and between items of the statement of financial position	-	(3)	37	1	**35**	(16)	16	**35**	
Depreciation and amortisation expense	-	(1,181)	(1,028)	(245)	**(2,454)**	-	-	**(2,454)**	
Impairment losses	-	(267)	(29)	1	**(295)**	13	6	**(276)**	
Capitalised interest	-	-	-	-	**-**	21	64	**85**	
Retirement	(2)	(65)	(16)	(6)	**(89)**	-	-	**(89)**	
Tangible assets under construction written off without bringing economic effects	-	-	-	-	**-**	(258)	(3)	**(261)**	
Other changes	6	1	(4)	1	**4**	(1)	36	**39**	
Gross carrying amount as at Dec 31st 2019	**142**	**37,445**	**18,631**	**3,303**	**59,521**	**3,725**	**5,357**	**68,603**	
Accumulated amortisation	(1)	(15,598)	(9,657)	(1,991)	**(27,247)**	-	-	**(27,247)**	
Impairment losses	(11)	(2,042)	(776)	(40)	**(2,869)**	(1,164)	(41)	**(4,074)**	
Net carrying amount as at Dec 31st 2019	**130**	**19,805**	**8,198**	**1,272**	**29,405**	**2,561**	**5,316**	**37,282**	

(in PLN million, unless stated otherwise)

Change in right-of-use assets

	Land	Buildings and structures	Plant and equipment	Vehicles and other	Total right-of-use assets	Other tangible assets under construction		Total right-of-use assets relating to property, plant and equipment
						Exploration and evaluation assets	Other	
Net carrying amount as at Dec 31st 2018	-	-	-	-	-	-	-	-
IFRS 16 adjustment	2,246	278	213	38	**2,775**	-	3	**2,778**
Acquisition	-	-	-	-	**-**	-	1	**1**
Disposal	(2)	-	-	-	**(2)**	-	-	**(2)**
Transfer from tangible assets under construction	40	10	4	2	**56**	-	(9)	**47**
Transfers between asset groups and between items of the statement of financial position	(1)	-	(38)	-	**(39)**	-	-	**(39)**
Depreciation and amortisation expense	(62)	(26)	(14)	(9)	**(111)**	-	-	**(111)**
Impairment losses	(46)	-	-	-	**(46)**	-	-	**(46)**
Retirement	(5)	-	(2)	-	**(7)**	-	-	**(7)**
Other changes	75	16	-	4	**95**	-	5	**100**
Gross carrying amount as at Dec 31st 2019	**2,386**	**377**	**186**	**45**	**2,994**	**-**	**-**	**2,994**
Accumulated amortisation	(72)	(98)	(24)	(10)	**(204)**	-	-	**(204)**
Impairment losses	(69)	(1)	-	-	**(70)**	-	-	**(70)**
Net carrying amount as at Dec 31st 2019	**2,245**	**278**	**162**	**35**	**2,720**	**-**	**-**	**2,720**

6.1.1.1. Provisions related to property, plant and equipment (including the provision for well decommissioning costs)

Accounting policies

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

The Group recognises a provision for future well decommissioning costs and makes contributions to the Extraction Facilities Decommissioning Fund.

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

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

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

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

(in PLN million, unless stated otherwise)

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

Extraction Facilities Decommissioning Fund

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

Provision for well decommissioning costs	2019	2018	
At beginning of reporting period	**2,008**	**1,770**	
Recognised provision capitalised in cost of property, plant and equipment	441	237	*Note 6.1.1.*
Recognised write-downs taken to profit or loss	60	55	*Note 3.3.*
Other increases – Extraction Facilities Decommissioning Fund	2	2	
Used	(35)	(28)	
Write-down reversal taken to profit or loss	(86)	(35)	*Note 3.3.*
Exchange differences on translating foreign operations	(1)	7	
At end of reporting period	**2,389**	**2,008**	
- non-current	2,355	1,917	
- current	34	91	

With respect to the costs of decommissioning of wells and site infrastructure in Poland, in 2019 the discount rate applied 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 at the NBP's continuous inflation target of 2.50% (as at the end of 2018, the discount rate was 0.2%, and resulted from the rates of 2.7% and 2.5%, respectively).

6.1.2. Intangible assets

Accounting policies

Intangible assets

The Group identifies the following main categories of intangible assets:

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

CO_2 emission allowances

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

The Group classifies emission allowances as:

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

Licences, mining rights and rights to geological information

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

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

Measurement

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

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

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

(in PLN million, unless stated otherwise)

Material estimates

Useful lives of intangible assets

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

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

As a result of the review, annual amortisation expense was increased by about PLN 2,4m as at December 31st 2019.

	Perpetual usufruct rights to land	CO_2 emission allowances	Software	Licences	Other intangible assets	Total
Gross carrying amount as at Jan 1st 2018	**675**	**636**	**526**	**170**	**575**	**2,582**
Accumulated amortisation	(13)	(532)	(424)	(68)	(346)	**(1,383)**
Impairment losses	(30)	-	(4)	(48)	(2)	**(84)**
Net carrying amount as at Jan 1st 2018	**632**	**104**	**98**	**54**	**227**	**1,115**
Exchange differences on translating foreign operations	-	-	-	2	-	**2**
Transfer from tangible assets under construction	27	20	46	99	26	**218**
Transfers between asset groups and between items of the statement of financial position	(23)	-	-	-	-	**(23)**
Acquisition	-	158	-	-	-	**158**
Disposal	(1)	-	-	-	-	**(1)**
Depreciation and amortisation expense	(3)	(158)	(47)	(26)	(51)	**(285)**
Impairment losses	9	-	-	(9)	-	**-**
Retirement	-	-	-	(1)	-	**(1)**
Other changes	(11)	-	-	-	1	**(10)**
Gross carrying amount as at Dec 31st 2018	**663**	**808**	**545**	**257**	**587**	**2,860**
Accumulated amortisation	(12)	(684)	(444)	(81)	(382)	**(1,603)**
Impairment losses	(21)	-	(4)	(57)	(2)	**(84)**
Net carrying amount as at Dec 31st 2018	**630**	**124**	**97**	**119**	**203**	**1,173**
IFRS 16 adjustment	(630)	-	-	-	(1)	**(631)**
Transfer from tangible assets under construction	-	41	55	70	49	**215**
Acquisition	-	470	-	-	-	**470**
Depreciation and amortisation expense	-	(373)	(40)	(27)	(45)	**(485)**
Impairment losses	-	-	-	(12)	-	**(12)**
Retirement	-	-	-	(1)	-	**(1)**
Gross carrying amount as at Dec 31st 2019	**-**	**1,303**	**561**	**320**	**615**	**2,799**
Accumulated amortisation	-	(1,041)	(445)	(102)	(407)	**(1,995)**
Impairment losses	-	-	(4)	(69)	(2)	**(75)**
Net carrying amount as at Dec 31st 2019	**-**	**262**	**112**	**149**	**206**	**729**

(in PLN million, unless stated otherwise)

6.1.3. 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 recognised in 2019 in respect of property, plant and equipment are presented in the table below:

	2019			2018		
	Upstream operations	Trade and storage	Other	Upstream operations	Trade and storage	Other
Land	(21)	-	(59)	(3)	-	(8)
Buildings and structures	(1,822)	(50)	(171)	(1,561)	(47)	(167)
Plant and equipment	(379)	(318)	(79)	(360)	(316)	(71)
Vehicles and other	(35)	(1)	(4)	(36)	(1)	(4)
Tangible assets under construction:						
tangible exploration and evaluation assets under construction	(1,164)	-	-	(1,177)	-	-
other	-	-	(41)	(1)	-	(46)
Total	**(3,421)**	**(369)**	**(354)**	**(3,138)**	**(364)**	**(296)**
Total at end of the period	**(4,144)**			**(3,798)**		

In the reporting year, an impairment test was performed for the Group’s main operating assets: oil and gas production assets, gas fuel storage facilities, power generating unit, leased assets (including CNG stations, transmission assets, other property), LNG regasification stations, and tangible assets under construction (wells under construction). Below is presented basic information on the performed tests, relating to those areas where the largest amounts of impairment losses were recognised.

