Consolidated financial statements of the PGNiG Group for 2021

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

2021

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Financial statements

Consolidated statement of profit or loss	Note	2021	2020
Revenue from sales of gas	Note 3.1.	54,962	27,715
Other revenue	Note 3.1.	15,002	11,482
Revenue	Note 3.2.	**69,964**	**39,197**
Cost of gas	Note 3.3.	(43,758)	(19,808)
Effect of the annex executed with PAO Gazprom/OOO Gazprom Export on cost of gas in 2014–2019	Note 3.3.	-	4,915
Other raw materials and consumables used	Note 3.3.	(4,168)	(3,224)
Employee benefits expense	Note 3.3.	(3,480)	(3,381)
Transmission services		(1,159)	(1,048)
Other services	Note 3.3.	(2,112)	(1,888)
Taxes and charges		(1,226)	(911)
Other income and expenses	Note 3.4.	(423)	(159)
Work performed by the entity and capitalised		1,564	1,102
Recognition and reversal of impairment losses on property, plant and equipment and intangible assets	Note 3.3.	391	(1,786)
Operating profit before interest, taxes, depreciation and amortisation (EBITDA)	Note 2.2.	**15,593**	**13,009**
Depreciation and amortisation expense	Note 2.2.	(4,031)	(3,424)
Operating profit (EBIT)	Note 2.2.	**11,562**	**9,585**
Net finance costs	Note 3.5.	(587)	35
Profit/(loss) from equity-accounted investees	Note 2.4.	7	(595)
Profit before tax		**10,982**	**9,025**
Income tax	Note 4.1.	(4,968)	(1,685)
Net profit		**6,014**	**7,340**
Net profit attributable to:			
Owners of the parent		6,014	7,340
Non-controlling interests		-	-
Weighted average number of ordinary shares (million)		5,778	5,778
Basic and diluted earnings per share (PLN)	Note 3.6.	1.04	1.27

Consolidated statement of comprehensive income	Note	2021	2020
Net profit		**6,014**	**7,340**
Exchange differences on translating foreign operations		(30)	(10)
Hedge accounting	Note 7.1.3.	(3,467)	(1,217)
Deferred tax		659	231
Share of other comprehensive income of equity-accounted investees		1	(1)
Other comprehensive income subject to reclassification to profit or loss		**(2,837)**	**(997)**
Actuarial losses on employee benefits		66	(69)
Deferred tax		(13)	13
Share of other comprehensive income of equity-accounted investees		10	(2)
Other comprehensive income not subject to reclassification to profit or loss		**63**	**(58)**
Other comprehensive income, net		**(2,774)**	**(1,055)**
Total comprehensive income		**3,240**	**6,285**
Total comprehensive income attributable to:			
Owners of the parent		3,240	6,285
Non-controlling interests		-	-

(in PLN million unless stated otherwise)

Consolidated statement of cash flows	Note	2021	2020
Cash flows from operating activities			
Net profit		6,014	7,340
Depreciation and amortisation expense		4,031	3,424
Current tax expense		4,968	1,685
Net gain/(loss) on investing activities		(841)	1,618
Other non-cash adjustments	*Note 5.5.2.*	618	782
Income tax paid	*Note 4.1.1.*	(1,336)	(1,745)
Movements in working capital	*Note 5.5.1.*	(9,984)	1,014
Net cash from operating activities		**3,470**	**14,118**
Cash flows from investing activities			
Payments for acquisition of tangible exploration and evaluation assets under construction	*Note 2.2.*	(745)	(952)
Payments for other property, plant and equipment and intangible assets	*Note 2.2.*	(6,290)	(4,843)
Proceeds from sale of property, plant and equipment and intangible assets		275	26
Payments for shares in related entities		(35)	(2)
Payments for acquisition of short-term securities		(21)	(523)
Proceeds from sale of short-term securities		3	134
Payment for acquisition of INEOS E&P Norge AS		(1,309)	-
Other items, net		30	(94)
Net cash from investing activities		**(8,092)**	**(6,254)**
Cash flows from financing activities			
Increase in debt	*Note 5.1.*	12,741	496
Decrease in debt	*Note 5.1.*	(2,895)	(3,605)
Dividends paid	*Note 5.3.*	(1,213)	(520)
Other items, net		(5)	(24)
Net cash from financing activities		**8,628**	**(3,653)**
Net cash flows		**4,006**	**4,211**
Cash and cash equivalents at beginning of the period		7,098	3,037
Foreign exchange differences on cash and cash equivalents	*Note 5.5.3.*	311	(148)
Impairment losses on cash and cash equivalents	*Note 5.5.3.*	(2)	(2)
Cash flows associated with cash pooling transactions		(3)	-
Cash and cash equivalents at end of the period		**11,410**	**7,098**
including restricted cash		4,300	1,208

(in PLN million unless stated otherwise)

Consolidated statement of financial position	Note	2021	2020
ASSETS			
Property, plant and equipment	Note 6.1.1.	50,192	42,565
Intangible assets	Note 6.1.2.	1,826	693
Deferred tax assets	Note 4.1.2.	1,494	42
Equity-accounted investees	Note 2.4.	984	966
Derivative financial instruments	Note 7.2.	1,396	143
Other assets	Note 8.2.	1,588	1,834
Non-current assets		**57,480**	**46,243**
Inventories	Note 6.2.1.	8,235	2,684
Receivables	Note 6.2.2.	16,462	5,288
Derivative financial instruments	Note 7.2.	7,572	1,310
Other assets	Note 8.2.	336	217
Cash and cash equivalents	Note 5.4.	11,410	7,098
Assets held for sale	Note 8.1.	81	31
Current assets		**44,096**	**16,628**
TOTAL ASSETS		**101,576**	**62,871**
EQUITY AND LIABILITIES			
Share capital and share premium	Note 5.3.	7,518	7,518
Hedging reserve		(4,598)	(16)
Accumulated other comprehensive income	Note 5.3.	(281)	(315)
Retained earnings	Note 5.3.	41,740	36,939
Equity attributable to owners of the parent		44,379	44,126
Equity attributable to non-controlling interests		-	(1)
TOTAL EQUITY		**44,379**	**44,125**
Financing liabilities	Note 5.1.	4,489	3,859
Derivative financial instruments	Note 7.2.	4,867	285
Employee benefit obligations	Note 6.3.1.	933	1,046
Provision for decommissioning, restoration and environmental remediation costs	Note 6.3.2.	3,161	3,241
Other provisions	Note 6.3.3.	260	135
Grants	Note 6.3.4.	695	695
Deferred tax liabilities	Note 4.1.2.	5,572	2,228
Other liabilities	Note 6.3.5.	130	177
Non-current liabilities		**20,107**	**11,666**
Financing liabilities	Note 5.1.	10,148	325
Derivative financial instruments	Note 7.2.	10,164	1,113
Trade and tax payables*	Note 6.2.3.	12,924	3,297
Employee benefit obligations	Note 6.3.1.	571	468
Provision for decommissioning, restoration and environmental remediation costs	Note 6.3.2.	103	70
Other provisions	Note 6.3.3.	762	789
Grants	Note 6.3.4.	42	49
Other liabilities	Note 6.3.5.	2,376	969
Current liabilities		**37,090**	**7,080**
TOTAL LIABILITIES		**57,197**	**18,746**
TOTAL EQUITY AND LIABILITIES		**101,576**	**62,871**

**Including income tax: PLN 4,853m (2020: PLN 168m)*

(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	Actuarial gains/(losses) on employee benefits	Share of other comprehensive income of equity-accounted investees				
As at Jan 1st 2020	**5,778**	**1,740**	**739**	**(122)**	**(117)**	**(7)**	**30,097**	**38,108**	**(1)**	**38,107**
Net profit	-	-	-	-	-	-	7,340	**7,340**	-	**7,340**
Other comprehensive income, net	-	-	(986)	(10)	(56)	(3)	-	**(1,055)**	-	**(1,055)**
Total comprehensive income	**-**	**-**	**(986)**	**(10)**	**(56)**	**(3)**	**7,340**	**6,285**	**-**	**6,285**
Change in equity recognised in inventories, net	-	-	231	-	-	-	-	**231**	-	**231**
Dividend	-	-	-	-	-	-	(520)	**(520)**	-	**(520)**
Changes in the Group	-	-	-	-	-	-	22	**22**	-	**22**
As at Dec 31st 2020	**5,778**	**1,740**	**(16)**	**(132)**	**(173)**	**(10)**	**36,939**	**44,126**	**(1)**	**44,125**
Net profit	-	-	-	-	-	-	6,014	**6,014**	-	**6,014**
Other comprehensive income, net	-	-	(2,808)	(30)	53	11	-	**(2,774)**	-	**(2,774)**
Total comprehensive income	**-**	**-**	**(2,808)**	**(30)**	**53**	**11**	**6,014**	**3,240**	**-**	**3,240**
Change in equity recognised in inventories, net	-	-	(1,774)	-	-	-	-	**(1,774)**	-	**(1,774)**
Dividend	-	-	-	-	-	-	(1,213)	**(1,213)**	-	**(1,213)**
As at Dec 31st 2021	**5,778**	**1,740**	**(4,598)**	**(162)**	**(120)**	**1**	**41,740**	**44,379**	**-**	**44,379**

(in PLN million unless stated otherwise)

1. General information

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

1.1.1 The Group

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

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

As at the date of issue of these consolidated financial statements for 2021, the State Treasury, represented by the minister competent for matters pertaining to state assets, was the only shareholder holding 5% or more of total voting rights in PGNiG S.A. As at December 31st 2021, there was no parent of the PGNiG Group that would prepare consolidated financial statements available for public use. There is also no ultimate parent that would prepare consolidated financial statements available for public use.

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

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

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

1.1.2 Basis of preparation

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

Rules followed in the preparation of the consolidated financial statements

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

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

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

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

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

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

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

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

These consolidated financial statements have been prepared on the assumption that the Group companies will continue as going concerns in the foreseeable future. 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. Following the Russian Federation's invasion of Ukraine on February 24th 2022, the Group analysed the revenue generated and assets involved in Ukraine and the Russian Federation. For more information, see Note 3.1.1.1 on revenue and Note 8.8 on events subsequent to the reporting date and the Directors' Report on the operations of the PGNiG Group and PGNiG S.A. for 2021.

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

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

Accounting policies

Items denominated in foreign currencies

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

At the end of a reporting period:

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

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

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

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

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

The date of issue of these financial statements is March 24th 2022.

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 2021 had an effect on these consolidated financial statements:

Amendments to IFRS 9 *Financial Instruments*, IAS 39 *Financial Instruments: Recognition and Measurement* and IFRS 7 *Financial Instruments: Disclosures*, IFRS 4 *Insurance Contracts*, and IFRS 16 *Leases – IBOR Reform – Phase 2*

The Group applied the amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 as of January 1st 2021.

Description

The amendments to the standards contain temporary derogations addressing the effects of replacement of interbank interest rate ('IBOR') with an alternative benchmark close to risk-free rate ('RFR') and their impact on financial reporting. As of January 1st 2022, some of the benchmarks will cease to be provided and will be replaced by other benchmarks.

Practical expedient applicable to changes in the basis for determining contractual cash flows as a result of the IBOR reform

The amendments provide for a practical expedient requiring that amendments to contractual terms or changes to cash flows made as a direct consequence of the reform be treated as changes in a variable interest rate, which is equivalent to a change in the market interest rate. The expedient may be applied if the transition from an IBOR benchmark to a RFR takes place on an economically equivalent basis without transfer of value.

Examples of changes that result in a new basis for determining contractual cash flows that is economically equivalent to the existing basis (i.e., the basis in effect immediately prior to the change) are:

a) replacing the existing benchmark interest rate used to determine contractual cash flows for a financial asset or financial liability with an alternative benchmark,

b) changes in the update period, the update dates or the number of days between the coupon payment dates in order to implement the IBOR reform, and

(c) adding a contingency clause to the contractual terms of a financial asset or financial liability to allow implementation of any change described above.

Any other changes made at the same time, such as a change in credit margin or maturity, are subject to a separate assessment. If they are material, the existing instrument is derecognised and a new instrument is recognised. If they are not material, the effective interest rate is updated and the carrying amount of the financial instrument recalculated. The result of the modification is recognised in profit or loss.

The practical expedient is also required to be applied for IFRS 16 *Leases* with respect to lease modifications required by the IBOR reform.

Exemption from termination of hedging relationships

The amendments allow for adjustments to hedge accounting documentation for designating and documenting hedging relationships without terminating them if those changes were directly required by the IBOR reform. Permitted changes include redefining the hedged risk to reference the RFR and redefining the description of hedging instruments and/or hedged items to reflect the RFR. Entities are permitted to apply the above changes until the end of the reporting period during which the modification required by the IBOR reform is implemented.

Any gains or losses that may arise in the interim period are accounted for in accordance with the normal requirements of IFRS 9 and IAS 39 for measuring and recognising hedge ineffectiveness.

The amounts accumulated in the cash flow hedge reserve are considered to be based on RFR. This capital is released to profit or loss in the same period or periods in which the RFR-based hedged cash flows affect profit or loss.

To assess the retrospective effectiveness of hedges under IAS 39, upon transition to RFR, entities may elect (on a relationship-by-relationship basis) to level the cumulative change in fair value to zero. This exemption applies when the exception for retrospective assessment ends (when paragraph 102G of IAS 39 no longer applies).

The amendments provide an exemption for items within a designated group of items (such as items that are part of a portfolio macro cash flow hedging strategy) that are modified due to modifications directly required by the IBOR reform. Exemptions allow to maintain the hedging strategy and continue to use it.

As items within the hedged group pass from IBOR to RFR at different times, they will be transferred to sub-groups of instruments that designate the RFR as hedged risk.

	When instruments pass on to RFR, the hedging relationship may need to be modified more than once. Phase 2 exemptions apply whenever a hedging relationship is modified as a direct result of the IBOR reform. Phase 2 exemptions cease to apply once all changes to financial instruments and hedging relationships have been implemented as required by the IBOR reform. **Separately identifiable risk components** The amendments provide for temporary exemption of entities from having to meet the separately identifiable requirement when an RFR instrument is designated as a hedge of a risk component. The exemption allows entities to assume, post designation, that the separate identification criterion is met, provided that the entity expects the risk component of the RFR to be separately identified within the next 24 months.
Effect of the standard	In the first stage of implementation, the benchmark reform focused on hedge accounting for interest rate hedging instruments. As the Group did not have hedging relationships for these types of instruments as at December 31st 2020 or December 31st 2021, the IBOR reform had no impact on the Company's financial statements in this respect. In the next stage of the reform, as WIBOR, EURIBOR, LIBOR, NIBOR are replaced with risk-free rates, the Group may see a marginal impact of the reform on the measurement of hedging instruments and loans. The Group also entered into CCIRS transactions involving exchange of interest payments based on 3M WIBOR (received) and 3M NIBOR (paid) rates not designated for hedge accounting. The Group expects the impact, if any, of measurement of the CCIRS instruments to be immaterial. Table A presents the totals of net holdings of financial instruments indexed to a floating rate, by current benchmarks.