(in PLN million, unless stated otherwise)

	2019		2018	
	impairment loss reversal	impairment loss recognition	impairment loss reversal	impairment loss recognition
Description of cash generating unit:	**CGU - 162 production units**		**CGU - 159 production units**	
Reasons for impairment / value increase	* Decrease in the WACC discount rate in 2019. * Update of production forecast based on well tests and taking into account new wells brought on stream.	* Change in price forecasts – decline in oil prices. * Update of production forecast to account for deterioration of reservoir conditions experienced by certain production units.	* Change in price forecasts. * Update of production forecast based on well tests and taking into account 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	21,476		21,718	
Nominal pre-tax discount rate	Poland 10.32% -12.08%		Poland 10.70% - 12.81%	
	Pakistan: 19.30% - 21.42%		Pakistan: 19.52% - 25.35%	
Amount of recognised impairment loss	**185**	**576**	**137**	**298**

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

	2019		2018	
	impairment loss reversal	impairment loss recognition	impairment loss reversal	impairment loss recognition
Description of cash generating unit:	**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 not to proceed to wells drilling 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 not to proceed to wells drilling 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	2,741		2,030	
Nominal pre-tax discount rate	Poland 11.29% - 13.02%		Poland 11.75%- 13.86%	
Amount of recognised impairment loss	**152**	**281**	**51**	**226**

(in PLN million, unless stated otherwise)

Description of cash generating unit: *LNG regasification stations in Ełk and Olecko – Head Office; impairment tests were performed for individual CGUs*

	2019		2018	
	impairment loss reversal	**impairment loss recognition**	**impairment loss reversal**	**impairment loss recognition**
Description of cash generating unit			**CGU – two units**	
Reasons for impairment / value increase	* The sum of discounted cash and residual value exceeds the net value of tangible assets.		* The sum of discounted cash and residual value exceeds the net value of tangible assets.	
Value in use [PLN]	92		20	
Nominal pre-tax discount rate	3.97% - 4.73%		5.48% - 5.60%	
Amount of recognised impairment loss (PLN)	-	-	-	-

Description of cash generating unit: *Leased assets (transmission assets, CNG stations, non-contributed assets) - Head Office*

	2019		2018	
	impairment loss reversal	**impairment loss recognition**	**impairment loss reversal**	**impairment loss recognition**
Description of cash generating unit	**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	9

(in PLN million, unless stated otherwise)

Description of cash generating unit: *Impairment tests were performed for individual CGU - the Wierzchowice unit*

	2019		2018	
	impairment loss reversal	impairment loss recognition	impairment loss reversal	impairment loss recognition
Description of cash generating unit	CGU - 1		CGU - 1	
Reasons for impairment / value increase	* Increase in the carrying amount of assets by the amount of items pertaining to the right of land usufruct (in accordance with IFRS 16)		-	-
Value in use (PLN)	-		-	
Nominal pre-tax discount rate	4.73 - 5.46%		5.85 - 6.20%	
Amount of recognised impairment loss (PLN)	0.2	-	-	-

Summary table (all cash-generating units in total)

	2019		2018	
	impairment loss reversal	impairment loss recognition	impairment loss reversal	impairment loss recognition
Value in use of assets tested for impairment	24,362		23,836	
Amount of recognised impairment loss (PLN)	338	882	189	532

(in PLN million, unless stated otherwise)

6.2. Working capital

6.2.1. Inventories

Accounting policies

The Group's most material **inventory items** include:

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

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

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-sheet 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 removal and regasification.

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

The Group is obliged to obtain and surrender for cancellation certificates of origin for electricity and energy efficiency certificates corresponding to the volume of electricity sold to end customers. Property rights granted to the Group in connection with the production of electricity as well as energy efficiency certificates 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 at cost. Changes in the certificates are measured using the weighted average method. Certificates of origin for electricity and energy efficiency certificates are accounted for at the time of their cancellation in correspondence with the relevant provision (**Note 6.3.2.**).

Material estimates

Inventory write-downs

If the cost of inventories is not recoverable, the Group recognises a write down to net realisable value.

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

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

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

Inventories of purchased materials which are idle for a period of:	Write-down rate
1–5 years	Generally, a write-down of 20% is recognised; where the case-by-case assessment of usefulness, the possibility of using a category of materials, and their cycle structure, is taken into account, the Group may recognise write-downs of 5% and 10% of the value of the materials
5–10 years	20%−100%
More than 10 years	100% for materials which are useless and intended for sale or scrapping

(in PLN million, unless stated otherwise)

Inventories	2019			2018		
	Initial value	Write-down	Net carrying amount	Initial value	Write-down	Net carrying amount
Materials, including:	4,265	(454)	3,811	3,282	(149)	3,133
Gas fuel	3,397	(376)	3,021	2,532	(71)	2,461
Fuels for electricity and heat generation	359	-	359	284	-	284
crude oil	19	-	19	15	-	15
Other materials	490	(78)	412	451	(78)	373
Certificates of origin for electricity	222	(1)	221	216	(50)	166
CO_2 emission allowances	-	-	-	57	-	57
Other inventories	11	(1)	10	9	(1)	8
Total	**4,498**	**(456)**	**4,042**	**3,564**	**(200)**	**3,364**

Changes in write-downs	2019	2018
Write-downs at beginning of the period	**(200)**	**(191)**
Taken to profit or loss, including:		
Recognised write-downs taken to profit or loss	(385)	(136)
Write-down reversal taken to profit or loss	127	125
Used	2	2
Write-downs at end of the period	**(456)**	**(200)**

6.2.2.Receivables

Accounting policies

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

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

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

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

Material estimates

Impairment of financial assets

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

The Group monitors changes in credit risk relating to a given financial asset and classifies financial assets to one of three buckets for determining impairment related to future expected loss:

- **Bucket 1** - Not impaired exposures, where the risk of lifetime impairment is not significantly higher than the risk of a given exposure as at the grant date. The expected credit loss for exposures in this bucket is calculated for a term of the next 12 months or shorter, depending on the maturity date of the exposure.
  Financial assets in this bucket are characterised by low risk and high level of creditworthiness confirmed by an external rating institution.
- **Bucket 2** - Not impaired exposures, where the risk of lifetime impairment is significantly higher than the risk related to a given exposure as at the date of grant. For this bucket, the probability of an insolvency event is calculated for the lifetime of the asset.
- **Bucket 3** - Impaired exposures, recognised when the asset was held by the Group. For this bucket, 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.

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

(in PLN million, unless stated otherwise)

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

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

- 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 under equity contributions.

The Group also identifies impaired instruments:

- with a default on payment exceeding 90 days,
- against which bankruptcy/arrangement proceedings are pending,
- with respect to which a legal dispute is pending as to the size/legitimacy of the claim concerning the receivable.

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

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

Receivables	2019			2018		
	Gross carrying amount	Write-down	Net carrying amount	Gross carrying amount	Write-down	Net carrying amount
Trade receivables (mainly in connection with sale of gas fuel)	4,887	(376)	4,511	5,331	(467)	4,864
VAT receivable	510	-	510	572	-	572
Corporate income tax receivable	42	-	42	48	-	48
Other taxes, customs duties and social security receivable	16	(4)	12	17	(3)	14
Loans advanced	78	(55)	23	69	(55)	14
Other receivables	799	(393)	406	615	(385)	230
Total	**6,332**	**(828)**	**5,504**	**6,652**	**(910)**	**5,742**

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

(in PLN million, unless stated otherwise)

Change in impairment losses on trade receivables in the period

	Trade receivables covered by cluster analysis		Trade receivables covered by case-by-case analysis			Measured at fair value through profit or loss
	lifetime expected loss	impaired	12-month expected loss	lifetime expected loss	impaired	
As at Jan 1st 2018	**6**	**221**	**8**	**-**	**85**	**2**
Effect of amended IFRS 9	6	-	2	-	(5)	-
Increase taken to profit or loss	47	16	6	-	309	-
Decrease taken to profit or loss	(45)	(15)	(10)	-	(161)	-
Impairment losses used	-	(28)	-	-	-	-
Transfers	(9)	9	-	-	-	-
Effect of exchange rate movements and other	-	21	-	-	2	-
As at Dec 31st 2018	**5**	**224**	**6**	**-**	**230**	**2**
Increase taken to profit or loss	61	6	5	-	129	-
Decrease taken to profit or loss	(41)	(10)	(2)	-	(197)	(1)
Impairment losses used	-	(40)	-	-	-	-
Transfers	(18)	19	-	-	(1)	-
Effect of exchange rate movements and other	-	2	1	-	(4)	-
As at Dec 31st 2019	**7**	**201**	**10**	**-**	**157**	**1**

Change of gross carrying amount of trade receivables in current period

	Trade receivables covered by cluster analysis		Trade receivables covered by case-by-case analysis			Measured at fair value through profit or loss
	lifetime expected loss	impaired	12-month expected loss	lifetime expected loss	impaired	
Gross carrying amount as at Jan 1st 2018	**2,520**	**447**	**1,537**	**240**	**316**	**5**
Transfer to group with lifetime expected loss	126	(126)	-	-	-	-
Transfer to impaired group	(17)	17	-	-	-	-
Repaid financial assets	(18,589)	(125)	(22,039)	(211)	(1,023)	(4)
Newly recognised financial assets	19,003	181	21,831	203	1,174	-
Write-offs	-	(33)	-	-	-	-
Changes due to modification of risk parameters	-	-	7	-	-	-
Other effect	(144)	8	3	(14)	38	-
Gross carrying amount as at Dec 31st 2018	**2,899**	**369**	**1,339**	**218**	**505**	**1**
Transfer to group with lifetime expected loss	16	(1)	(15)	-	-	-
Transfer to impaired group	(27)	25	1	-	1	-
Repaid financial assets	(20,778)	(170)	(22,291)	(17)	(900)	-
Newly recognised financial assets	21,005	103	22,022	34	661	-
Write-offs	(1)	(44)	-	-	-	-
Changes due to modification of risk parameters	-	2	-	-	(2)	-
Other effect	(72)	(4)	42	11	(45)	-
Gross carrying amount as at Dec 31st 2019	**3,042**	**280**	**1,098**	**246**	**220**	**1**

(in PLN million, unless stated otherwise)

Change in impairment losses on other financial assets in the period

	Other financial assets covered by cluster analysis		Other financial assets covered by case-by-case analysis		
	lifetime expected loss	impaired	12-month expected loss	lifetime expected loss	impaired
As at Jan 1st 2018	**13**	**285**	**1**	**-**	**93**
Increase taken to profit or loss	7	3	-	-	76
Decrease taken to profit or loss	(5)	(5)	-	-	(93)
Impairment losses used	-	(2)	-	-	-
Transfers	(16)	16	-	-	-
Effect of exchange rate movements and other	22	(9)	1	-	-
As at Dec 31st 2018	**21**	**288**	**2**	**-**	**76**
Increase taken to profit or loss	7	12	-	-	-
Decrease taken to profit or loss	(4)	(6)	-	-	(1)
Impairment losses used	-	(1)	-	-	-
Transfers	(26)	18	-	-	8
Effect of exchange rate movements and other	18	(16)	(1)	-	-
As at Dec 31st 2019	**16**	**295**	**1**	**-**	**83**

Changes in gross carrying amount of other financial assets

	Other financial assets covered by cluster analysis		Other financial assets covered by case-by-case analysis			Measured at fair value through profit or loss	Measured at fair value through other comprehensive income
	lifetime expected loss	impaired	12-month expected loss	lifetime expected loss	impaired		
Gross carrying amount as at Jan 1st 2018	**192**	**346**	**100**	**1**	**88**	**12**	**22**
Transfer to group with lifetime expected loss	-	70	-	-	-	-	-
Transfer to impaired group	(70)	-	-	-	-	-	-
Repaid financial assets	(286)	(124)	(101)	-	(37)	(6)	-
Newly recognised financial assets	388	9	36	-	13	24	18
Write-offs	-	(2)	-	-	-	-	-
Other effect	9	(1)	33	-	20	-	-
Gross carrying amount as at Dec 31st 2018	**233**	**298**	**68**	**1**	**84**	**30**	**40**
Transfer to group with 12-month expected loss	-	-	-	-	7	-	-
Transfer to group with lifetime expected loss	-	23	-	-	-	-	-
Transfer to impaired group	(30)	-	-	-	-	-	-
Repaid financial assets	(459)	(18)	(104)	(27)	-	-	-
Newly recognised financial assets	552	36	51	-	-	1	-
Write-offs	(1)	(1)	-	-	-	-	-
Other effect	56	(2)	16	26	17	-	-
Gross carrying amount as at Dec 31st 2019	**351**	**336**	**31**	**-**	**108**	**31**	**40**

(in PLN million, unless stated otherwise)

6.2.3. Trade and tax payables

Accounting policies

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

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

Trade and tax payables	2019	2018
Trade payables	1,608	1,411
Liabilities under purchase of property, plant and equipment and intangible assets	429	560
VAT payable	1,008	985
Other taxes, customs duties and social security payable	310	374
Current income tax liabilities	132	418
Total	**3,487**	**3,748**

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

6.3. Provisions and liabilities

6.3.1. Employee benefit obligations

Accounting policies

Short-term employee benefits

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

Short-term employee benefits paid by the Group include:

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

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

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

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

Long-term employee benefits

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

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

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

(in PLN million, unless stated otherwise)

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

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

Employee benefit obligations	2019		2018	
	Non-current	Current	Non-current	Current
Liabilities under length-of-service awards	562	50	518	48
Liabilities under severance payments	254	3	221	4
Wages and salaries payable	-	77	-	70
Amounts payable for unused holiday entitlements	-	59	-	57
Termination benefits	-	9	-	15
Profit-sharing and bonus obligations	-	135	-	130
Benefits obligations under the Company Social Benefits Fund	69	4	64	4
Other employee benefit obligations	5	61	5	19
Total	**890**	**398**	**808**	**347**

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

	Length-of-service awards		Retirement severance payments	
	2019	2018	2019	2018
Obligations at beginning of the period	566	519	225	193
Interest expense	15	16	6	6
Current service cost	28	32	10	9
Past service cost	-	-	-	-
Benefits paid	(56)	(59)	(10)	(9)
Actuarial gain/(loss) − changes in financial assumptions	21	32	13	18
Actuarial gain/(loss) − changes in demographic assumptions	38	32	13	7
Gain/(loss) due to curtailments or settlements	-	(6)	-	1
Obligations at end of the period	**612**	**566**	**257**	**225**

In the reporting period, the technical rate applied to calculate the discounted value of future retirement severance obligations 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).