PGNiG S.A. does not have any instruments indexed directly to the IBOR rates which ceased to be provided at the end of 2021 and therefore considers the probability of the risks discussed below to be negligible. Given the current high uncertainty as to the target format of certain benchmarks over a period of more than one financial year (e.g. EURIBOR, WIBOR, NIBOR), the potential risks to which the Group is exposed in connection with the IBOR reform may include:

- the market risk (interest rate risk) resulting from the inability to apply a relevant hedging instrument,
- the liquidity risk arising from uncertainties regarding future cash flows indexed to the WIBOR, LIBOR and NIBOR benchmarks,
- the accounting risk arising from uncertainties regarding the correctness of fair value and amortised cost models for instruments indexed to WIBOR, LIBOR and NIBOR benchmarks,
- the tax risk arising from the need to update transfer pricing documentation,
- the legal risks arising from the inability to agree with counterparties (banks) on the implementation of the benchmark reform with respect to the existing contracts within the required timeframe.

The Group has taken the following measures to mitigate these risks:

- continuous monitoring of communications on the IBOR reform published by the key global regulatory authorities,
- continuous monitoring of available market data based on alternative benchmarks (including discount curves, alternative compound interest rate indices) available on the information services (e.g., Refinitv Eikon, Bloomberg), to apply them in managing the market risk, the liquidity risk, the risk of fair value measurement calculations and in testing effectiveness of hedging relationships,
- based on available market data on alternative benchmarks – performing periodic stress-tests for the market risk, the liquidity and the risk of fair value measurement calculations,
- the planned commencement of negotiations with the financing institutions and the Group entities to which the loans were granted, as soon as possible after the relevant regulatory authorities have announced the date on which the WIBOR, LIBOR and NIBOR benchmarks cease to be provided,
- signing of an EONIA protocol with banks in which the EONIA rate was used for calculating interest on collaterals and signing a new agreement with a bank which provided the Group with an overdraft facility based on the EONIA rate (as at December 31st 2021 the facility was not used by the Group).

Taking into account the measures specified above, the Group has assessed the possible threat from the discussed risks as marginal.

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

(in PLN million unless stated otherwise)

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

	Benchmark	Exposure	
		Non-current	Current
Financial assets		**378**	**66**
	1M WIBOR	-	-
	3M WIBOR	58	6
	6M WIBOR	320	60
Financial liabilities		**2,486**	**10,063**
	WIBOR ON	32	10
	1M WIBOR	200	10,049
	3M WIBOR	-	-
	12M WIBOR	290	14
	EONIA	-	-
	1M EURIBOR	-	-
	3M EURIBOR	1,128	-
	3M LIBOR	868	-
Derivative financial instruments (financial liabilities)		**-**	**141**
	3M WIBOR, 3M NIBOR	-	141

2. Description of the Group and its reportable segments

2.1 Key information on the Group and its reportable segments.

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

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

PGNiG S.A. holds 100% of shares in the consolidated subsidiaries, with the exception of PGNiG GAZOPROJEKT S.A., in which PGNiG holds 95.17% of shares.

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

Non-controlling interests at subsidiaries are not material.

The Group identifies five reportable segments.

Below is presented a classification of the Group's fully-consolidated entities by reportable segment. For more information on the Group structure, see the Directors' Report on the operations of the PGNiG Group and PGNiG S.A. for 2021.

Figure 1 Structure of the Group 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 similar 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 (Mogilno, Wierzchowice, Kosakowo, Husów, Brzeźnica, Strachocina, Swarzów and the storage system in Ukraine), and electricity trading. The segment operates underground gas storage facilities in Poland to ensure Poland's energy security and to build a gas portfolio that meets the market demand which is subject to seasonal fluctuations.	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 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 segment, and comprises Polska Spółka Gazownictwa Sp z o.o. and its subsidiaries specified in Figure 1.
Generation	The segment's principal business activities consist in generation and sale of electricity and heat.	This reportable segment comprises the following operating segments: PGNiG TERMIKA S.A. and its subsidiaries. The key aggregation criteria were similarity of products and services, similarity of the customer base, and similar economic characteristics.
Other segments	This segment comprises operations which cannot be classified into any of the segments listed above, i.e. the functions performed by the PGNiG Corporate Centre, engineering design and construction of structures, machinery and equipment for the extraction and energy sectors, as well as catering and hospitality and insurance services.	It includes PGNiG S.A.'s activities related to corporate support for other reportable segments, and the Group entities which do not qualify to be included in the other reportable segments, specified under Other Segments in Figure 1.

(in PLN million unless stated otherwise)

2.2 Key data on the reportable segments

2021	Exploration and Production	Trade and Storage	Distribution	Generation	Other segments	Total	Reconciliation with consolidated data*	Total
Sales to external customers	4,354	57,807	5,304	2,381	118	**69,964**		
Inter-segment sales	11,536	2,140	109	1,042	438	**15,265**		
Total revenue	15,890	59,947	5,413	3,423	556	**85,229**	(15,265)	**69,964**
EBITDA	13,530	(1,702)	2,893	1,134	(123)	**15,732**	(139)	**15,593**
Depreciation and amortisation expense	(1,452)	(211)	(1,218)	(1,079)	(71)	**(4,031)**	-	**(4,031)**
Operating profit (EBIT)	12,078	(1,913)	1,675	55	(194)	**11,701**	(139)	**11,562**
Recognition and reversal of impairment losses on property, plant and equipment, intangible assets, rights-of-use assets	425	(1)	(5)	-	(28)	**391**	-	**391**
Profit/(loss) from equity-accounted investees	(10)	-	-	-	17	**7**	-	**7**
Acquisition of property, plant and equipment and intangible assets**	2,113	50	3,227	2,135	203	**7,728**	(169)	**7,559**
Property, plant and equipment	19,830	3,085	20,804	6,389	513	**50,621**	(429)	**50,192**
Employment***	6,386	2,979	11,587	1,811	1,768	**24,531**		

2020	Exploration and Production	Trade and Storage	Distribution	Generation	Other segments	Total	Reconciliation with consolidated data*	Total
Sales to external customers	2,754	29,850	4,603	1,844	146	**39,197**		
Inter-segment sales	1,858	793	81	929	338	**3,999**		
Total revenue	4,612	30,643	4,684	2,773	484	**43,196**	(3,999)	**39,197**
EBITDA	927	9,580	2,157	930	(546)	**13,048**	(39)	**13,009**
Depreciation and amortisation expense	(1,248)	(223)	(1,094)	(795)	(64)	**(3,424)**	-	**(3,424)**
Operating profit (EBIT)	(321)	9,357	1,063	135	(610)	**9,624**	(39)	**9,585**
Recognition and reversal of impairment losses on property, plant and equipment, intangible assets, rights-of-use assets	(1,683)	(5)	(5)	(7)	(86)	**(1,786)**	-	**(1,786)**
Profit/(loss) from equity-accounted investees	(609)	-	-	-	14	**(595)**	-	**(595)**
Acquisition of property, plant and equipment and intangible assets**	2,478	51	2,946	1,064	120	**6,659**	(93)	**6,566**
Property, plant and equipment	14,994	3,153	18,588	5,476	651	**42,862**	(297)	**42,565**
Employment***	6,534	3,026	11,517	1,817	1,714	**24,608**		

**Inter-company eliminations and consolidation adjustments*

***Net of intra-segment eliminations, including capitalised interest and increase due to new lease contracts. The amounts do not include expenditure on the acquisition of INEOS of PLN 1,309m;for more information, see Note 8.6.1.*

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

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

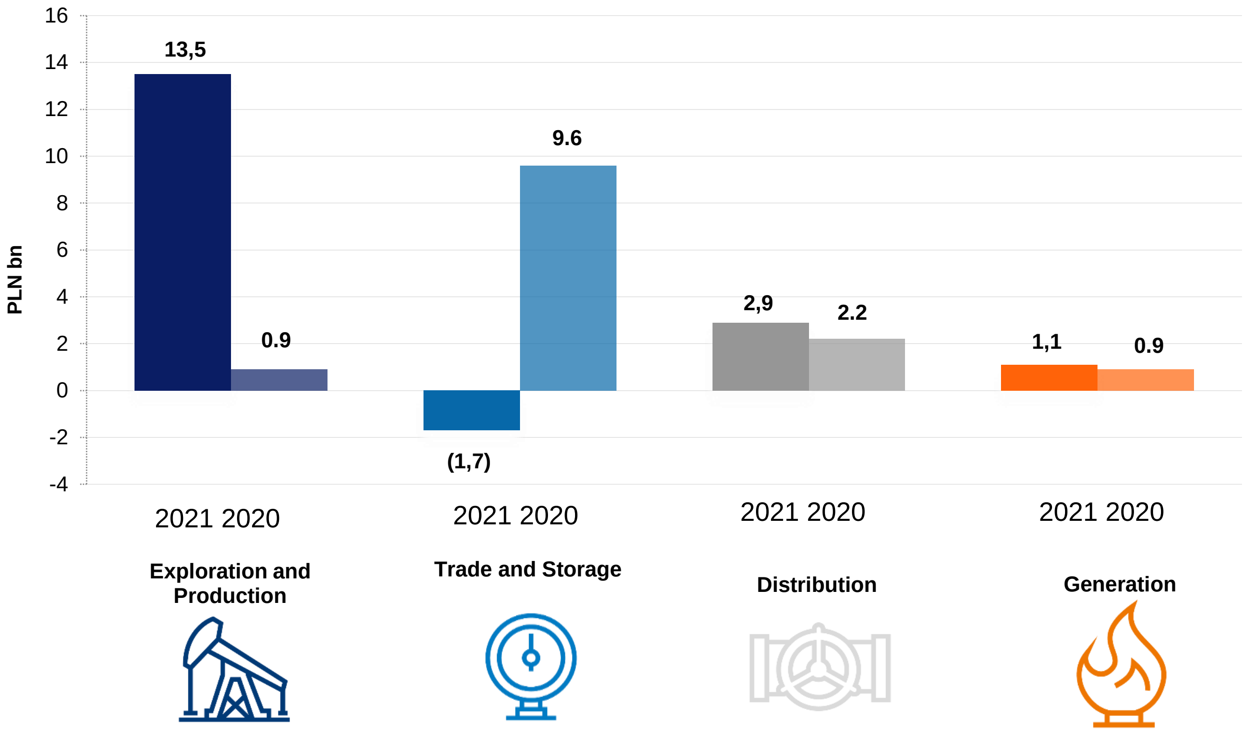
The Management Board analyses the segments' results using basic performance measures, such as segment's operating profit (EBIT), as well as key efficiency indicators such as EBITDA, which is not a standardised measure.

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 the PGNiG Group and PGNiG S.A. for 2021.

(in PLN million unless stated otherwise)

2.3 Revenue by segment

2021	Exploration and Production	Trade and Storage	Distribution	Generation	Other segments	Reconciliation with consolidated data*	Total
Revenue from sales of gas, including:	**12,455**	**55,126**	**-**	**-**	**-**	**(12,619)**	**54,962**
High-methane gas	9,576	53,869	-	-	-	(10,643)	**52,802**
Nitrogen-rich gas	2,818	1,538	-	-	-	(1,956)	**2,400**
LNG	61	331	-	-	-	(22)	**370**
CNG	-	84	-	-	-	2	**86**
Adjustment to gas sales due to hedging transactions	-	(696)	-	-	-	-	**(696)**
Other revenue, including:	**3,435**	**4,821**	**5,413**	**3,423**	**556**	**(2,646)**	**15,002**
Gas and heat distribution	-	-	5,088	96	-	(79)	**5,105**
Crude oil and natural gasoline	2,486	-	-	-	-	-	**2,486**
NGL	197	-	-	-	-	-	**197**
Sales of heat	-	-	-	1,753	-	-	**1,753**
Sales of electricity	-	3,778	-	1,239	-	(1,408)	**3,609**
Revenue from rendering of services:							
- drilling and oilfield services	88	-	-	-	-	(8)	**80**
- geophysical and geological services	214	-	-	-	-	-	**214**
- construction and assembly services	50	1	1	-	147	(163)	**36**
- connection charge	-	-	267	-	-	-	**267**
- other	92	383	39	133	389	(369)	**667**
Other	308	659	18	202	20	(619)	**588**
Total revenue	**15,890**	**59,947**	**5,413**	**3,423**	**556**	**(15,265)**	**69,964**

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

**Inter-company eliminations and consolidation adjustments*

2.4 Equity-accounted investees

Accounting policies

Joint arrangements

Joint arrangements include:

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

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

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

The equity method is also applied in the PGNiG Group's consolidated financial statements to recognise interests in associates over which the PGNiG Group has significant influence.

Significant influence

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

Significant estimates

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

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

The company's value estimated with the DCF method as at December 31st 2021 was PLN 840m.

The calculations were based on the assumption that in each year in 2011−2022 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 (principal payments) and other risks known to the issuer. The cash flows were discounted using a discount rate of 8.45% (in real terms).

As at the end of 2021, the value of the Parent's interest in EUROPOL GAZ determined using the equity method was PLN 1,854m. Therefore, a PLN 66m 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.

(in PLN million unless stated otherwise)

The table below presents equity-accounted investees.