6.3.2. Other provisions

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

(in PLN million, unless stated otherwise)

	Provision for certificates of origin and energy efficiency certificates	Provision for liabilities associated with exploration work abroad	Provisions	Provision for UOKiK fine*	Provision for claims under extra-contractual use of land	Other provisions	Total	
As at Jan 1st 2018	**155**	**163**	**124**	**10**	**31**	**319**	**802**	
Effect of amended IFRS 9	**-**	**-**	**-**	**-**	**-**	**18**	**18**	
Increase taken to profit or loss	134	-	5	-	4	178	321	*Note 3.3.*
Decrease taken to profit or loss	(54)	-	(14)	-	(12)	(107)	(187)	*Note 3.3.*
Used	(114)	-	-	(10)	-	(3)	(127)	
Other changes	30	12	-	-	-	3	45	
As at Dec 31st 2018	**151**	**175**	**115**	**-**	**23**	**408**	**872**	
non-current	-	4	76	-	15	102	197	
current	151	171	39	-	8	306	675	
As at Jan 1st 2019	**151**	**175**	**115**	**-**	**23**	**408**	**872**	
Effect of amended IFRS 9	-	-	(19)	-	-	-	(19)	
Increase taken to profit or loss	265	-	49	6	2	193	515	*Note 3.3.***
Decrease taken to profit or loss	(59)	-	(28)	-	(4)	(165)	(256)	*Note 3.3.*
Used	(123)	-	-	-	-	(10)	(133)	
Other changes	(18)	2	5	-	-	39	28	
As at Dec 31st 2019	**216**	**177**	**122**	**6**	**21**	**465**	**1,007**	
non-current	-	4	105	-	13	157	279	
current	216	173	17	6	8	308	728	

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

** Other provisions (provisions for financial guarantees), in an amount of PLN 9m, are disclosed in Note 3.4 as other net finance costs.

6.3.3.Grants

Accounting policies

Grants

The Group recognises grants related to assets, receivable on condition that the Group purchases, produces, or otherwise obtains non-current assets.

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 throughout the expected useful life of the assets.

Grants	2019	2018
Grants related to assets, including:	754	761
Kosakowo UGSC construction	62	71
Wierzchowice UGS extension	378	399
Strachocina UGS extension	51	53
Husów UGS extension	25	27
Construction of gas distribution systems in new areas and upgrades of existing distribution networks	182	149
Other	56	62
Total	**754**	**761**
Including non-current	705	720

Group companies are executing projects for which EU co-financing has been obtained. The largest projects of this type were reported by Polska Spółka Gazownictwa Sp. z o.o., which in 2019 was a party to co-financing agreements covering nine projects, executed under the Operational Programme Infrastructure and Environment for 2014-2020. In connection with these contracts, in the reporting period the Company received a PLN 38m EU grant from Instytut Nafty i Gazu. In the comparative period, the grant amount was PLN 1.8m.

(in PLN million, unless stated otherwise)

6.3.4.Other liabilities

Other liabilities	2019		2018	
	Non-current	Current	Non-current	Current
Security deposits	-	463	-	28
Non-depreciable portion of the value of gas service lines provided by gas buyers	105	40	146	42
Prepaid deliveries	-	206	-	173
Accruals and deferred income	-	297	-	142
Liabilities under licences, rights to geological information and mining rights	44	-	46	-
Other deferred income	1	192	3	197
Other	89	333	69	362
Total	**239**	**1,531**	**264**	**944**

7. Notes on financial instruments and financial risk management

7.1. Financial instruments

Accounting policies

The Group holds the following categories of financial instruments:

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

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

The Group classifies financial assets based on:

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

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

Classification of financial assets and liabilities is as follows:

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

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

Financial assets at fair value through other comprehensive income:

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

Financial assets at fair value through profit or loss:

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

Financial liabilities at amortised cost:

- trade payables (**Note 6.2.3.**),
- financing liabilities (**Note 5.2.**).

Financial assets and liabilities at fair value through profit or loss

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

Hedge derivatives

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

Modification of contractual cash flows

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

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

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

1. 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.
2. 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 meeting the SPPI test;

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

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

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

(in PLN million, unless stated otherwise)

7.1.1.Key financial assets by category

			2019				2018			
Balance-sheet item	Item referenced in Note	Notes	Financial assets at amortised cost	Financial assets at fairvalue through profit or loss	Financial instruments designated for hedge accounting	Total	Loans and receivables at amortised cost	Financial assets at fairvalue through profit or loss	Financial instruments designated for hedge accounting	Total
Receivables	Trade receivables	*Note 6.2.2.*	4,511	-	-	4,511	4,864	-	-	4,864
Derivative financial instruments		*Note 7.2.*	-	1,539	1,088	2,627	-	928	390	1,318
Cash and cash equivalents		*Note 5.4.*	3,037	-	-	3,037	3,925	-	-	3,925
Total			**7,548**	**1,539**	**1,088**	**10,175**	**8,789**	**928**	**390**	**10,107**

7.1.2.Key financial liabilities by category

			2019				2018			
Balance-sheet item	Item referenced in Note	Notes	Financial liabilities at amortised cost	Financial liabilitiesmeasured at fair value through profit or loss	Financial instruments designated for hedge accounting	Total	Financial liabilities at amortised cost	Financial liabilitiesmeasured at fair value through profit or loss	Financial instruments designated for hedge accounting	Total
Financing liabilities	Bank borrowings	*Note 5.2.*	4,893	-	-	4,893	1,385	-	-	1,385
	Debt securities	*Note 5.2.*	-	-	-	-	2,298	-	-	2,298
Trade and tax payables	Trade payables	*Note 6.2.3.*	1,608	-	-	1,608	1,411	-	-	1,411
Derivative financial instruments		*Note 7.2.*	-	991	305	1,296	-	802	358	1,160
Total			**6,501**	**991**	**305**	**7,797**	**5,094**	**802**	**358**	**6,254**

(in PLN million, unless stated otherwise)

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

Item of statement of profit or loss and statement of comprehensive income	Item referenced in Note / additional explanations	Notes	2019 Loans, receivables and liabilities at amortised cost	2019 Derivative financial instruments not designated for hedge accounting	2019 Derivative financial instruments designated for cash flow hedge accounting	2018 Loans, receivables and liabilities at amortised cost	2018 Derivative financial instruments not designated for hedge accounting	2018 Derivative financial instruments designated for cash flow hedge accounting
Effect on statement of profit or loss								
Net finance costs	Interest on debt	*Note 3.4*	(41)	-	-	(41)	-	-
	Foreign exchange differences	*Note 3.4*	15	-	-	11	-	-
	Measurement and exercise of derivative financial instruments not designated for hedge accounting	*Note 3.4*	-	(7)	-	-	(13)	-
Other income and expenses	Foreign exchange differences	*Note 3.3.*	(9)	-	-	16	-	-
	Impairment losses	*Note 3.3.*	42	-	-	(129)	-	-
	Measurement and exercise of derivative financial instruments not designated for hedge accounting	*Note 3.3.*	-	239	-	-	45	-
Revenue by product	Adjustment to gas sales due to hedging transactions	*Note 3.1.*	-	-	570	-	-	(378)
Raw materials and consumables used	Cost of transactions hedging gas prices	*Note 3.2.*	-	-	1	-	-	16
			7	**232**	**571**	**(143)**	**32**	**(362)**
Effect on other comprehensive income								
Gains/(losses) on measurement of derivative instruments designated for cash flow hedge accounting [effective portion]					1,490			(77)
Reclassification of derivative instruments measurement to profit or loss upon exercise (cash flow hedges)					(571)			362
					919			**285**
Effect on comprehensive income			**7**	**232**	**1,490**	**(143)**	**32**	**(77)**
Change in equity recognised in inventories					**(97)**			**(204)**

7.2. Derivative financial instruments

Accounting policies

Derivative financial instruments not designated for hedge accounting

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

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

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

Hedge accounting

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

Derivatives are designated as hedging instruments.

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

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

The Group enters into transactions involving the following derivative instruments:

Derivative instruments designated for hedge accounting

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

Derivative instruments not designated for hedge accounting

Description and purpose of instrument	
CCIRS	A cross currency interest rate swap is an instrument which exchanges cash flows associated with an interest rate and a currency in respect of an agreed base amount at a fixed pre-agreed exchange rate. The Group uses CCIRS to exchange variable rate interest payments denominated in NOK into variable rate interest payments denominated in PLN or fixed rate interest payments denominated in EUR into variable rate interest payments denominated in PLN.
Currency forwards	For instrument description see the previous table.
Electricity futures contracts[1]	A futures contract (futures) is a standard contract enabling the sale or purchase of a commodity in a regulated market for a set exercise price, with a delivery date falling no earlier than after two business days from the date when the terms of the futures contract have been agreed. The Group uses this instrument as economic hedge against price changes in future purchases of electricity and gas.
CO_2 futures contracts	A futures contract is standard contract enabling the sale or purchase of CO_2 emission allowances in a regulated market for a set exercise price, with a delivery date falling no earlier than after two business days from the date when the terms of the futures contract have been agreed. The Group uses this instrument as economic hedge against price changes in future purchases of CO_2 emission allowances.

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

1. EE – Phelix power futures contracts traded at the EEX
2. Electricity and gas forward contracts traded at the Polish Power Exchange

	2019		2018	
	Assets	Liabilities	Assets	Liabilities
Derivative instruments covered by hedge accounting	1,088	306	390	358
Derivative instruments not covered by hedge accounting	1,539	991	928	802
Total	**2,627**	**1,297**	**1,318**	**1,160**

Derivative instruments designated for hedge accounting

	2019					2018		
Type of derivative instrument	Notional amount (million)	Period when cash flow will occur and affect the financial result	Exercise price (exercise price range)	Weighted average exercise price	Fair value of instruments for which cash flow hedge accounting is applied	Notional amount (million)	Period when cash flow will occur and affect the financial result	Fair value of instruments for which cash flow hedge accounting is applied
Derivative instruments used to hedge currency risk in gas purchase and sale contracts								
Forwards								
USD	371	up to 3 years	3,34-3,76	3.65	54	901	up to 3 years	216
USD	601	up to 3 years	3,80-3,99	3.86	(39)	77	1–3 months	(1)
EUR	970	up to 3 years	4,40-4,57	4.46	120	1,354	up to 3 years	50
EUR	-	-	-	-	-	438	up to 3 years	(18)
EUR/USD	42	up to 3 years	1,14-1,18	1.16	2	-	-	-
					137			**247**
Derivative instruments used to hedge gas purchase and selling prices								
TTF swap DA	41 MWh	up to 3 years	12,18-21,71	18.55	807	9 MWh	up to 3 years	67
TTF swap MA	2 MWh	1–3 months	12.2	12.20	(1)	2 MWh	1–3 months	(9)
TTF swap DA	12 MWh	Up to 12 months	13,03-19,51	16.74	(254)	3 MWh	up to 3 years	(54)
GASPOOL swap DA	4 MWh	up to 3 years	15,97-21,98	19.00	105	6 MWh	up to 3 years	57
GASPOOL swap DA	-	-	-	-	-	16 MWh	up to 3 years	(276)
HH NYMEX	15 MMBTU	up to 3 years	2,35-2,66	2.48	(12)	-	-	-
					645			**(215)**
				Total	**782**		**Total**	**32**
			Including:	Assets	1,088	Including:	Assets	390
				Liabilities	306		Liabilities	358

(in PLN million, unless stated otherwise)

2019

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

(in PLN million, unless stated otherwise)

2018

Type of hedging instrument	Notional amount	Carrying amount		Name of item in statement of financial position which includes hedging instrument	Change in fair value of hedging instrument used as basis for recognising hedge ineffectiveness in a given period	Hedging gains or losses for reporting period, recognised in other comprehensive income	Hedge ineffectiveness amount taken to profit or loss	Statement of comprehensive income (statement of profit or loss) item in which ineffectiveness amount is included	Amount reclassified from cash flow hedging reserve to profit or loss as reclassification adjustment	Item of statement of comprehensive income (statement of profit or loss) in which reclassification adjustment is included
		Assets	Liabilities							
CASH FLOW HEDGES										
CURRENCY RISK										
Forward contracts for currency purchase (USD)	3,678	216	1	Derivative financial instruments	215	418	-	Operating income / expenses	-	-
Average rate forwards (EUR)	7,707	50	18	Derivative financial instruments	27	30	-	Operating income / expenses	(3)	Revenue from sale of gas
COMMODITY PRICE RISK										
Basis swap contracts for gas price indices	208	34	9	Derivative financial instruments	25	(193)	-	Operating income / expenses	217	Revenue from sale of gas
Swap contracts for gas price indices	3,081	90	330	Derivative financial instruments	(189)	(359)	(10)	Operating income / expenses	164	Revenue from sale of gas
Swap contracts for petroleum product price indices	-	-	-	Derivative financial instruments	-	28	-	Operating income / expenses	-	-
FAIR VALUE HEDGES										
Total	**14,674**	**390**	**358**	**-**	**78**	**(76)**	**(10)**	**-**	**378**	**-**

(in PLN million, unless stated otherwise)

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

Hedged items	2019 Change in value of hedged item used as basis for recognising hedge ineffectiveness in given period	2019 Balance of cash flow hedging reserve for continuing hedges	2019 Balance remaining in cash flow hedging reserve in respect of all hedging relationships for which hedge accounting is no longer applied	2018 Change in value of hedged item used as basis for recognising hedge ineffectiveness in given period	2018 Balance of cash flow hedging reserve for continuing hedges	2018 Balance remaining in cash flow hedging reserve in respect of all hedging relationships for which hedge accounting is no longer applied
CURRENCY RISK						
Natural gas (USD)	(287)	16	-	215	215	-
Natural gas (EUR/USD)	(2)	2	-	-	-	-
Natural gas (EUR)	(156)	93	38	(27)	32	(5)
COMMODITY PRICE RISK						
Gas contracts indexed to monthly gas price indices	(310)	33	1	(25)	25	1
Gas contracts indexed to daily gas price indices	(846)	606	133	179	(182)	2
Gas contracts indexed to monthly petroleum product indices	15	(12)	-	-	-	-
Total	**(1,586)**	**738**	**172**	**342**	**90**	**(2)**

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

	2019	2018
At beginning of the period	**88**	**8**
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	(271)	(194)
COMMODITY PRICE RISK		
Hedging gains or losses recognised in other comprehensive income during reporting period	1,287	(524)
Part of loss taken to statement of profit or loss as hedged item was not expected to occur	-	(1)
Amount reclassified from cash flow hedging reserve to statement of profit or loss as reclassification adjustment	(545)	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	-	(16)
At end of the period	**910**	**88**