	2021				2020			
	Equity-accounted investees				Equity-accounted investees			
	SGT EUROPOL GAZ S.A.	Polska Grupa Górnicza Sp. z o.o.	Elektrociepłownia Stalowa Wola S.A.	Polimex-Mostostal S.A. Group	SGT EUROPOL GAZ S.A.	Polska Grupa Górnicza Sp. z o.o.	Elektrociepłownia Stalowa Wola S.A.	Polimex-Mostostal S.A. Group
At beginning of the period	**840**	**-**	**-**	**126**	**840**	**612**	**-**	**112**
Share of net profit/(loss)*	67	(457)	(384)	18	26	(375)	(158)	16
Elimination of unrealised profits between the Group and the joint venture	(1)	18	200	(1)	5	27	42	(2)
Goodwill write-off	-	-	-	-	-	(1)	-	-
Reversal of negative value of equity-accounted interests**	-	25	184	-	-	-	116	-
Impairment losses	(66)	404	-	-	(31)	(260)	-	-
Changes accounted for in other comprehensive income from equity-accounted investees	-	10	-	1	-	(3)	-	-
At end of the period	**840**	**-**	**-**	**144**	**840**	**-**	**-**	**126**

** After adjustments to the Group's accounting policies*
*** 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 2021, the PGNiG Group did not accept any legal or constructive obligation or make any payment on behalf of Elektrociepłownia Stalowa Wola S.A.*

	2021			2020		
	SGT EUROPOL GAZ S.A.*	Polska Grupa Górnicza Sp. z o.o.**	GK Polimex-Mostostal S.A.***	SGT EUROPOL GAZ S.A.*	Polska Grupa Górnicza Sp. z o.o.**	GK Polimex-Mostostal S.A.***
PGNiG Group’s ownership interest	**51.18%**	**20.43%**	**16.48%**	**51.18%**	**20.43%**	**16.48%**
Description of business	Transmission of natural gas	Production of coal	Construction	Transmission of natural gas	Production of coal	Construction
Key financial data****						
Non-current assets	1,004	8,722	764	1,206	9,423	765
Current assets	3,163	1,749	1,544	2,800	1,770	1,390
including cash and cash equivalents	2,958	612	631	2,602	259	408
Non-current liabilities	14	3,034	276	12	2,704	214
including non-current financial liabilities	-	380	195	-	331	134
Current liabilities	123	7,767	1,156	87	6,626	1,175
including current financial liabilities	-	3,019	49	-	2,414	305
Net assets	**4,030**	**(330)**	**876**	**3,907**	**1,863**	**766**
Revenue	1,050	8,087	2,221	893	7,476	1,498
Depreciation and amortisation expense	(341)	(1,838)	(36)	(328)	(2,043)	(38)
Interest income	2	5	4	16	24	3
Interest expense	-	(144)	(12)	-	(130)	(24)
Income tax	(34)	-	(24)	(16)	373	(10)
Net profit/(loss)	124	(824)	102	43	(1,838)	91
Other comprehensive income	-	48	7	-	(11)	(4)
Carrying amount of the investment						
Share of net assets	**2,063**	**(67)**	**144**	**2,000**	**381**	**126**
Adjustment to ensure consistency of accounting policies with those of the Group	(31)	-	(14)	(35)	-	(14)
Elimination of unrealised profits between the Group and the joint venture	(178)	42	(3)	(177)	23	(3)
Goodwill	6	13	17	6	13	17
Goodwill write-off	(6)	(13)	-	(6)	(13)	-
Reversal of negative value of equity-accounted interests	-	25	-	-	-	-
Impairment losses	(1,014)	-	-	(948)	(404)	-
Carrying amount of the investment in the consolidated statement of financial position	**840**	**-**	**144**	**840**	**-**	**126**

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

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

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

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

2.4.1 Significant restrictions on the ability to transfer funds to the Group from interests in joint ventures

Polska Grupa Górnicza S.A.

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

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

Elektrociepłownia Stalowa Wola S.A. (ECSW)

On March 8th 2018, Elektrociepłownia Stalowa Wola S.A. signed a loan agreement with Bank Gospodarstwa Krajowego (BGK) and PGNiG to refinance debt and finance the construction of the CCGT unit in Stalowa Wola, each lender providing PLN 450 million. The CCGT unit was commissioned on September 30th 2020. The facility is due for repayment by June 14th 2030.

ECSW's existing loan agreements with BGK and PGNiG and the Subordination Agreement entered into by and between ECSW and PGNiG, PGNiG Termika S.A., Tauron Polska Energia S.A., Tauron Wytwarzanie S.A. and BGK have the effect of preventing ECSW from:

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

3. Notes to the statement of profit or loss

3.1 Revenue

Accounting policies

Revenue from contracts with customers

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

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

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

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

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

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

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

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

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

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

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

(in PLN million unless stated otherwise)

Significant estimates

Estimating natural gas sales

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

The value of gas supplied and but invoiced to customers in tariff groups 1-4 is estimated based on the “Procedure for determining the sale of gas fuel at PGNiG Obrót Detaliczny Sp. z o.o.”. There is a risk that the actual final volume of gas fuel sold (invoiced in accordance with actual metre readings) may differ from the estimate. Accordingly, profit or loss for a given period may account for a portion of the estimated sales volume which will never be realised.

As at the end of 2021, revenue from sales of gas was increased by an amount of PLN 605m, while as at the end of 2020, the revenue included an amount of PLN 37m of estimates as an adjustment increasing the amount of invoiced revenue.

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

Revenue from sales of crude oil

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

As at the end of 2021, the volume of crude oil sold was lower than the Group's share of production. Therefore, an asset of PLN 54m was recognised under Other receivables in the consolidated statement of financial position for 2021. As at the end of 2020, the volume of crude oil sold was higher than the Group's share in production, which in the consolidated statement of financial position for 2020 was recognised as a PLN 23m liability under Other liabilities (Other deferred income, current portion).

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

Revenue from sales of services provided over time

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

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

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

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

3.1.1 Revenue from contracts with customers

In 2021 and 2020, the Group identified the following types of revenue from contracts with customers, which are excluded from the scope of IFRS 15 *Revenue from Contracts with Customers*:

1. amounts recognised as revenue and resulting from the adjustment of revenue from sale of gas fuel under transactions subject to cash flow hedge accounting;
2. amounts of revenue from lease contracts covered by IFRS 16 *Leases*.

2021	Exploration and Production	Trade and Storage	Distribution	Generation	Other segments	Reconciliation with consolidated data	Total
Revenue from contracts with customers under IFRS 15	15,889	60,643	5,392	3,423	543	(15,254)	**70,636**
Revenue from contracts with customers excluded from the scope of IFRS 15	1	(695)	20	-	14	(12)	**(672)**
Total revenue	**15,890**	**59,948**	**5,412**	**3,423**	**557**	**(15,266)**	**69,964**

In 2021, the amount of revenue from contracts with customers that are excluded from the scope of IFRS 15 consisted of an adjustment to revenue resulting from the application of cash flow hedge accounting of PLN 696m (amount reducing revenue) in the Trade and Storage segment; other revenue excluded from the scope of IFRS 15 in the reportable segments was revenue from lease contracts covered by IFRS 16.

(in PLN million unless stated otherwise)

2020	Exploration and Production	Trade and Storage	Distribution	Generation	Other segments	Reconciliation with consolidated data	Total
Revenue from contracts with customers under IFRS 15	4,611	29,580	4,664	2,773	470	(3,987)	**38,111**
Revenue from contracts with customers excluded from the scope of IFRS 15	-	1,064	20	-	14	(12)	**1,086**
Total revenue	**4,611**	**30,644**	**4,684**	**2,773**	**484**	**(3,999)**	**39,197**

In 2020, the amount of revenue from contracts with customers that are excluded from the scope of IFRS 15 consisted of an adjustment to revenue resulting from the application of cash flow hedge accounting of PLN 1,062m (amount increasing revenue) in the Trade and Storage segment; other revenue excluded from the scope of IFRS 15 in the reportable segments was revenue from lease contracts covered by IFRS 16.

3.1.1.1 Revenue by product and geographical location

	2021			2020		
	Domestic sales	Export sales*	Total	Domestic sales	Export sales*	Total
Revenue from sales of gas, including:	**42,956**	**12,006**	**54,962**	**24,771**	**2,944**	**27,715**
High-methane gas	41,010	11,792	52,802	22,376	2,743	25,119
Nitrogen-rich gas	2,189	211	2,400	1,197	200	1,397
LNG	367	3	370	84	1	85
CNG	86	-	86	52	-	52
Adjustment to gas sales due to hedging transactions**	(696)	-	(696)	1,062	-	1,062
Other revenue, including:	**12,101**	**2,901**	**15,002**	**9,913**	**1,569**	**11,482**
Gas and heat distribution	5,105	-	5,105	4,394	-	4,394
Crude oil and natural gasoline	938	1,548	2,486	594	818	1,412
NGL	-	197	197	-	79	79
Sales of heat	1,753	-	1,753	1,469	-	1,469
Sales of electricity	3,023	586	3,609	2,507	294	2,801
Revenue from rendering of services:						
- drilling and oilfield services	22	58	80	42	61	103
- geophysical and geological services	33	181	214	26	93	119
- construction and assembly services	36	-	36	52	-	52
- connection charge	267	-	267	234	-	234
- other***	515	152	667	328	4	332
Other	409	179	588	267	220	487
Total revenue	**55,057**	**14,907**	**69,964**	**34,684**	**4,513**	**39,197**

** By customer's country.*

*** Revenue excluded from the scope of IFRS 15*

****Including revenue from contracts covered by IFRS 16, excluded from the scope of IFRS 15, of PLN 24m (2020: PLN 22m), related to sales in Poland*

The Group does not have any single 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.

Sales outside Poland are largely attributable to the fact that some of the Group companies operate abroad (for information on companies having their registered office or whose principal place of business is a country other than Poland, see Note 2.1). On foreign markets the Group sells its products and services mainly to customers in the Netherlands (38% of export sales), Germany (29%) and the UK (21%). The Group has not identified any significant risks related to its operations outside Poland or related revenues. For more information on operations outside Poland, see the Directors' Report on the operations of the PGNiG Group and PGNiG S.A. for 2021.

For information on the impact of the COVID-19 pandemic on the gas and oil market in 2021 and, consequently, on revenue generated by the Group, see the Directors' Report on the operations of the PGNiG Group and PGNiG S.A. for 2021.

Following the invasion of Ukraine by the Russian Federation on February 24th 2022 (see Note 8.8, Events after the reporting date, for further details) and the imposition of sanctions on the Russian Federation and Belarus by the EU and the US, the Group analysed the revenue generated in the countries involved in the conflict; in 2021, revenue generated in the Russian Federation and Ukraine was as follows: PLN 6m and PLN 28m, respectively (in 2021, the Group did not generate any revenue in Belarus), while in 2020 the amounts were as follows: PLN 10m and PLN 26m, respectively. For more information on the impact of the war in Ukraine on the Group's business, see the Directors' Report on the operations of the PGNiG Group and PGNiG S.A. for 2021.

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

(in PLN million unless stated otherwise)

Revenue-generating non-current assets by geographical location

	2021	2020
Value of non-current assets other than financial instruments located in Poland	39,160	36,398
Value of non-current assets other than financial instruments located abroad*	13,023	7,008
Total	**52,183**	**43,406**
% share of assets located outside of Poland in total assets	**24.96%**	**16.15%**
** Including PGNiG Upstream Norway AS (PUN).*	*12,113*	*6,274*

As at the end of 2021 and 2020, the Group had no material non-current assets located in the countries involved in the hostilities in Ukraine, i.e. Ukraine, Russia and Belarus.

3.1.1.2 Revenue from contracts with customers under IFRS 15 by type of customer

2021	Exploration and Production	Trade and Storage	Distribution	Generation	Other segments	Reconciliation with consolidated data	Total
Retail customers	-	5,175	149	3	14	2,452	**7,793**
Business and institutional customers	15,889	29,740	5,244	3,329	528	(17,706)	**37,024**
Exchange	-	25,728	-	91	-	-	**25,819**
Total revenue from contracts with customers under IFRS 15	**15,889**	**60,643**	**5,393**	**3,423**	**542**	**(15,254)**	**70,636**

2020	Exploration and Production	Trade and Storage	Distribution	Generation	Other segments	Reconciliation with consolidated data	Total
Retail customers	-	4,544	125	2	12	2,061	**6,744**
Business and institutional customers	4,611	13,248	4,539	2,707	458	(6,047)	**19,516**
Exchange	-	11,787	-	64	-	-	**11,851**
Total revenue from contracts with customers under IFRS 15	**4,611**	**29,579**	**4,664**	**2,773**	**470**	**(3,986)**	**38,111**

Revenue from sales to retail customers in 2021 and 2020 was mainly generated by the Trade and Storage segment, the most important part of which were gas sales.

Revenue from sales to business and institutional customers represented the vast majority of revenue generated by the Distribution and Generation segments (both 2021 and 2020). In the Trade and Storage segment and the Exploration and Production segment, sales to business and institutional customers were primarily gas sales (both in 2021 and 2020).

Revenue from the energy exchange was generated mainly in the Trade and Storage segment and comprised revenue from sale of gas and electricity.

(in PLN million unless stated otherwise)

3.1.1.3 Revenue from contracts with customers under IFRS 15, by time of recognition

2021	Exploration and Production	Trade and Storage	Distribution	Generation	Other segments	Reconciliation with consolidated data	Total
Revenue recognised at a point in time	8,883	47,224	283	583	295	(6,692)	**50,576**
Revenue recognised over time	7,006	13,419	5,109	2,841	247	(8,562)	**20,060**
Total revenue from contracts with customers under IFRS 15	**15,889**	**60,643**	**5,392**	**3,424**	**542**	**(15,254)**	**70,636**

2020	Exploration and Production	Trade and Storage	Distribution	Generation	Other segments	Reconciliation with consolidated data	Total
Revenue recognised at a point in time	2,868	20,184	250	457	277	(1,187)	**22,849**
Revenue recognised over time	1,743	9,396	4,414	2,316	193	(2,800)	**15,262**
Total revenue from contracts with customers under IFRS 15	**4,611**	**29,580**	**4,664**	**2,773**	**470**	**(3,987)**	**38,111**

With respect to the classification of revenue from contracts with customers according to the timing of the performance obligation, the vast majority of revenue was realized at a specific point in time (of which the majority was revenue from sales on energy exchanges). Revenue realized over time accounted for the majority of revenue earned in the Distribution and Generation segments, where revenue is generated from the distribution of gaseous fuel and the generation and distribution of heat, respectively.

3.2 Operating expenses

Accounting policies

Cost of gas

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

Raw materials and consumables used

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

Employee benefits expense

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

Transmission and distribution services

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

Other services

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

- Regasification services, which involve changing the physical state of gas from liquefied to gaseous form by heating the liquefied material;
- 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;
- IT 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.

(in PLN million unless stated otherwise)

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).