Derivative instruments not designated for hedge accounting

Type of derivative instrument	2019 Notional amount (million)	2019 Fair value of instruments not designated for hedge accounting	2018 Notional amount (million)	2018 Fair value of instruments not designated for hedge accounting
Derivative instruments hedging interest rate risk and currency risk				
CCIRS				
NOK	2,318	90	2,318	94
Forwards				
EUR	608	89	573	16
EUR	1	-	97	(8)
EUR	610	(49)	336	(15)
		130		**87**
Derivative instruments used as economic hedges of electricity purchase prices				
Forwards				
electricity – PPX	12 MWh	18	0.25 MWh	12
electricity – PPX	1 MWh	(5)	8 MWh	(7)
electricity – OTC	1 MWh	34	1 MWh	75
electricity – OTC	1 MWh	(22)	2 MWh	(97)
Futures				
electricity – EEX AG	2 MWh	69	5 MWh	203
electricity – EEX AG	3 MWh	(81)	5 MWh	(180)
		13		**6**
Derivative instruments used to hedge gas purchase and selling prices				
Forwards				
gas – OTC	16 MWh	393	30 MWh	305
gas – OTC	13 MWh	(310)	33 MWh	(342)
Futures				
gas - PPX	2 MWh	(54)	-	-
gas – ICE ENDEX B.V.	4 MWh	91	7 MWh	85
gas – ICE ENDEX B.V.	4 MWh	(92)	5 MWh	(63)
gas – POWERNEXT SA	2 MWh	40	6 MWh	74
gas – POWERNEXT SA	3 MWh	(72)	6 MWh	(59)
Swap				
GASPOOL DA	9 MWh	235	-	-
GASPOOL DA	7 MWh	(99)	-	-
TTF swap MA	-	-	1 MWh	2
TTF swap DA	21 MWh	473	5 MWh	37
TTF swap MA	9 MWh	(44)	1 MWh	(11)
TTF swap DA	9 MWh	(159)	2 MWh	(7)
		402		**21**
Derivative instruments used to hedge oil prices				
Futures				
Crude oil – ICE Futures Europe	-	-	-	11
Crude oil – ICE Futures Europe	-	-	-	(11)
		-		**-**
Derivative instruments used to hedge purchase prices of CO_2 emission allowances				
Forwards	EUR 24	(1)	EUR 2	-
Forwards	-	-	EUR 16	-
Futures	3 t	(1)	1 t	-
		(2)		**-**
Derivative instruments used to hedge share purchase prices				
Options	9 million shares	5	9 million shares	12
	Total	**548**	**Total**	**126**
	Including:		Including:	
	Assets	1,539	Assets	928
	Liabilities	991	Liabilities	802

(in PLN million, unless stated otherwise)

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

Instrument	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, commodity swaps, CCIRS and IRS	Discount method	

7.3. Financial risk management policies

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

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

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

7.3.1. Credit risk

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

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

Maximum risk exposure, equal to the carrying amount of the item	2019	2018
Cash and cash equivalents (cash at banks and bank deposits)	3,037	3,925
Non-current restricted cash	190	207
Trade receivables	4,511	4,864
Loans advanced	723	576
Total	**8,461**	**9,572**

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

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

(in PLN million, unless stated otherwise)

7.3.1.1. Credit risk related to cash and bank deposits

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

As at the reporting date, there was no concentration of credit risk within the Group. As at the end of 2019, the three banks with which the Group deposited the largest amounts of their funds accounted for 40%, 15% and 10% of the total cash balance (in 2018, the distribution was 39%, 38% and 6%).

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

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

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

	Rating assigned by	2019		2018	
	Fitch	Bank deposits	Derivative instruments (assets)	Bank deposits	Derivative instruments (assets)
Bank\Financial Institution	A+	231	508	165	88
Bank\Financial Institution	A	-	1,149	-	156
Bank\Financial Institution	A-	448	39	45	20
Bank\Financial Institution	A2 (Moody's)	19	264	956	145
Bank\Financial Institution	Baa1 (Moody's)	-	-	-	83
Bank\Financial Institution	BB-	9	-	39	-
Bank\Financial Institution	BBB+	1,049	15	1,115	43
Bank\Financial Institution	BBB	-	-	35	4
Bank\Financial Institution	BBB-	10	-	-	-
Exchanges	-	-	216	-	374
OTC market	-	-	431	-	393
Bank\Financial Institution, other	-	1	5	-	12
Total		**1,767**	**2,627**	**2,355**	**1,318**

7.3.1.2. Credit risk related to receivables

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

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

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

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

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

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

(in PLN million, unless stated otherwise)

There is no credit risk concentration within the Group. As at December 31st 2019, trade receivables from the Group's three largest customers accounted for 7.0%, 3.5%, and 2.3% of total balance of trade, respectively (December 31st 2018: 6.3%, 5.0%, and 3.7%, respectively).

7.3.1.3. Credit risk related to derivative transactions

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

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

As at December 31st 2019, the shares of the three counterparty banks which accounted for the largest proportion (in value terms) of transactions in derivative instruments with positive valuations were 47%, 22%, and 12% (2018: 38%, 15% and 10%).

7.3.2. Market risk

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

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

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

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

Impact on financial results

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

(in PLN million, unless stated otherwise)

7.3.2.1. Commodity price risk

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

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

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

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

Based on historical analyses performed for the last two years (the Group hedges against commodity risk over a two-year time horizon), the Group determined that in the past the change in the TTF index accounted for approximately 116% of the volatility of the price of gas purchased/sold at the intra-day price on the PPX. The Group also determined that there is a negative correlation between the TTF index and the currency exchange rate.

For details on hedge accounting, see **Note 7.2**.

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

The tables below present an analysis of sensitivity of material energy commodity derivatives (TTF) to price changes in 2018 and 2017.

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

*TTF, EE – for abbreviations see Note 7.2.

2018	Carrying amount	TTF, EE - price change by:			
		+25%		-25%	
		Profit/(loss)	Other comprehensive income	Profit/(loss)	Other comprehensive income
Energy commodity derivative assets	928	10	2	152	500
Energy commodity derivative liabilities	1,116	(164)	(601)	(10)	-
Effect of TTF, EE* price changes		**(154)**	**(599)**	**142**	**500**

*TTF, EE – for abbreviations see Note 7.2.

7.3.2.2. Currency risk

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

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

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

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

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

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

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

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

In 2019, the Group used derivative instruments to hedge against currency risk associated with trade payables/receivables denominated in foreign currencies (chiefly USD and EUR), including forwards and average rate forwards/currency swaps. For detailed information on derivative transactions executed by the Group (derivatives designated for hedge accounting and economic hedges not designated for hedge accounting), see **Note 7.2**.

The table below presents the Group's exposure to currency risk arising from material items denominated in foreign currencies, and an analysis of the Group's sensitivity to the risk of movements in foreign exchange rates that the Group considers to be reasonably possible as at the reporting date (December 31st 2019).

(in PLN million, unless stated otherwise)

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

2018	Carrying amount	Value at risk	EUR/PLN				USD/PLN				NOK/PLN				
			Exchange rate change: +10%		Exchange rate change: -10%		Exchange rate change: +10%		Exchange rate change: -10%		Exchange rate change: +10%		Exchange rate change: -10%		
			Profit /(loss)	Other compre-hensive income	Profit /(loss)	Other compre-hensive income	Profit /(loss)	Other compre-hensive income	Profit /(loss)	Other compre-hensive income	Profit /(loss)	Other compre-hensive income	Profit /(loss)	Other compre-hensive income	
Financial assets															
Trade receivables	4,864	990	51	-	(51)	-	23	-	(23)	-	3	-	(3)	-	*Note 6.2.2.*
Derivative financial instruments (assets)	1,318	377	-	-	47	285	-	293	-	-	-	-	-	-	*Note 7.2.*
Cash and cash equivalents	3,925	971	22	-	(22)	-	53	-	(53)	-	2	-	(2)	-	*Note 5.4.*
Financial liabilities															
Financing liability	3,702	1,174	(29)	-	29	-	(66)	-	66	-	-	-	-	-	*Note 5.2.*
Trade payables	1,411	1,014	(57)	-	57	-	(20)	-	20	-	(3)	-	3	-	*Note 6.2.3.*
Derivative financial instruments (liabilities)	1,160	43	(47)	(285)	-	-	-	-	-	(293)	-	-	-	-	*Note 7.2.*
Effect of exchange rate movements			**(60)**	**(285)**	**60**	**285**	**(10)**	**293**	**10**	**(293)**	**2**	**-**	**(2)**	**-**	

(in PLN million, unless stated otherwise)

7.3.2.3. Interest rate risk

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

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

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

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

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

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

	2019				2018				
	Carrying amount	Balances bearing interest at variable rate	Interest rate change by +30 bps	Interest rate change by -30 bps	Carrying amount	Balances bearing interest at variable rate	Interest rate change by +30 bps	Interest rate change by - 30 bps	
Cash and cash equivalents	3,037	1,767	5	(5)	3,925	2,355	7	(7)	*Note 5.4.*
CIRS not designated for hedge accounting (assets)	90	1,001	-	-	94	1,003	(106)	106	*Note 7.2.*
Financing liabilities	6,746	5,091	(15)	15	3,702	1,393	(4)	4	*Note 5.2.*
Effect after hedge accounting			**(10)**	**10**			**(103)**	**103**	

7.3.3. Liquidity risk

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

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

The liquidity risk should not be associated exclusively with the risk of loss of liquidity by the Group. An equally serious threat is that of having excess structural liquidity, which could adversely affect the Group's profitability. The Group monitors and plans its liquidity levels on a continuous basis. As at December 31st 2018, the Group did not carry any amounts outstanding under overdraft facilities.

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

The Group companies have also contracted lines of credit, as set out in **Note 5.2.1.**

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

(in PLN million, unless stated otherwise)

- execution of payments,
- cash flow forecasting,
- optimal management of free cash,
- raising new financing and restructuring existing funding arrangements to finance day-to-day operations and investment projects,
- providing protection against temporary liquidity constraints resulting from unforeseen disruptions, and servicing contracted bank loans.

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

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

2019	Time to contractual maturity at the reporting date					Total	Carrying amount
	Up to 3 months	3–12 months	1-3 years	3-5 years	over 5 years		
Financing liabilities							
Bank borrowings	3,014	164	60	602	1,050	**4,890**	**4,893**
Lease liabilities	45	31	193	135	1,609	**2,013**	**1,840**
Other	-	-	-	20	-	**20**	**20**
Trade payables	3,076	47	80	17	36	**3,256**	**3,256**
Derivative financial liabilities							
Forwards							
- inflows	267	257	38	54	-	**616**	**-**
- outflows	(254)	(222)	(38)	(39)	-	**(553)**	**426**
Other derivative instruments							
- inflows	184	400	20	50	-	**654**	**-**
- outflows	(640)	(636)	(40)	(66)	-	**(1,382)**	**869**
Financial liabilities (outflows)	**6,984**	**1,069**	**218**	**744**	**1,086**	**10,101**	**-**
Financial liabilities, including inflows from derivatives	**6,533**	**412**	**160**	**640**	**1,086**	**8,831**	**11,304**

2018	Time to contractual maturity at the reporting date					Total	Carrying amount
	Up to 3 months	3–12 months	1-3 years	3-5 years	over 5 years		
Financing liabilities							
Bank borrowings	9	210	645	429	93	**1,386**	**1,385**
Debt securities	2,300	-	-	-	-	**2,300**	**2,298**
Lease liabilities	4	3	8	4	-	**19**	**19**
Trade payables	2,455	46	63	12	39	**2,615**	**2,615**
Derivative financial liabilities							
Forwards							
- inflows	2,340	3,110	1,132	-	-	**6,582**	**-**
- outflows	(2,299)	(3,245)	(1,124)	-	-	**(6,668)**	**488**
Other derivative instruments							
- inflows	91	317	129	-	-	**537**	**-**
- outflows	(103)	(423)	(145)	-	-	**(671)**	**670**
Financial liabilities (outflows)	**7,166**	**3,924**	**1,977**	**441**	**132**	**13,640**	**-**
Financial liabilities, including inflows from derivatives	**4,735**	**497**	**716**	**441**	**132**	**6,521**	**7,475**

(in PLN million, unless stated otherwise)

8. Other notes

8.1. Share capital and share premium

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

2018	Number of shares	Total par value	Ownership interest % / total voting rights held
Shareholder			
State Treasury	4,153,706,157	4,153,706,157	71.88%
Other shareholders	1,624,608,700	1,624,608,700	28.12%
Total	**5,778,314,857**	**5,778,314,857**	**100.00%**

8.2. Earnings per share

Accounting policies

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

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

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

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

8.3. Assets held for sale

Accounting policies

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

Asset (disposal group) held for sale	Terms and expected date of disposal	Carrying amount	
		2019	2018
Other non-current assets held for sale	Tender (sale expected in 2019 or 2020)	14	46
Total		**14**	**46**

(in PLN million, unless stated otherwise)

8.4. Other assets

Accounting policies

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

Non-current restricted cash represents cash of the Extraction Facilities Decommissioning Fund, accumulated by the Parent in a separate bank account from the first day of operation to the start of decommissioning of extraction facilities. The Fund's cash is increased by the amount of interest accruing on the Fund's assets. Due to formal and legal 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 Group's statement of financial position as other assets under non-current assets. The amount of the provision for decommissioning of production and storage wells is adjusted for any unused contributions to the Extraction Facilities Decommissioning Fund (**Note 6.1.1.1**)

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

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

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

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

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

	2019	2018
Other non-current assets	**1,375**	**1,363**
Loans advanced	700	562
Non-current restricted cash	190	207
Connection charge	120	125
Unlisted shares	32	30
Investment property	155	153
Prepayments for other tangible assets under construction, not related to exploration activities	77	182
Financial receivables (deposits, guarantees, and other)	26	67
Other non-current assets	75	37
Other current assets	**259**	**204**
Securities and other debt instruments	71	70
Property insurance	52	43
Other current assets	136	91

Changes in gross carrying amount of loans advanced

	Loans advanced		
	12-month expected loss	lifetime expected loss	impaired
Gross carrying amount as at Jan 1st 2018	**551**	**-**	**50**
Repaid financial assets	(300)	-	(3)
Newly recognised financial assets	371	25	-
Other effect	(62)	-	8
Gross carrying amount as at Dec 31st 2018	**560**	**25**	**55**
Repaid financial assets	(16)	(3)	(4)
Newly recognised financial assets	138	7	-
Other effect	22	-	4
Gross carrying amount as at Dec 31st 2019	**704**	**29**	**55**

(in PLN million, unless stated otherwise)

Change in impairment losses on gross carrying amount of loans advanced in the reporting period

	Loans advanced		
	12-month expected loss	lifetime expected loss	impaired
As at Jan 1st 2018	**54**	**-**	**49**
Increase taken to profit or loss	88	-	4
Decrease taken to profit or loss	(123)	-	(3)
Effect of exchange rate movements and other	(10)	-	5
As at Dec 31st 2018	**9**	**-**	**55**
Increase taken to profit or loss	3	-	3
Decrease taken to profit or loss	(1)	-	(4)
Effect of exchange rate movements and other	-	-	1
As at Dec 31st 2019	**11**	**-**	**55**

8.5. Contingent assets and liabilities

Contingent asset	2019	2018
	Estimated amount	
Promissory notes received	-	1
Grants awarded	187	218
Other contingent assets	14	14
Total	**201**	**233**

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

Contingent liabilities	2019	2018
	Estimated amount	
Guarantees and sureties	3,808	3,504
Promissory notes	552	784
Other	11	8
Total	**4,371**	**4,296**

As at the end of 2019, the largest item of contingent liabilities was a guarantee issued by the parent for the benefit of the Norwegian State in connection with the PUN's work on the Norwegian continental shelf, whose carrying amount as at the end of 2019 was PLN 2,672m (translated into PLN) (year-end 2018: PLN 2,698m) and was disclosed under Guarantee and sureties.

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

Following an analysis of the probability of an outflow of economic benefits as at the reporting date, the carrying amount of the Group's contingent liabilities under promissory notes issued as at the end of 2019 was reduced.