	2021	2020
Cost of gas	**(43,758)**	**(19,808)**
Gas fuel	(45,348)	(19,512)
Adjustment to gas cost due to hedging transactions	1,590	(296)
Effect of the annex executed with PAO Gazprom/OOO Gazprom Export on cost of gas in 2014–2019	**-**	**4,915**
Other raw materials and consumables used	**(4,168)**	**(3,224)**
Fuels for electricity and heat generation	(914)	(909)
Electricity for trading	(2,708)	(1,810)
Other raw materials and consumables used	(546)	(505)
Employee benefits expense	**(3,480)**	**(3,381)**
Salaries and wages	(2,605)	(2,463)
Social security contributions	(470)	(449)
Long-term employee benefits	(50)	(134)
Other employee benefits expense	(355)	(335)
Transmission services	**(1,159)**	**(1,048)**
Other services	**(2,112)**	**(1,888)**
Regasification services	(343)	(388)
Repair and construction services	(261)	(265)
Mineral resources production services	(326)	(190)
Rental services	(95)	(95)
Other services	(1,087)	(950)
Taxes and charges	**(1,226)**	**(911)**
Recognition and reversal of impairment losses on property, plant and equipment and intangible assets	**391**	**(1,786)**
Cost of exploration and evaluation assets written-off	(626)	(198)
Impairment losses on property, plant and equipment	1,009	(1,577)
Impairment losses on intangible assets	8	(11)
Depreciation and amortisation expense	**(4,031)**	**(3,424)**
Total	**(59,543)**	**(35,470)**

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

In 2021, the PGNiG Group incurred operating expenses related to the purchase of personal protective equipment (recognised in the line item Employee benefits) and other materials (recognised in the line item Raw materials and consumables used), for a total amount of PLN 2.1m.

In 2021, the Group also received PLN 6.7m the Guaranteed Employee Benefits Fund, recognised in the line item 'Other income and expenses' (Note 3.3).

3.3 Other income and expenses

	Note	2021	2020
Compensation, penalties, and fines received		77	32
Exchange differences related to operating activities		169	68
Measurement and exercise of derivative financial instruments		410	202
Change in inventory write-downs	*Note 6.2.1.*	(111)	350
Change in impairment losses on trade and other receivables		(89)	(60)
Provision for decommissioning, restoration and environmental remediation costs	*Note 6.3.2.*	129	(38)
Change in provision for certificates of origin and energy efficiency certificates	*Note 6.3.3.*	(302)	(232)
Change in other provisions		25	(105)
Change in underlift/overlift*		73	16
Cost of merchandise and materials sold		(920)	(242)
Other income and expenses		116	(150)
Total other income and expenses		**(423)**	**(159)**

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

(in PLN million unless stated otherwise)

3.4 Net finance costs

	2021	2020
Interest on debt, including valuation (net of leases; including fees on debt incurred)	(84)	3
Interest on lease liabilities	(85)	(75)
Foreign exchange differences	(7)	47
Measurement and exercise of derivative financial instruments not designated for hedge accounting	-	12
Fair value measurement of financial assets	7	(2)
Impairment loss on loans	(394)	(5)
Other net finance costs	(24)	55
Total net finance costs	**(587)**	**35**

3.5 Earnings per share

Accounting policies

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

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

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

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

4. Notes on taxation

4.1 Income tax

Accounting policies

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

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

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

A deferred tax asset is recognised with respect to all deductible temporary differences 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. An exception is a case where a deferred tax asset arises from the initial recognition of a given asset or liability arising from a transaction that is not a business combination and does not affect, at the time of the transaction, profit before tax or taxable profit (tax loss).

Deferred tax liabilities are determined on all taxable temporary differences, except to the extent that a deferred tax liability arises from:

- initial recognition of goodwill; or
- initial recognition of a given asset or liability arising from a transaction that is not a business combination and does not affect, at the time of the transaction, profit before tax or taxable profit (tax loss).

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

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

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

Tax Group

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

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

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

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

(in PLN million unless stated otherwise)

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

Reconciliation of effective tax rate	Note	2021	2020
Profit before tax		10,982	9,025
Corporate income tax at the 19% statutory rate applicable in Poland		(2,087)	(1,715)
Differences in tax rates of the Group companies (from 22% to 78% for Norway, 33% for Germany, from 9% to 40% for other)		(2,706)	(205)
Deductible temporary differences with respect to which no deferred tax was recognised		(175)	235
Income tax expense disclosed in the statement of profit or loss		**(4,968)**	**(1,685)**
Including:			
Current tax expense		(4,537)	(1,696)
Deferred tax expense	*Note 4.1.2.*	(431)	11
Effective tax rate		45%	19%

The increase in the effective tax rate was mainly attributable to income tax paid by the subsidiary PGNiG Upstream Norway AS.

PGNiG Upstream Norway AS ("PUN") pays taxes at the rate of 78%. PUN's activities in the Norwegian Continental Shelf in 2021 (as in 2020) were subject to taxation under two separate tax regimes:

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

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

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

These are the basis of the current Norwegian petroleum tax system. Additionally, in 2020 the Norwegian parliament enacted amendments to the tax law to support the oil industry in view of the significant decline in hydrocarbon prices (in 2019-2020) and introduce incentives to invest on the Norwegian Continental Shelf.

The amendments are effective for 2020-2021 and include:

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

These amendments had a significant positive effect on the profitability of development projects in Norway and significantly shortened the payback period. This is due to the fact that PUN is pursuing a very ambitious investment programme and made direct capital expenditure in excess of NOK 2bn in 2021 (the amount includes direct investments, net of cash flows related to the acquisition of INEOS). The amendments have the following effects:

- direct expensing and uplift – with the new tax rules in place, PUN directly expensed the amount of direct development capital expenditure incurred in 2020-2021, and also applied the 24% uplift for the directly expensed investments.
- improved liquidity and reduced cash requirements – total transfers to PUN in 2020-2021 were NOK 1.2 billion as a refund of tax loss.

(in PLN million unless stated otherwise)

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

In the second half of 2021, the Norwegian authorities announced plans to further amend to the petroleum tax system that may be effective for future periods (after January 1st 2022). The amendments are to include, inter alia, the following:

- direct expensing of development capital expenditure incurred under the petroleum tax regime;
- increase in the rate of oil tax to 71.8%, while recognising in oil tax the accrued income tax (22%) as cost of sales. The change is of technical nature and, consequently, the marginal rate of the petroleum tax is expected to remain unchanged at 78%;
- reimbursement of the tax loss in cash directly to bank accounts of oil companies;
- abolition of the additional investment tax relief.

As of the date of the report, these changes had not been approved by the Norwegian Parliament.

Current income tax	**2021**	**2020**
At beginning of the period (tax receivables and payables, net)	(67)	(90)
Income tax expense recognised in profit or loss for the period	(4,538)	(1,696)
Tax paid in the period	1,336	1,745
Changes in the Group	(1,242)	-
Other changes	(83)	(26)
At end of the period (tax receivables and payables, net)	**(4,594)**	**(67)**
including:		
- receivables	259	101
- payables	(4,853)	(168)

(in PLN million unless stated otherwise)

4.1.2 Deferred tax expense

		CREDITED/(CHARGED)											
	Jan 1st 2020	Net profit/(loss)	Other comprehensive income	Other changes recognised in equity	Currency translation differences	Dec 31st 2020	Net profit/(loss)	Other comprehensive income	Other changes recognised in equity	Currency translation differences	Changes in the Group	Other changes	Dec 31st 2021
Deferred tax assets													
Employee benefit obligations	164	17	10	-	-	191	(5)	(11)	-	-	-	-	175
Provision for well decommissioning costs*	543	229	-	-	17	789	2	-	-	25	286	-	1,102
Other provisions	64	39	3	-	(9)	97	3	(2)	-	-	-	(1)	97
Measurement of derivatives	240	62	-	-	9	311	2,179	-	-	-	-	-	2,490
Impairment of non-current assets	108	70	-	-	-	178	(66)	-	-	-	-	2	114
Tax loss	52	(11)	-	-	-	41	120	-	-	-	-	-	161
Other deferred tax assets	249	(73)	-	-	-	176	211	-	-	-	-	-	387
Total deferred tax assets	**1,420**	**333**	**13**	**-**	**17**	**1,783**	**2,444**	**(13)**	**-**	**25**	**286**	**1**	**4,526**
Deferred tax liabilities													
Difference between tax and accounting value of non-current assets*	2,346	146	-	-	25	2,517	780	-	-	51	2,734	549	6,631
Measurement of derivative financial instruments	512	(12)	(231)	54	9	332	2,094	(659)	(416)	-	-	-	1,351
Other deferred tax liabilities	913	188	-	-	19	1,120	1	-	-	55	-	(554)	622
Total deferred tax liabilities	**3,771**	**322**	**(231)**	**54**	**53**	**3,969**	**2,875**	**(659)**	**(416)**	**106**	**2,734**	**(5)**	**8,604**
Set-off of assets and liabilities	**(1,388)**					**(1,741)**							**(3,032)**
After set-off													
Assets	**32**	**333**				**42**	**2,444**						**1,494**
Liabilities	**2,383**	**322**				**2,228**	**2,875**						**5,572**
Net effect of changes in the period		**11**	**244**	**(54)**	**(36)**		**(431)**	**646**	**416**	**(81)**	**(2,448)**	**6**	

**As at the end of 2021, the Group analysed individual items of deferred tax assets and liabilities that are disclosed in the statement of financial position on a net basis. Following the analysis, the items' Provision for well decommissioning costs' (deferred tax assets) and 'Difference between tax and accounting value of non-current assets' (deferred tax liabilities) increased the amount of the opening balance for these items in 2020 and 2021 by PLN 346m and PLN 539m, respectively. These items, both in 2020 and 2021, were derecognised and did not affect the presentation of deferred tax assets and liabilities in the statement of financial position.*

(in PLN million unless stated otherwise)

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

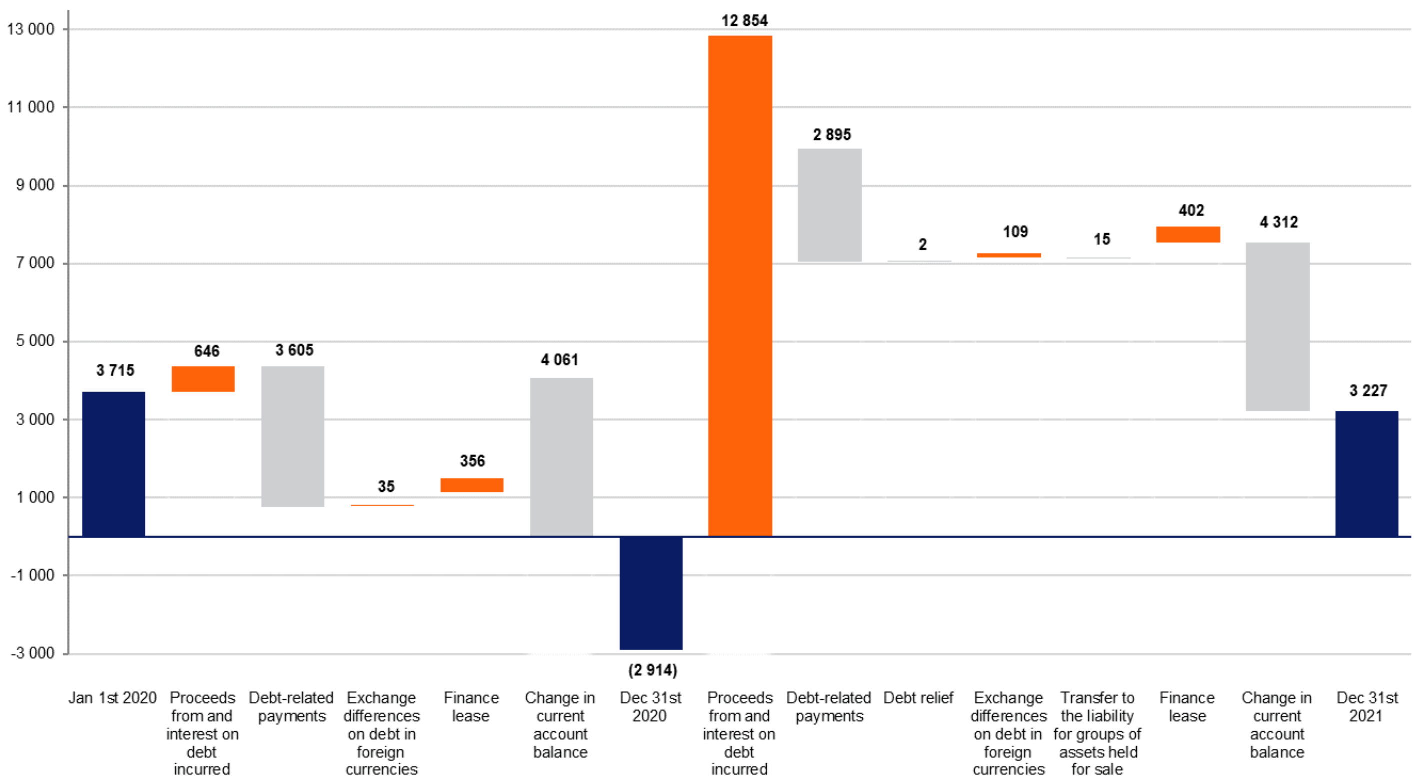
5.1 Debt reconciliation

Accounting policies

The Group defines net debt as the total of existing bank borrowings (both short-term and long-term), debt securities, lease liabilities and liabilities under non-bank borrowings, less cash and cash equivalents. The Group presents net debt to EBITDA as a measure of its debt (for definition, see Note 2.2).

Net debt	Note	2021	2020
Bank borrowings		2,116	1,764
Lease liabilities		2,293	2,007
Other		80	88
Total current financing liabilities		**4,489**	**3,859**
Bank borrowings		10,037	231
Lease liabilities		101	82
Other		10	12
Total non-current financing liabilities		**10,148**	**325**
Total debt		**14,637**	**4,184**
Cash and cash equivalents	*Note 5.4.*	11,410	7,098
Net debt		**3,227**	**(2,914)**
EBITDA	*Note 2.2.*	**15,593**	**13,009**
Net debt / EBITDA		**0.21**	**(0.22)**

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



(in PLN million unless stated otherwise)

Change in debt	Bank borrowings	Lease liabilities	Other	Total
As at Jan 1st 2020	**4,893**	**1,839**	**20**	**6,752**
Increase in debt	431	-	80	511
financing received	416	-	80	496
transaction costs	15	-	-	15
Interest accrued	51	84	-	135
Increase (new agreements)	-	357	-	357
Decrease (expired agreements)	-	(8)	-	(8)
Modifications and changes to estimate	-	7	-	7
Debt-related payments	(3,415)	(190)	-	(3,605)
principal repayments	(3,347)	(181)	-	(3,528)
interest paid	(55)	(9)	-	(64)
commission fees paid	(13)	-	-	(13)
Exchange differences on debt in foreign currencies	35	-	-	35
As at Dec 31st 2020	**1,995**	**2,089**	**100**	**4,184**
Increase in debt	12,751	-	3	12,754
financing received	12,738	-	3	12,741
transaction costs	13	-	-	13
Interest accrued	17	81	2	100
Increase (new agreements)	-	418	-	418
Decrease (expired agreements)	-	(23)	-	(23)
Modifications and changes to estimate	-	7	-	7
Debt-related payments	(2,709)	(174)	(12)	(2,895)
principal repayments	(2,692)	(165)	(12)	(2,869)
interest paid	(9)	(9)	-	(18)
commission fees paid	(8)	-	-	(8)
Cancellation of debt	-	-	(2)	(2)
Exchange differences on debt in foreign currencies	103	6	-	109
Reclassification to liabilities relating to groups of assets held for sale	(4)	(10)	(1)	(15)
As at Dec 31st 2021	**12,153**	**2,394**	**90**	**14,637**

5.2 Financing liabilities

Accounting policies

Non-bank borrowings and debt securities

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

Lease liabilities

In accordance with the accounting policy applied since 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 6.1.

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

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

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

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

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

Significant estimates

Lease term

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

As at December 31st 2021, the amount of the Group's payment obligations under short-term leases was PLN 13m.

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

The amount of payments not recognised in the measurement of lease liabilities was PLN 12m and related mainly to leases not yet commenced.

The lease contracts outstanding as at December 31st 2021 do not impose any covenants on the Group.

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

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

(in PLN million unless stated otherwise)

The table below presents the Group's debt.

2021	In functional currency – PLN	In foreign currency		
		EUR	USD	Other currencies
Bank borrowings	10,157	1,128	868	-
Lease liabilities	2,336	1	52	6
Other	90	-	-	-
Total, including:	**12,583**	**1,129**	**920**	**6**
floating-rate	10,375	1,129	920	6
fixed-rate	2,208	-	-	-

2020	In functional currency – PLN	In foreign currency		
		EUR	USD	Other currencies
Bank borrowings	181	1,044	770	-
Lease liabilities	2,022	1	60	6
Other	100	-	-	-
Total, including:	**2,303**	**1,045**	**830**	**6**
floating-rate	395	1,045	830	6
fixed-rate	1,908	-	-	-

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

For more information on management of the financial resources, see the Directors' Report on the operations of the PGNiG Group and PGNiG S.A. for 2021.

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 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.

5.3 Equity, dividends and capital management policies

Accounting policies

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

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

Accumulated other comprehensive income includes exchange differences on translating foreign operations, effects of the application of cash-flow hedge accounting which are taken to equity, actuarial gains and losses on employee benefits, and accounting for investments in equity instruments measured at fair value.

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

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

(in PLN million unless stated otherwise)

5.3.1 Shareholding structure

PGNiG S.A.'s largest shareholder is the State Treasury, which as at December 31st 2021 held 71.88% of the Company shares and controlled the Group. For detailed information on the shareholding structure, see the Directors' Report the operations of the PGNiG Group and PGNiG S.A. for 2021.

As at the end of 2021 and in 2020 the Company's share capital comprised 5,778,314,857 shares with a par value of PLN 1 per share.

2021	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%**

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

5.3.2 Dividend paid and proposed

On July 9th 2021, the Annual General Meeting of PGNiG resolved to distribute PLN 6,908,548,870.60, comprising PGNiG S.A.'s net profit for 2020 of PLN 6,908,551,193.11 and accumulated loss brought forward of PLN 2,322.51 resulting from correction of prior period, as follows:

a) PLN 1,213,446,119.97 to dividend payment;

b) PLN 5,695,102,750.63 to statutory reserve funds of the Company.

Dividend was paid on 5,778,314,857 shares, and the dividend per share was PLN 0.21 (twenty-one grosz). The dividend record date and the dividend payment date were set for July 19th 2021 and August 3rd 2021, respectively.

	2021	2020
Dividend paid in the period		
Dividend per share paid (PLN)	0.21	0.09
Number of shares	5,778	5,778
Dividend paid	**1,213**	**520**
dividend paid to owners of the parent	1,213	520
dividend paid to minority shareholders	-	-

For detailed information on the dividend policy, see Directors' Report the operations of the PGNiG Group and PGNiG S.A. for 2021.

(in PLN million unless stated otherwise)

5.4 Cash and cash equivalents

Accounting policies

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

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

	2021	2020
Cash at banks	4,096	1,383
Bank deposits	3,828	4,753
Other cash	3,490	964
Total gross carrying amount	**11,414**	**7,100**
Impairment loss	(4)	(2)
Total net carrying amount	**11,410**	**7,098**
including restricted cash	4,300	1,208

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.

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

2021	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	(5,551)	-	-	-	19	-	-	(5,532)
Receivables	(11,174)	158	(368)	-	538	359	2	(10,485)
Other assets	(119)	-	60	(5)	-	(39)	-	(103)
Trade and tax payables	9,627	(4,685)	72	-	-	(123)	-	4,891
Employee benefit obligations	103	-	-	-	(3)	(113)	-	(13)
Provision for decommissioning, restoration and environmental remediation costs	33	-	381	-	-	(80)	-	334
Other provisions	(27)	-	-	-	(481)	125	-	(383)
Grants	(7)	-	(27)	-	-	-	-	(34)
Other liabilities	1,407	-	(1)	-	(116)	51	-	1,341
Total working capital	**(5,708)**	**(4,527)**	**117**	**(5)**	**(43)**	**180**	**2**	**(9,984)**

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

(in PLN million unless stated otherwise)

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

	2021	2020
Net interest and dividend	8	7
Net foreign exchange gains/(losses)	(287)	138
Profit/(loss) from equity-accounted investees	(7)	595
Derivative financial instruments	462	344
Written-off expenditure on non-financial non-current assets	623	201
Acquired CO_2 emission allowances	(470)	(447)
Other items, net	289	(56)
Other non-cash adjustments	**618**	**782**

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

	2021	2020
a) Net exchange differences on cash at beginning of the period	(152)	(4)
b) Net cash write-downs at beginning of the period	(2)	-
c) Net exchange differences on cash at end of the period	159	(152)
b) Net cash write-downs at end of the period	(4)	(2)
I. Change in net exchange differences on cash (c-a)	311	(148)
II. Change in cash write-downs (d-b)	(2)	(2)

(in PLN million unless stated otherwise)

6. Notes to the statement of financial position

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

6.1.1 Property, plant and equipment and related provisions

Accounting policies

Property, plant and equipment

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

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

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

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

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

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

Depreciation methods and periods for property, plant and equipment:

Category	Depreciation method	Useful life	Average remaining useful life as at the reporting date
Buildings and structures	Straight-line method	1−79 years	33
Plant and equipment	Straight-line method	1−50 years	20
Vehicles	Straight-line method	1−18 years	13
Other property, plant and equipment	Straight-line method	1−40 years	13
Reserves in the Norwegian Continental Shelf	Units of production method*	more than 10 years	more than 10 years
Land		Not depreciated	
Tangible assets under construction		Not depreciated	

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

Right-of-use assets

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

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

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

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

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

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

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

Payments associated with all short-term leases and leases of low-value assets are recognised on a straight-line basis as expense in profit or loss. For 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.

Depreciation periods for right-of-use assets:

Category	Useful life
Right-of-use asset – land	1−99 years
Right-of-use asset – buildings and structures	2−40 years
Right-of-use asset – machinery and equipment	1−40 years
Right-of-use asset – vehicles	2−15 years
Right-of-use asset - other property, plant and equipment	1−39 years

Exploration and evaluation expenditure

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

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

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

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

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

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

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

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

The provision for well decommissioning costs is recognised when the Group has the obligation to properly decommission and abandon wells after production is discontinued. The Group recognises provisions for costs of decommissioning of exploration, production and storage wells. The amount of the discounted provision increases the initial value of the wells included in exploration and evaluation assets under construction and property, plant and equipment and, in the case of property, plant and equipment, is depreciated over their estimated useful lives.

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

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

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

(in PLN million unless stated otherwise)

Significant estimates

Useful lives of property, plant and equipment

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

The residual value, the method of depreciation and the useful life of an item of property, plant and equipment are reviewed at least at the end of each financial. Changes in the estimated amount of an asset are recognised in profit or loss in the period in which the estimates are revised. As a result of the most recent review, made as at December 31st 2021, depreciation expense was reduced by about PLN 71m.

Total property, plant and equipment:

	2021			2020		
	Gross carrying amount	Accumulated depreciation and impairment	Net carrying amount	Gross carrying amount	Accumulated depreciation and impairment	Net carrying amount
Land	141	(11)	130	144	(13)	131
Buildings and structures	43,239	(19,901)	23,338	40,481	(19,496)	20,985
Plant and equipment	28,984	(13,383)	15,601	20,710	(12,040)	8,670
Vehicles and other	3,758	(2,333)	1,425	3,493	(2,188)	1,305
Total own tangible assets	**76,122**	**(35,628)**	**40,494**	**64,828**	**(33,737)**	**31,091**
Right-of-use asset – land	2,965	(310)	2,655	2,641	(217)	2,424
Right-of-use asset – buildings and structures	436	(149)	287	403	(123)	280
Right-of-use asset – machinery and equipment	235	(46)	189	215	(37)	178
Right-of-use asset – vehicles	55	(28)	27	49	(20)	29
Total right-of-use assets	**3,691**	**(533)**	**3,158**	**3,308**	**(397)**	**2,911**
Tangible exploration and evaluation assets under construction	3,826	(1,350)	2,476	4,219	(1,511)	2,708
Other tangible assets under construction	4,065	(1)	4,064	5,968	(113)	5,855
Total property, plant and equipment	**87,704**	**(37,512)**	**50,192**	**78,323**	**(35,758)**	**42,565**

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.

	2021	2020
Obligations assumed under agreements on acquisition of property, plant and equipment	12,187	10,609
Portion discharged as at the reporting date	(4,457)	(3,904)
Contractual obligations to be met after the reporting date	**7,730**	**6,705**

(in PLN million unless stated otherwise)

Changes in own property, plant and equipment

	Note	Land	Buildings and structures	Plant and equipment	Vehicles and other	Total own tangible assets	Tangible assets under construction		Total property, plant and equipment
							Tangible exploration and evaluation assets under construction	Other	
Gross carrying amount as at Jan 1st 2020		**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 Jan 1st 2020		**130**	**19,805**	**8,198**	**1,272**	**29,405**	**2,561**	**5,316**	**37,282**
Exchange differences on translating foreign operations		-	-	98	-	**98**	16	49	**163**
Acquisition		-	-	-	-	**-**	882	5,127	**6,009**
Transferred from leases/ new contracts		-	-	-	-	**-**	-	2	**2**
Disposal		-	(19)	(1)	(2)	**(22)**	-	-	**(22)**
Provision for well decommissioning costs	*Note 6.3.2.*	-	445	-	-	**445**	51	210	**706**
Transfer from tangible assets under construction		2	2,689	2,043	310	**5,044**	(256)	(4,920)	**(132)**
Transfers between asset groups and between items of the statement of financial position		-	(3)	9	5	**11**	(5)	3	**9**
Depreciation and amortisation expense		-	(1,206)	(1,258)	(256)	**(2,720)**	-	-	**(2,720)**
Impairment losses		(1)	(703)	(405)	(22)	**(1,131)**	(347)	(72)	**(1,550)**
Changes in the Group		-	-	-	-	**-**	-	21	**21**
Capitalised interest		-	-	-	-	**-**	12	93	**105**
Retirement		-	(24)	(10)	(4)	**(38)**	-	-	**(38)**
Tangible assets under construction written off without bringing economic effects		-	-	-	-	**-**	(198)	(3)	**(201)**
Other changes		-	1	(4)	2	**(1)**	(8)	29	**20**
Gross carrying amount as at Dec 31st 2020		**144**	**40,481**	**20,710**	**3,493**	**64,828**	**4,219**	**5,968**	**75,015**
Accumulated amortisation		(1)	(16,751)	(10,859)	(2,126)	**(29,737)**	-	-	**(29,737)**
Impairment losses		(12)	(2,745)	(1,181)	(62)	**(4,000)**	(1,511)	(113)	**(5,624)**
Net carrying amount as at Dec 31st 2020		**131**	**20,985**	**8,670**	**1,305**	**31,091**	**2,708**	**5,855**	**39,654**
Exchange differences on translating foreign operations		-	-	283	-	**283**	53	95	**431**
Acquisition		-	-	-	-	**-**	784	6,151	**6,935**
Transferred from leases/ new contracts		-	-	-	-	**-**	-	96	**96**
Disposal		(1)	(3)	(8)	(1)	**(13)**	-	(4)	**(17)**
Provision for well decommissioning costs	*Note 6.3.2.*	-	(305)	-	-	**(305)**	(22)	(57)	**(384)**
Transfer from tangible assets under construction		1	3,385	4,367	404	**8,157**	(169)	(8,351)	**(363)**
Transfers between asset groups and between items of the statement of financial position		(1)	(60)	(20)	(1)	**(82)**	(396)	394	**(84)**
Depreciation and amortisation expense		-	(1,291)	(1,437)	(291)	**(3,019)**	-	-	**(3,019)**
Impairment losses		2	716	96	13	**827**	161	112	**1,100**
Changes in the Group		-	-	3,662	-	**3,662**	-	-	**3,662**
Capitalised interest		-	-	-	-	**-**	7	50	**57**
Retirement		(2)	(87)	(13)	(4)	**(106)**	-	-	**(106)**
Tangible assets under construction written off without bringing economic effects		-	-	-	-	**-**	(621)	(2)	**(623)**
Other changes		-	(2)	1	-	**(1)**	(29)	(275)	**(305)**
Gross carrying amount as at Dec 31st 2021		**141**	**43,239**	**28,984**	**3,758**	**76,122**	**3,826**	**4,065**	**84,013**
Accumulated amortisation		(1)	(17,872)	(12,298)	(2,284)	**(32,455)**	-	-	**(32,455)**
Impairment losses		(10)	(2,029)	(1,085)	(49)	**(3,173)**	(1,350)	(1)	**(4,524)**
Net carrying amount as at Dec 31st 2021		**130**	**23,338**	**15,601**	**1,425**	**40,494**	**2,476**	**4,064**	**47,034**