(in PLN million, unless stated otherwise)

8.6. Related-party transactions

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

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

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

	2019			2018		
	Joint ventures	Other related parties	Total	Joint ventures	Other related parties	Total
Turnover and revenue/expenses for the period						
Sale of products and services	54	13	67	56	10	66
Interest income from loans advanced	34	4	38	4	4	8
Total	**88**	**17**	**105**	**60**	**14**	**74**
Purchase of services, merchandise and materials	(77)	(60)	(137)	(21)	(11)	(32)
Purchase of tangible assets under construction	(109)	(3)	(112)	(29)	(4)	(33)
Purchase of inventories	(450)	(19)	(469)	(441)	(16)	(457)
Total	**(636)**	**(82)**	**(718)**	**(491)**	**(31)**	**(522)**
Balance at end of the period						
Trade and other receivables	12	2	14	9	2	11
Loans advanced	694	30	724	550	26	576
Including impairment losses	(11)	(55)	(66)	(9)	(55)	(64)
Total	**706**	**32**	**738**	**559**	**28**	**587**
Trade payables	61	7	68	71	6	77
Other liabilities	6	-	6	-	-	-
Total	**67**	**7**	**74**	**71**	**6**	**77**

In 2019, neither the parent nor its subsidiaries entered into any material related-party transactions other than on arm's length terms.

8.6.2. Transactions with entities in which the State Treasury holds equity interests

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

	2019	2018
Revenue	5,871	8,270
Expenses	(1,687)	(1,705)
Receivables	919	1,188
Liabilities	23	116

The above data refer to transactions with entities supervised by the Prime Minister and listed in the Regulation of the Prime Minister of December 5th 2019 on the list of companies in which rights from shares held by the State Treasury are exercised by members of the Council of Ministers other than the Prime Minister, Government Plenipotentiaries or state legal persons, including companies fully owned by the State Treasury.

(in PLN million, unless stated otherwise)

8.6.3. Benefits received by the Group's key personnel

	2019			2018		
	Management Board	Supervisory Board	Total	Management Board	Supervisory Board	Total
Parent	**11.0**	**0.7**	**11.7**	**6.1**	**0.7**	**6.8**
Short-term employee benefits	10.6	0.7	11.3	6.0	0.7	6.7
Termination benefits	0.4	-	0.4	0.1	-	0.1
Subsidiaries	**23.6**	**5.2**	**28.8**	**22.4**	**4.0**	**26.4**
Short-term employee benefits	22.9	5.2	28.1	20.6	4.0	24.6
Post-employment benefits	0.4	-	0.4	0.4	-	0.4
Other long-term benefits expense	0.3	-	0.3	0.4	-	0.4
Termination benefits	-	-	-	1.0	-	1.0
Total	**34.6**	**5.9**	**40.5**	**28.5**	**4.7**	**33.2**

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

8.6.4. Loans granted to the management and supervisory personnel of the Group companies

In 2019 and 2018, none of the members of the management and supervisory personnel of the PGNiG Group received loans from the Group.

8.7. Joint operations

Accounting policies

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

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

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

Figure 2: Countries where the Group conducts joint operations

(in PLN million, unless stated otherwise)

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

Material estimates

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

As at December 31st 2019, the Group also held interests in other licences on the Norwegian Continental Shelf, covering, among others, the Skarv, Gina Krog, Morvin, Vilje, Vale, Tommeliten Alpha and Duva fields. Considering the IFRS 11 criteria, the Group's operations in the above fields do not represent joint arrangements as defined in the standard and the Group does not have joint control of the operations as there is more than one combination of parties that can agree to make significant decisions. Therefore, for the purpose of correct recognition and measurement of transactions related to the operations in those fields, the Group applies other relevant IFRSs taking into account its interest in the fields, which ensures that there are no material differences in the accounting recognition and measurement of transactions related to these operations and the manner of recognising operations which are carried out jointly with holders of interests in the licences that meet the definition of joint operations within the meaning of IFRS 11.

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

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

2019

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

2018

Name of joint contractual arrangement	Country where joint operation is conducted	Interests in joint operations	Business of joint operations
Joint operation in the Sieraków licence area	Poland	PGNiG S.A. 51%; Orlen Upstream Sp. z o.o. 49%	Oil and gas exploration and production
Joint operation in the Płotki licence area	Poland	PGNiG S.A. 51%; FX Energy (Grupa ORLEN) 49%	Oil and gas exploration and production
Joint operation in the Górowo Iławieckie licence area	Poland	PGNiG S.A. 51%; LOTOS Petrobaltic S.A. 49%	Oil and gas exploration and production
Joint operation in the Poznań licence area	Poland	PGNiG S.A. 51%; FX Energy (Grupa ORLEN) 49%	Oil and gas exploration and production
Joint operation in the Bieszczady licence area	Poland	PGNiG S.A. 51%; ORLEN Upstream sp. z o.o. 49%	Oil and gas exploration and production
Joint operation in the Warszawa Południe licence area	Poland	FX Energy (Grupa ORLEN) 81.82%; PGNiG S.A. 18.18%	Oil and gas exploration and production
Joint operation in the Kirthar licence area	Pakistan	PGNiG S.A. 70%; Pakistan Petroleum Ltd. 30%	Oil and gas exploration and production
Joint operation in the PL460 licence area	Norway	PGNiG Upstream Norway AS 35%; AkerBP 65%	Oil and gas exploration and production

(in PLN million, unless stated otherwise)

8.8. Changes in the Group structure in the reporting period

Date	Company	Event
Apr 4 2019	PGNiG Finance AB i likvidation	The process of winding up PGNiG Finance AB i likvidation, commenced on January 15th 2018, was completed.
May 24 2019	GAZOTECH Sp. z o.o.	Przedsiębiorstwo Inwestycyjne GAZOTECH Sp. z o.o. was deleted from the National Court Register.
Sep 16 2019	Sahara Petroleum Technology Llc w likwidacji) (in liquidation)	Sahara Petroleum Technology Llc w likwidacji (in liquidation) of Muscat ceased to exist.
Oct 7 2019	Polski Gaz Towarzystwo Ubezpieczeń Wzajemnych na Życie	Polski Gaz Towarzystwo Ubezpieczeń Wzajemnych na Życie (Polski Gaz TUW na Życie) was incorporated. The Polish Financial Supervision Authority issued an authorisation for Polski Gaz TUW na Życie and approved its Articles of Association on November 5th 2019. The relevant entry in the National Court Register was made on November 22nd 2019.

8.9. Other relevant information

8.9.1. Auditor fees

	2019	2018
Audit of the full-year separate financial statements and the full-year consolidated financial statements of the Group	1.91	1.76
Other assurance services, including review of financial statements	0.43	0.52
Other services	1.22	0.30
Total	**3.56**	**2.58**

PKF Consult Spółka z ograniczoną odpowiedzialnością Sp.k. was the entity appointed to audit and review financial statements of the parent and some of the subsidiaries and the consolidated financial statements of the PGNiG Group (Deloitte Polska Sp. z o.o. Sp.k. in 2018).

The relevant agreement was concluded on April 12th 2019 and covers the years 2019–2020.

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

8.10. Events after the reporting date

Date	Company	Event
Jan 9 2020	PGNiG S.A.	On January 10th 2020, the Supervisory Board appointed a new member of the PGNIG Management Board for a joint term of office. For detailed information, see the Directors' Report on the operations of PGNIG S.A. and the PGNiG Group.
Jan 9 2020	PGNiG Upstream Norway AS	On January 9th 2020, the condition precedent of the agreement for PGNiG Upstream Norway AS to purchase shares in the Duva field from Pandion Energy was fulfilled (PUN obtained the required administrative approvals in Norway).
Feb 27 2020	PGNiG S.A.	The Supervisory Board decided to appoint Ms Magdalena Zegarska as Vice President of the Management Board for a joint term of office, with effect from February 27th 2020 (following the election of PGNiG employees).

PGNiG Management Board:

President of the Management Board	Jerzy Kwieciński	--
Vice President of the Management Board	Robert Perkowski	--
Vice President of the Management Board	Arkadiusz Sekściński	--
Vice President of the Management Board	Przemysław Wacławski	--
Vice President of the Management Board	Jarosław Wróbel	--
Vice President of the Management Board	Magdalena Zegarska	--
Person responsible for the preparation of the consolidated financial statements	Aleksandra Sobieska-Moroz	--

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.