(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 property, plant and equipment under construction	Total right-of-use assets relating to property, plant and equipment
Gross carrying amount as at Jan 1st 2020	**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 Jan 1st 2020	**2,245**	**278**	**162**	**35**	**2,720**	**-**	**2,720**
Exchange differences on translating foreign operations	-	1	2	-	**3**	-	**3**
Acquisition	-	-	-	-	**-**	1	**1**
Transferred from leases/ new contracts	298	11	4	11	**324**	2	**326**
Disposal	(9)	-	-	-	**(9)**	-	**(9)**
Transfer from tangible assets under construction	2	1	1	3	**7**	(4)	**3**
Transfers between asset groups and between items of the statement of financial position	(19)	10	(2)	(10)	**(21)**	-	**(21)**
Depreciation and amortisation expense	(69)	(26)	(14)	(11)	**(120)**	-	**(120)**
Impairment losses	(8)	-	-	(2)	**(10)**	-	**(10)**
Retirement	(5)	(2)	-	(1)	**(8)**	-	**(8)**
Other changes	(11)	7	25	4	**25**	1	**26**
Gross carrying amount as at Dec 31st 2020	**2,641**	**403**	**215**	**49**	**3,308**	**-**	**3,308**
Accumulated amortisation	(140)	(122)	(37)	(18)	**(317)**	-	**(317)**
Impairment losses	(77)	(1)	-	(2)	**(80)**	-	**(80)**
Net carrying amount as at Dec 31st 2020	**2,424**	**280**	**178**	**29**	**2,911**	**-**	**2,911**
Exchange differences on translating foreign operations	-	-	4	-	**4**	-	**4**
Transferred from leases/ new contracts	250	33	19	6	**308**	1	**309**
Disposal	(2)	(1)	-	-	**(3)**	-	**(3)**
Provision for well decommissioning costs	31	-	-	-	**31**	-	**31**
Transfer from tangible assets under construction	95	-	-	2	**97**	(1)	**96**
Transfers between asset groups and between items of the statement of financial position	(27)	-	-	-	**(27)**	-	**(27)**
Depreciation and amortisation expense	(77)	(28)	(12)	(11)	**(128)**	-	**(128)**
Impairment losses	(22)	1	-	-	**(21)**	-	**(21)**
Retirement	(14)	(1)	-	-	**(15)**	-	**(15)**
Other changes	(3)	3	-	1	**1**	-	**1**
Gross carrying amount as at Dec 31st 2021	**2,965**	**436**	**235**	**55**	**3,691**	**-**	**3,691**
Accumulated amortisation	(211)	(149)	(46)	(26)	**(432)**	-	**(432)**
Impairment losses	(99)	-	-	(2)	**(101)**	-	**(101)**
Net carrying amount as at Dec 31st 2021	**2,655**	**287**	**189**	**27**	**3,158**	**-**	**3,158**

6.1.2 Intangible assets

Accounting policies

Intangible assets

The Group's key items of intangible assets are:

- software,
- CO_2 emission allowances (purchased for redemption and received free of charge),
- licences obtained under the Polish Geological and Mining Law, mining rights and geological information (“Licences”),
- goodwill.

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 - are recognised as inventories (Note 6.2.1.),
- rights obtained free of charge under the National Allocation Plan (2008-2012) – the originally granted rights, allocated free of charge, are recognised in the statement of financial position at their purchase price (i.e. zero) and recorded off-balance sheet.

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.

Goodwill

Goodwill is the excess of the acquisition cost over the net amount determined at the acquisition date of the identifiable assets acquired and liabilities assumed measured in accordance with IFRS 3. Acquisition-related costs are accounted for as an expense in the period in which the costs are incurred in exchange for services received, except for costs of issuing debt and equity securities.

Measurement

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

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

Intangible assets are amortised using the straight-line method based on amortisation rates that reflect the expected useful lives of the assets. Purchased CO_2 emission allowances are amortised by redeeming the allowances based on the volume of emissions.

Goodwill is tested annually for impairment and is disclosed in the statement of financial position at initial value less accumulated impairment losses. Goodwill is not amortised.

Significant estimates

Useful lives of intangible assets

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

The estimated amortisation period and amortisation method are reviewed at the end of each financial year. If the forecast useful life of an asset is significantly different from previous estimates, the amortisation period is changed. The effects of changes in estimate are recognised in the statement of profit or loss in the period in the same line item in which the estimate was previously classified.

As a result of the review as at December 31st 2021, annual amortisation expense increased by about PLN 1m .

(in PLN million unless stated otherwise)

	CO_2 emission allowances	Software	Licences	Goodwill	Other intangible assets	Total
Gross carrying amount as at Jan 1st 2020	**1,303**	**561**	**320**	**65**	**550**	**2,799**
Accumulated amortisation	(1,041)	(445)	(102)	-	(407)	**(1,995)**
Impairment losses	-	(4)	(69)	-	(2)	**(75)**
Net carrying amount as at Jan 1st 2020	**262**	**112**	**149**	**65**	**141**	**729**
Transfer from tangible assets under construction	54	33	5	-	37	**129**
Transfers between asset groups and between items of the statement of financial position	-	(1)	-	-	2	**1**
Acquisition	447	-	-	-	-	**447**
Depreciation and amortisation expense	(464)	(46)	(22)	-	(49)	**(581)**
Impairment losses	-	(1)	(8)	-	(2)	**(11)**
Other changes	(6)	-	-	-	(15)	**(21)**
Gross carrying amount as at Dec 31st 2020	**1,768**	**578**	**320**	**65**	**563**	**3,294**
Accumulated amortisation	(1,475)	(476)	(119)	-	(445)	**(2,515)**
Impairment losses	-	(5)	(77)	-	(4)	**(86)**
Net carrying amount as at Dec 31st 2020	**293**	**97**	**124**	**65**	**114**	**693**
Exchange differences on translating foreign operations	-	-	2	30	-	**32**
Transfer from tangible assets under construction	116	76	16	-	59	**267**
Acquisition	470	-	-	-	-	**470**
Depreciation and amortisation expense	(749)	(53)	(23)	-	(53)	**(878)**
Impairment losses	-	-	4	-	1	**5**
Changes in the Group	-	-	-	1,305	-	**1,305**
Retirement	-	-	-	(3)	-	**(3)**
Other changes	(65)	-	-	-	-	**(65)**
Gross carrying amount as at Dec 31st 2021	**2,315**	**629**	**328**	**1,397**	**614**	**5,283**
Accumulated amortisation	(2,250)	(504)	(132)	-	(490)	**(3,376)**
Impairment losses	-	(5)	(73)	-	(3)	**(81)**
Net carrying amount as at Dec 31st 2021	**65**	**120**	**123**	**1,397**	**121**	**1,826**

6.1.3 Impairment of non-financial assets

Significant estimates

Impairment of non-financial assets

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

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

Impairment losses in respect of property, plant and equipment are presented in the table below.

	2021			2020		
	Upstream operations	Trade and storage	Other	Upstream operations	Trade and storage	Other
Land	(23)	-	(86)	(30)	-	(59)
Buildings and structures	(1,770)	(48)	(211)	(2,459)	(53)	(234)
Plant and equipment	(677)	(321)	(87)	(771)	(319)	(91)
Vehicles and other	(46)	(1)	(4)	(59)	(1)	(4)
Tangible assets under construction						
tangible exploration and evaluation assets under construction	(1,350)	-	-	(1,511)	-	-
other	47	-	(48)	(68)	-	(45)
Total	**(3,819)**	**(370)**	**(436)**	**(4,898)**	**(373)**	**(433)**
Total at end of the period		**(4,625)**			**(5,704)**	

Impairment losses on non-current assets are the result of an assessment of the recoverable amount of assets based on an analysis of future cash flows, in particular based on current and projected paths of hydrocarbon prices on international markets. The year

2021 was a period of strong price increases across the fuel market. The price spikes observed in the crude oil market are strongly linked to the global supply and demand landscape, which could have been driven by the expectation of a rapid global economic recovery following the severe downturn in 2020 in the wake of the COVID-19 pandemic. The prices of natural gas and electricity were strongly affected by growing prices of CO_2 emission allowances and other energy products. Gas prices were additionally driven by low gas volumes in storage facilities in Europe, changes in expectations concerning transmission capacity reservations, as well as scheduled and unscheduled unit shutdowns.

Various market and deposit-related factors led to reversal of impairment losses on non-financial assets in 2021. The Group points out that given the number and nature of factors with bearing on the price levels in 2021 it is impossible to classify the change in its entirety as being an effect of COVID-19 or to separate the effect of COVID-19 from the valuation of the Company's assets.

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

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

(in PLN million unless stated otherwise)

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

	2021		2020	
	impairment loss reversal	impairment loss recognition	impairment loss reversal	impairment loss recognition
Description of cash generating unit:	CGU - 157 production units		CGU - 161 production units	
Reasons for impairment / value increase	* Update of price forecasts – increase in oil and gas prices during production periods.	* Increase in WACC discount rate in 2021 relative to December 2020. * Update of production forecast to account for deterioration of reservoir conditions experienced by certain production units.	*Update of production forecast to account for new wells brought on stream	* Update of price forecasts – decline in oil and gas prices. * Update of production forecast to account for deterioration of reservoir conditions experienced by certain production units. * Update of the provision for well decommissioning.
Value in use	29,365		17,300	
Nominal pre-tax discount rate	Poland 11.35% -12.83%		Poland 10.81% -11.98%	
	Pakistan: 20.53% - 22.33%		Pakistan: 25.92% - 29.68%	
Amount of recognised impairment loss	**827**	**356**	**210**	**998**

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

	2021		2020	
	impairment loss reversal	impairment loss recognition	impairment loss reversal	impairment loss recognition
Description of cash generating unit:	CGU - 67 wells		CGU - 78 wells	
Reasons for impairment / value increase	* Update of production forecast and reduction of planned expenditures. * Update of price forecasts – increase in oil and gas prices during production periods.	* Decision to abandon drilling plans following unsatisfactory results of geological work. * Increase in WACC discount rate in 2021 relative to December 2020. * Update of production forecast based on well tests.	* Update of production forecast and reduction of planned expenditures.	* Decision to abandon drilling plans following unsatisfactory results of geological work. * Increase in WACC discount rate in 2020 relative to December 2019. * Update of production forecast following well tests. * Change in price forecasts – decline in oil and gas prices during production periods.
Value in use	3,017		2,378	
Nominal pre-tax discount rate	Poland 12.05% - 13.73%		Poland 11.73% - 12.95%	
Amount of recognised impairment loss	**51**	**176**	**13**	**463**

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

(in PLN million unless stated otherwise)

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

	2021		2020	
	impairment loss reversal	impairment loss recognition	impairment loss reversal	impairment loss recognition
Description of cash generating unit:	**CGU – 9 production units on the Norwegian Continental Shelf**		**CGU – 9 production units on the Norwegian Continental Shelf**	
Reasons for impairment / value increase	* Significant improvement in macroeconomic conditions (mainly gas and oil prices) * Temporary suspension of gas injection into the Gina Krog field to sell the gas at high market prices * Extension of the production profile for the Vale field		Increase in proven reserves	* Deteriorated macroeconomic conditions (discount rate, hydrocarbon prices). * Changes in the tax regime accelerated consumption of the tax credit (the value had a positive effect on the 2020 result at the expense of future cash flows). * Downward revision of production forecasts for selected fields.
Value in use (PLN)	9,565		4,120	
Nominal pre-tax discount rate	8.49%		7.22%	
Amount of recognised impairment loss (PLN)	**158**	**0**	**14**	**380**

Description of cash generating unit:	*Leased assets (transmission assets, non-contributed assets, LNG stations and other assets)*

	2021		2020	
	impairment loss reversal	impairment loss recognition	impairment loss reversal	impairment loss recognition
Description of cash generating unit	**CGU – 169**		**CGU – 169 units**	
Reasons for impairment / value increase	*Decrease in asset value due to change in the valuation of provision for site restoration * Higher rental income from certain properties.	* Higher cost of most of the planned repairs and of property maintenance costs. *On perpetual usufruct rights to land contaminated with nitrogen tar, the discount algorithm for estimated restoration costs was changed (from simple discounting to compound discounting) and the discount rate was reduced (the same rate as the rate of provisioning for well decommissioning was assumed). * Change in the intended use of the facility	* Higher rental income from certain properties. * Lower cost of planned repairs and property maintenance costs.	* Higher costs of property maintenance. * The sum of discounted cash flows and residual value is lower than the net value of property, plant and equipment.
Value in use (PLN)	137		203	
Nominal pre-tax discount rate	4.01% - 8.75%		3.32% - 6.92%	
Amount of recognised impairment loss (PLN)	**3**	**11**	**4**	**90**

Summary table (all cash-generating units in total)

	2021		2020	
	impairment loss reversal	impairment loss recognition	impairment loss reversal	impairment loss recognition
Value in use of assets tested for impairment	42,084		24,001	
Amount of recognised impairment loss (PLN)	**1,040**	**543**	**241**	**1,931**

(in PLN million unless stated otherwise)

6.2 Working capital

6.2.1 Inventories

Accounting policies

The Group's most material inventory items include:

- gas fuel and fuels for electricity and heat generation,
- certificates of origin for electricity obtained in connection with electricity production and certificates of origin for electricity purchased in order to be surrendered for cancellation in connection with the Group's obligation under the Energy Law,
- energy efficiency (white) certificates, purchased by the Group, to be surrendered for cancellation and obtained in connection with efficiency enhancing measures taken under the Energy Efficiency Act,
- consumables used in investment projects and at oil and gas production facilities,
- CO_2 emission allowances (purchased for resale).

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

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

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

In accordance with the provisions of the Energy Law, the Group companies acting as producers and sellers of electricity from renewable sources or produced in cogeneration receive or acquire certificates of origin for electricity, while in their capacity of suppliers of electricity, heat or gaseous fuels to end users the Group companies receive energy efficiency certificates. These entities are required by law to obtain and present for redemption a certain number of certificates.

Property rights are assigned to certificates of origin, which arise at the time when obtaining such certificates becomes probable and the rights are recognised as inventory at market value; at the same time revenue from energy sales is recognised.

Purchased certificates of origin of electricity and energy efficiency certificates (other than those purchased for trading purposes) are recognised as inventory at cost and their outflows are measured using the weighted average method.

If the entity does not have a sufficient number of certificates at the reporting date, it recognises a provision for the purchase of certificates in order to redeem them, in correspondence with the provision (Note 6.3.3.).

The Group also recognises CO_2 emission allowances purchased for resale as inventories. They are measured initially at cost; at the end of each reporting period they are measured at the lower of cost or net realisable value. In the current reporting period, their amount was not material.

Significant estimates

Inventory write-downs

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

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

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

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

(in PLN million unless stated otherwise)

Inventories	2021			2020		
	Gross carrying amount	Impairment loss	Net carrying amount	Gross carrying amount	Impairment loss	Net carrying amount
Materials, including:	8,357	(211)	8,146	2,650	(99)	2,551
Gas fuel	7,636	(106)	7,530	1,812	(18)	1,794
Fuels for electricity and heat generation	151	-	151	314	-	314
crude oil	17	-	17	17	-	17
Other materials	553	(105)	448	507	(81)	426
Certificates of origin for electricity	82	(1)	81	102	(1)	101
CO_2 emission allowances	-	-	-	23	-	23
Other inventories	9	(1)	8	9	-	9
Total	**8,448**	**(213)**	**8,235**	**2,784**	**(100)**	**2,684**

Changes in write-downs	2021	2020
Write-downs at beginning of the period	**(100)**	**(456)**
Taken to profit or loss, including:		
Recognition	(133)	(28)
Reversal	22	378
Currency translation differences	(2)	2
Other changes	-	2
Changes in the Group	-	2
Write-downs at end of the period	**(213)**	**(100)**

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 are accounted for in accordance with the applicable laws and regulations.

Significant estimates

Impairment of financial assets

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

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

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

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

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

(in PLN million unless stated otherwise)

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

- lease receivables,
- acquired debt securities,
- material trade receivables,
- trade receivables maturing in more than one year,
- receivables from sale of shares,
- receivables under equity contributions.

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

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

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

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

Receivables	2021			2020		
	Gross carrying amount	Impairment loss	Net carrying amount	Gross carrying amount	Impairment loss	Net carrying amount
Trade receivables (mainly in connection with sale of gas fuel)	11,897	(460)	11,437	4,834	(385)	4,449
Security deposits receivable	3,250	(1)	3,249	-	-	-
VAT receivable	966	-	966	392	-	392
Corporate income tax receivable	265	(6)	259	107	(6)	101
Other taxes, customs duties and social security receivable	24	(4)	20	60	(18)	42
Loans	258	(172)	86	82	(56)	26
Other receivables	797	(352)	445	624	(346)	278
Total	**17,457**	**(995)**	**16,462**	**6,099**	**(811)**	**5,288**

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

(in PLN million unless stated otherwise)

Change in impairment losses on trade receivables in the period

	Trade receivables covered by statistical analysis		Trade receivables covered by case-by-case analysis			Measured at fair value through profit or loss
	lifetime expected loss	impaired	12-month expected loss	lifetime expected loss	impaired	
As at Jan 1st 2020	**7**	**201**	**10**	**-**	**157**	**1**
Increase taken to profit or loss	91	17	4	-	34	-
Decrease taken to profit or loss	(34)	(15)	(9)	-	(49)	-
Impairment losses used	-	(19)	-	-	(17)	-
Transfers	(16)	16	-	-	-	-
Effect of exchange rate movements and other	(2)	9	-	-	(1)	-
As at Dec 31st 2020	**46**	**209**	**5**	**-**	**124**	**1**
Increase taken to profit or loss	49	8	12	23	141	-
Decrease taken to profit or loss	(33)	(8)	(9)	(8)	(100)	-
Impairment losses used	-	(19)	-	-	-	-
Transfers	(43)	13	-	-	30	-
Effect of exchange rate movements and other	1	11	-	-	7	-
As at Dec 31st 2021	**20**	**214**	**8**	**15**	**202**	**1**

Change of gross amount of trade receivables in the reporting period

	Trade receivables covered by statistical analysis		Trade receivables covered by case-by-case analysis			Measured at fair value through profit or loss
	lifetime expected loss	impaired	12-month expected loss	lifetime expected loss	impaired	
Gross amount as at Jan 1st 2020	**3,042**	**280**	**1,098**	**246**	**220**	**1**
Transfers between groups	(118)	136	(20)	-	2	-
Repaid financial assets	(20,076)	(122)	(19,832)	(680)	(224)	(20)
Newly recognised financial assets	20,199	19	19,680	717	273	20
Write-offs	(1)	(22)	-	-	(17)	-
Other effect	(16)	35	18	1	(5)	-
Gross amount as at Dec 31st 2020	**3,030**	**326**	**944**	**284**	**249**	**1**
Transfers between groups	(169)	(58)	25	117	85	-
Repaid financial assets	(24,894)	(44)	(13,927)	(477)	(910)	(23)
Newly recognised financial assets	26,834	21	17,010	652	830	23
Write-offs	-	(24)	(1)	-	-	-
Changes due to modification of risk parameters	-	-	1	-	(1)	-
Changes in the Group	463	-	-	-	-	-
Other effect	1,641	-	(192)	28	53	-
Gross amount as at Dec 31st 2021	**6,905**	**221**	**3,860**	**604**	**306**	**1**

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

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

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

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

Based on the analyses, as at December 31st 2021 the estimated effect of COVID-19 on impairment losses on the PGNiG Group's trade receivables was their increase by about PLN 5m.

(in PLN million unless stated otherwise)

Change in impairment losses on other financial assets in the period

	Other financial assets covered by statistical analysis		Other financial assets covered by case-by-case analysis	
	lifetime expected loss	Impaired	12-month expected loss	Impaired
As at Jan 1st 2020	**16**	**295**	**1**	**83**
Increase taken to profit or loss	20	19	-	-
Decrease taken to profit or loss	(6)	(26)	-	(1)
Impairment losses used	-	(1)	-	(76)
Transfers	(14)	14	-	-
Effect of exchange rate movements and other	12	64	-	1
As at Dec 31st 2020	**28**	**365**	**1**	**7**
Increase taken to profit or loss	20	17	1	17
Decrease taken to profit or loss	(13)	(23)	-	(3)
Impairment losses used	-	(11)	-	-
Transfers	(7)	(58)	-	65
Changes due to modification of risk parameters	(1)	-	-	-
Effect of exchange rate movements and other	14	(1)	-	(12)
As at Dec 31st 2021	**41**	**289**	**2**	**74**

Change in gross amount of other financial assets in the reporting period

	Other financial assets covered by statistical analysis		Other financial assets covered by case-by-case analysis			Measured at fair value through profit or loss	Measured at fair value through other comprehensive income
	lifetime expected loss	Impaired	12-month expected loss	lifetime expected loss	Impaired		
Gross amount as at Jan 1st 2020	**351**	**336**	**31**	**-**	**108**	**31**	**40**
Transfers between groups	(26)	26	-	-	-	-	-
Repaid financial assets	(472)	(38)	(32)	-	(5)	(126)	-
Newly recognised financial assets	339	104	5	-	5	115	-
Write-offs	-	(1)	-	-	(76)	-	-
Other effect	(49)	(10)	36	-	(16)	(21)	(40)
Gross amount as at Dec 31st 2020	**143**	**417**	**40**	**-**	**16**	**(1)**	**-**
Transfers between groups	(11)	(54)	-	-	65	-	-
Repaid financial assets	(716)	(13)	(38)	-	(14)	-	-
Newly recognised financial assets	822	9	3,278	-	18	-	-
Write-offs	-	(11)	-	-	-	-	-
Changes in the Group	35	-	24	-	-	-	-
Other effect	20	43	35	3	4	-	-
Gross amount as at Dec 31st 2021	**293**	**391**	**3,339**	**3**	**89**	**(1)**	**-**

6.2.3 Trade and tax payables

Accounting policies

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

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

Trade and tax payables	**2021**	**2020**
Trade payables	4,575	1,199
Liabilities under purchase of property, plant and equipment and intangible assets	583	654
VAT payable	2,574	963
Other taxes, customs duties and social security payable	339	313
Current income tax liabilities	4,853	168
Total	**12,924**	**3,297**

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 (including paid holiday leaves, sick leaves, maternity leaves),
- 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 are recognised in the period in which the Group entity receives relevant services provided by the employee and, in the case of profit-sharing and bonus payments – when the Group entity has a present legal or constructive obligation to make such payments as a result of past events and when the obligation can be measured reliably.

The Group recognises expected employee benefits expense in the form of short-term compensated absences:

- for cumulative compensated absences (where the employees performed work that increases their entitlement to future compensated absences) – if they have not been fully used in the reporting period,
- for non-cumulative compensated absences – at the time of absence.

Post-employment benefits

These are employee benefits (other than termination benefits) which are payable after termination of service. They consist primarily of retirement benefits. The Group operates various post-employment benefit plans, including defined contribution plans or defined benefit plans, depending on the economic substance of such plan as derived from their principal terms and conditions.

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

Other long-term employee benefits.

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

- Long-term compensated absences,
- Length-of-service awards and other long-service benefits,
- Long-term disability benefits,
- Other long-term employee benefits.

Post-employment benefit obligations in the form of defined benefit plans (retirement severance payments) and other long-term employee benefits (e.g. length-of-service awards, long-term disability pensions, benefits under the Company Social Benefits Fund) are determined using the projected unit credit method of actuarial valuation carried out 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.

Termination benefits

This obligation arises as a result of the entity's decision to terminate an employee's employment relationship before reaching retirement age or the employee's decision to accept the proposed benefits in exchange for termination of employment.

(in PLN million unless stated otherwise)

Employee benefit obligations	2021		2020	
	Non-current	Current	Non-current	Current
Liabilities under length-of-service awards	605	58	639	57
Liabilities under severance payments	239	25	311	4
Wages and salaries payable	-	88	-	79
Amounts payable for unused holiday entitlements	-	67	-	72
Termination benefits	-	7	-	7
Profit-sharing and bonus obligations	-	158	-	148
Benefits obligations under the Company Social Benefits Fund	84	3	90	4
Other employee benefit obligations	5	165	6	97
Total	**933**	**571**	**1,046**	**468**

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

	Length-of-service awards		Retirement severance payments	
	2021	2020	2021	2020
Obligations at beginning of the period	696	612	315	257
Interest expense	22	16	10	7
Current service cost	31	33	10	12
Benefits paid	(65)	(56)	(13)	(11)
Actuarial gain/(loss) − changes in financial assumptions	(92)	52	(48)	34
Actuarial gain/(loss) − changes in demographic assumptions	72	39	(10)	16
Reclassification to liabilities relating to groups of assets held for sale	(1)	-	-	-
Obligations at end of the period	**663**	**696**	**264**	**315**

In the reporting period, the technical rate applied to calculate the discounted value of future retirement severance obligations was 0%, and resulted from a 3.6% annual return on long-term Treasury bonds and a 3.6% forecast annual salary growth (at the end of 2020 the applied technical rate was -1.4%, and resulted from the rates of 1.2% and 2.7%, respectively).

6.3.2 Provision for well decommissioning, restoration and environmental remediation costs

Accounting policies

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

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

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

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

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

Provisions for costs of landfill reclamation and environmental protection

The Group recognises provisions for future liabilities for:

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

(in PLN million unless stated otherwise)

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

Significant estimates

Provision for well decommissioning costs

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

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

Extraction Facilities Decommissioning Fund

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

Provisions for costs of landfill reclamation and environmental protection

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

	Note	Provision for well decommissioning costs	Provisions for environmental liabilities	Provision for landfill reclamation	Total
As at Jan 1st 2020		**2,389**	**122**	**60**	**2,571**
Recognised provision capitalised in cost of property, plant and equipment	*Note 6.1.1.*	706	-	-	706
Recognised provision taken to profit or loss	*Note 3.3.*	83	10	6	99
Other increases – Extraction Facilities Decommissioning Fund		1	-	-	1
Used		(28)	-	-	(28)
Provision reversal taken to profit or loss	*Note 3.3.*	(45)	(16)	-	(61)
Exchange differences on translating foreign operations		23	-	-	23
As at Dec 31st 2020		**3,129**	**116**	**66**	**3,311**
non-current		3,094	92	55	3,241
current		35	24	11	70
As at Jan 1st 2021		**3,129**	**116**	**66**	**3,311**
Recognised provision capitalised in cost of property, plant and equipment	*Note 6.1.1.*	(384)	32	-	(352)
Recognised provision taken to profit or loss	*Note 3.3.*	31	9	1	41
Used		(34)	-	-	(34)
Provision reversal taken to profit or loss	*Note 3.3.*	(68)	(55)	(47)	(170)
Exchange differences on translating foreign operations		41	-	-	41
Changes in the Group		427	-	-	427
As at Dec 31st 2021		**3,142**	**102**	**20**	**3,264**
non-current		3,075	78	8	3,161
current		67	24	12	103

With respect to the costs of decommissioning of wells and site infrastructure in Poland, in 2021 the discount rate applied to calculate the provision for well decommissioning was 0.94%, and resulted from a 3.46% rate of return on assets and an inflation rate assumed to equal the NBP’s continuous inflation target of 2.50% (as at the end of 2020, the discount rate was -1.22% as the product of 1.25% and 2.50%, respectively).

6.3.3 Other provisions

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

(in PLN million unless stated otherwise)

	Note	Provision for certificates of origin and energy efficiency certificates	Provision for liabilities associated with exploration work abroad	Provision for UOKiK fine*	Provision for claims under extra-contractual use of land	Other provisions	Total
As at Jan 1st 2020		**216**	**177**	**6**	**21**	**405**	**825**
Recognised provision taken to profit or loss	*Note 3.3.*	243	-	-	2	460	705
Provision reversal taken to profit or loss	*Note 3.3.*	(11)	-	-	(6)	(358)	(375)
Used		(179)	-	-	-	(12)	(191)
Changes in the Group		-	-	-	-	(1)	(1)
Other changes		6	(2)	-	1	(44)	(39)
As at Dec 31st 2020		**275**	**175**	**6**	**18**	**450**	**924**
non-current		-	4	-	10	121	135
current		275	171	6	8	329	789
As at Jan 1st 2021		**275**	**175**	**6**	**18**	**450**	**924**
Recognised provision taken to profit or loss	*Note 3.3.***	310	-	-	8	322	640
Provision reversal taken to profit or loss	*Note 3.3.*	(8)	-	-	(8)	(345)	(361)
Used		(238)	-	(6)	-	(5)	(249)
Changes in the Group		-	-	-	-	54	54
Other changes		3	14	-	-	(3)	14
As at Dec 31st 2021		**342**	**189**	**-**	**18**	**473**	**1,022**
non-current		-	4	-	12	244	260
current		342	185	-	6	229	762

** For more information on the proceedings, see the Directors' Report the operations of the PGNiG Group and PGNiG S.A. for 2021.*

*** Other provisions (provisions for financial guarantees), of PLN -2m, are disclosed in Note 3.4 as other net finance costs.*

(in PLN million unless stated otherwise)

6.3.4 Grants

Accounting policies

Grants

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

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

Grants	2021	2020
Grants to finance assets, including:	738	745
Kosakowo UGSC construction	49	53
Wierzchowice UGS extension	335	356
Strachocina UGS extension	46	49
Husów UGS extension	20	23
Construction of gas distribution systems in new areas and upgrades of existing distribution networks	131	136
Development of smart energy storage, transmission and distribution systems	116	78
Other	41	50
Total	**738**	**745**
non-current	695	695
current	42	49

Companies of the Group are involved in projects for which EU co-financing has been obtained. The largest such projects are implemented by Polska Spółka Gazownictwa Sp. z o.o., which in 2021 performed agreements on grants for investment projects involving construction of new gas pipelines to develop gas distribution in towns and cities in Poland which have not been connected to the gas network so far. Under the agreements, in the reporting and comparative periods the Company received grants for a total amount of PLN 32m.

6.3.5 Other liabilities

Other liabilities	2021		2020	
	Non-current	Current	Non-current	Current
Security deposits	-	55	-	41
Non-depreciable portion of the value of gas service lines provided by gas buyers	24	40	64	40
Prepaid deliveries	-	344	-	236
Accruals and deferred income	-	306	-	160
Liabilities under licences, rights to geological information and mining rights	33	-	34	-
Other deferred income	1	625	1	212
Other	72	1,006	78	280
Total	**130**	**2,376**	**177**	**969**

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 other 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.

Upon initial recognition of a new financial asset, the Group companies assess the business model and perform a cash flow test (SPPI). The assessment of the business model and the outcome of the SPPI test determines the classification of the financial asset into the appropriate category, as follows:

Financial assets measured at amortized cost are those that meet the SPPI test and are held within a business model whose objective is to hold assets in order to collect contractual cash flows. This group of assets includes:

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

Financial assets measured at fair value through other comprehensive income are assets that meet the SPPI test and are held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets. This group of assets includes:

- investments in equity instruments (other than shares in subsidiaries not consolidated with the full method, jointly-controlled entities and associates not accounted for with the equity method), which the Group measures through other comprehensive income,
- investments in debt instruments that meet the SPPI test and are held within a business model whose objective is achieved by selling financial assets.

Financial assets measured at fair value through profit or loss are assets that do not meet the SPPI test and are held within a business model whose objective is achieved by selling financial assets. These include:

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

Financial liabilities at amortised cost

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

Financial assets and liabilities at fair value through profit or loss

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

Hedge derivatives

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

Modification of contractual cash flows

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

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

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

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

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

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

On initial recognition of a new financial asset, the 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

			2021				2020			
Item	Item referenced in Note	Note	Financial assets at amortised cost	Financial assets at fair value through profit or loss	Financial instruments designated for hedge accounting	Total	Financial assets at amortised cost	Financial assets at fair value through profit or loss	Financial instruments designated for hedge accounting	Total
Receivables	Trade receivables	Note 6.2.2.	11,437	-	-	11,437	4,449	-	-	4,449
Derivative financial instruments		Note 7.2.	-	7,077	1,891	8,968	-	1,004	449	1,453
Cash and cash equivalents		Note 5.4.	11,410	-	-	11,410	7,098	-	-	7,098
Total			**22,847**	**7,077**	**1,891**	**31,815**	**11,547**	**1,004**	**449**	**13,000**

7.1.2 Key financial liabilities by category

			2021				2020			
Item	Item referenced in Note	Note	Financial liabilities at amortised cost	Financial liabilities at fair value through profit or loss	Financial instruments designated for hedge accounting	Total	Financial liabilities at amortised cost	Financial liabilities at fair value through profit or loss	Financial instruments designated for hedge accounting	Total
Financing liabilities	Bank borrowings	Note 5.2.	12,153	-	-	12,153	1,995	-	-	1,995
Trade and tax payables	Trade payables	Note 6.2.3.	4,575	-	-	4,575	1,199	-	-	1,199
Derivative financial instruments		Note 7.2.	-	9,362	5,669	15,031	-	780	618	1,398
Total			**16,728**	**9,362**	**5,669**	**31,759**	**3,194**	**780**	**618**	**4,592**

(in PLN million unless stated otherwise)

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

Item of statement of profit or loss and statement of comprehensive income	Item referenced in Note / additional explanations	Note	2021 Loans, receivables and liabilities at amortised cost	2021 Derivative financial instruments not designated for hedge accounting	2021 Derivative financial instruments designated for cash flow hedge accounting	2020 Loans, receivables and liabilities at amortised cost	2020 Derivative financial instruments not designated for hedge accounting	2020 Derivative financial instruments designated for cash flow hedge accounting
Effect on statement of profit or loss								
Net finance costs	Interest on debt	Note 3.4.	(60)	-	-	7	-	-
	Foreign exchange differences	Note 3.4.	7	-	-	(6)	-	-
	Measurement and exercise of derivative financial instruments not designated for hedge accounting	Note 3.4.	-	-	-	-	12	-
Other income and expenses	Foreign exchange differences	Note 3.3.	169	-	-	68	-	-
	Impairment losses	Note 3.3.	(89)	-	-	(54)	-	-
	Measurement and exercise of derivative financial instruments not designated for hedge accounting	Note 3.3.	-	410	-	-	202	-
Revenue by product	Adjustment to gas sales due to hedging transactions	Note 3.1.	-	-	(697)	-	-	1,062
Raw materials and consumables used	Adjustment to gas cost due to hedging transactions	Note 3.2.	-	-	1,590	-	-	(296)
			27	**410**	**893**	**15**	**214**	**766**
Effect on other comprehensive income								
Gains/(losses) on measurement of derivative instruments designated for cash flow hedge accounting (effective portion)					(4,164)			(155)
Reclassification of derivative instruments measurement to profit or loss upon exercise (cash flow hedges)					697			(1,062)
					(3,467)			**(1,217)**
Effect on comprehensive income			**27**	**410**	**(2,574)**	**15**	**214**	**(451)**
Change in equity recognised in inventories, gross					**(2,190)**			**285**

The effective hedge taken to equity over its lifetime is, once realised, reclassified to initial cost of gas inventory or is taken to profit or loss on gas sales.

The result reclassified to gas inventory has an effect on profit or loss when the gas inventory is released for sale.

Effect of hedging transactions on gas inventory	2021	2020
Effect of hedging transactions on gas inventory at beginning of period *	**(12)**	**(1)**
Reclassification from equity of changes in value of hedging instruments	(2,190)	285
Recognition as expense in current period due to release of gas inventory for sale**	1,590	(296)
Effect of hedging transactions on gas inventory at end of period*	**(612)**	**(12)**

** Negative value means a decrease in the cost of gas inventory (decrease in the carrying amount), while positive value means an increase in the cost of gas inventory (increase in the carrying amount).*

*** Positive value means a decrease in the cost of gas in the statement of profit or loss (positive effect on profit or loss), while negative value means an increase in the cost of gas in the statement of profit or loss (negative effect on profit or loss).*

7.2 Derivative financial instruments

Accounting policies

Derivative financial instruments not designated for hedge accounting

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

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

Derivative instruments are initially recognised at fair value, and as at each reporting date they are measured at fair value with gains or losses from the measurement recognised in statement of profit or loss under net finance costs (e.g. measurement of instruments hedging financing activity, such as debt liabilities) and other income and expenses (e.g. hedging transactions not designated for hedge accounting, including 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, once realised, reclassified to initial cost of gas inventory or is taken to 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/average rate forwards/currency swaps	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.
Currency forwards/average rate forwards/currency swaps	For instrument description see the previous table.

Futures[1] for electricity, natural gas, CO_2 emission allowances, crude oil	A futures contract (futures) is a standard contract enabling the sale or purchase of a commodity in a regulated market for a pre-determined 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 assets.
Forward contracts for electricity, gas[2] and CO_2 emission allowances	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 assets.
Commodity swap	For instrument description see the previous table.

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

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

	Note	2021		2020	
		Assets	Liabilities	Assets	Liabilities
Derivative instruments covered by hedge accounting	Note 7.2.	1,891	5,669	449	618
Derivative instruments not covered by hedge accounting	Note 7.2.	7,077	9,362	1,004	780
Total		**8,968**	**15,031**	**1,453**	**1,398**

Derivative instruments designated for hedge accounting	**2021**						**2020**		
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**	**Maturity of fair value**		**Notional amount (million)**	**Period when cash flow will occur and affect the financial result**	**Fair value**
					up to 1 year	**over 1 year**			
Derivative instruments used to hedge currency risk in gas purchase and sale contracts									
Forwards									
USD	USD 478	Up to 12 months	3.6600-4.0595	3.7870	149	-	USD 263	up to 3 years	11
USD	USD 140	up to 3 years	4.0675-4.0779	4.0724	(1)	-	USD 340	up to 3 years	(38)
EUR/USD	EUR 735	up to 3 years	1.1671-1.2575	1.2167	9	172	EUR 32	up to 3 years	-
EUR/USD	EUR 13	up to 12 months	1.1258	1.1258	(1)	-	EUR 229	up to 4 years	(41)
Currency swap									
EUR	EUR 45	up to 3 years	4.6060-4.9385	4.6882	1	1	EUR 38	up to 3 years	-
EUR	EUR 718	up to 3 years	4.4746-4.9069	4.6299	(24)	(66)	EUR 528	up to 3 years	(73)
					133	**107**			**(141)**
Derivative instruments used to hedge gas purchase and selling prices									
TTF swap DA	3 MWh	up to 3 years	22.75-176.00	113.64	763	-	24 MWh	up to 3 years	286
TTF swap MA	2 MWh	1–3 months	60.85-98.10	91.98	105	-	5 MWh	1–3 months	11
TTF swap DA	52 MWh	up to 4 years	12.52-89.20	20.33	(824)	(3,691)	29 MWh	up to 4 years	(446)
TTF swap MA	6 MWh	up to 3 years	64.30-167.50	104.19	(1,026)	-	-	-	-
BRENT Swap	2 bbl	up to 12 months	4.58-43.87	43.67	207	-	4 bbl	up to 3 years	117
HH NYMEX	171 mmBtu	up to 3 years	2.24-3.70	2.67	60	424	31 mmBtu	up to 4 years	24
HH NYMEX	29 mmBtu	up to 3 years	2.86-3.70	3.36	-	(36)	33 mmBtu	up to 4 years	(20)
					(715)	**(3,303)**			**(28)**
				Total	**(582)**	**(3,196)**		**Total**	**(169)**
			Including:	Assets	1,294	597	Including:	Assets	449
				Liabilities	1,876	3,793		Liabilities	618

(in PLN million unless stated otherwise)

2021 Type of hedging instrument	Notional amount	Carrying amount Assets	Carrying amount Liabilities	Item in statement of financial position containing hedging instrument	Change in fair value of hedging instrument used as basis for recognising hedge ineffectiveness in a given period	Hedging gains or losses for reporting period, recognised in other comprehensive income	Hedge ineffectiveness amount taken to profit or loss	Statement of comprehensive income (statement of profit or loss) item in which ineffectiveness amount is included	Amount reclassified from cash flow hedging reserve to profit or loss as reclassification adjustment	Item of statement of comprehensive income (statement of profit or loss) in which reclassification adjustment is included
CASH FLOW HEDGES										
CURRENCY RISK										
Forward contracts for currency purchase (USD/PLN)	2,507	149	2	Derivative financial instruments	221	247	-	Operating income / expenses	-	Not applicable
Forward contracts to purchase USD for EUR (EUR/USD)	3,690	181	1	Derivative financial instruments	174	216	-	Operating income / expenses	(1)	Revenue from sales of gas
Average rate forwards (EUR/PLN)	3,507	2	89	Derivative financial instruments	(133)	(41)	-	Operating income / expenses	36	Revenue from sales of gas
COMMODITY PRICE RISK										
Basis swap contracts for gas price indices	445	327	-	Derivative financial instruments	(258)	(231)	-	Operating income / expenses	584	Revenue from sales of gas
Swap contracts for gas price indices	21,497	541	5,541	Derivative financial instruments	(5,070)	(5,116)	1	Operating income / expenses	78	Revenue from sales of gas
Swap contracts for HH price indices	3,035	484	36	Derivative financial instruments	465	460	2	Operating income / expenses	-	Not applicable
Swap contracts for petroleum product price indices	507	207	-	Derivative financial instruments	421	304	-	Operating income / expenses	-	Not applicable
Total	**35,188**	**1,891**	**5,669**		**(4,180)**	**(4,161)**	**3**		**697**	

(in PLN million unless stated otherwise)

2020

Type of hedging instrument	Notional amount	Carrying amount		Item in statement of financial position containing 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/PLN)	2,267	11	38	Derivative financial instruments	75	60	-	Operating income / expenses	-	Not applicable
Forward contracts to purchase USD for EUR (EUR/USD)	1,183	-	41	Derivative financial instruments	(38)	(39)	-	Operating income / expenses	2	Revenue from sales of gas
Average rate forwards (EUR/PLN)	2,611	-	73	Derivative financial instruments	(41)	(172)	-	Operating income / expenses	(51)	Revenue from sales of gas
COMMODITY PRICE RISK										
Basis swap contracts for gas price indices	403	11	37	Derivative financial instruments	(100)	(99)	-	Operating income / expenses	38	Revenue from sales of gas
Swap contracts for gas price indices	4,274	286	409	Derivative financial instruments	889	(48)	32	Operating income / expenses	(1,051)	Revenue from sales of gas
Swap contracts for HH price indices	610	24	20	Derivative financial instruments	(19)	(7)	-	Operating income / expenses	-	Not applicable
Swap contracts for petroleum product price indices	699	117	-	Derivative financial instruments	151	151	-	Operating income / expenses	-	Not applicable
Total	**12,047**	**449**	**618**		**917**	**(154)**	**32**		**(1,062)**	

(in PLN million unless stated otherwise)

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

Hedged items	2021			2020		
	Change in value of hedged item used as basis for recognising hedge ineffectiveness in given period	Balance of cash flow hedging reserve for continuing hedges	Balance remaining in cash flow hedging reserve in respect of all hedging relationships for which hedge accounting is no longer applied	Change in value of hedged item used as basis for recognising hedge ineffectiveness in given period	Balance of cash flow hedging reserve for continuing hedges	Balance remaining in cash flow hedging reserve in respect of all hedging relationships for which hedge accounting is no longer applied
CURRENCY RISK						
Natural gas (USD)	(221)	147	-	(75)	(26)	-
Natural gas (EUR/USD)	(174)	180	-	38	(41)	-
Natural gas (EUR)	133	(75)	(22)	41	(69)	(24)
COMMODITY PRICE RISK						
Gas contracts indexed to European gas price indices (daily or monthly)	5,330	(4,644)	(1,916)	(807)	(176)	195
Gas contracts indexed to monthly Henry Hub price indices	(462)	448	(1)	24	3	-
Gas contracts indexed to monthly petroleum product indices	(421)	207	-	(151)	117	-
Total	**4,185**	**(3,737)**	**(1,939)**	**(930)**	**(192)**	**171**

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

	2021	2020
At beginning of the period	**(21)**	**910**
CURRENCY RISK		
Hedging gains or losses recognised in other comprehensive income during reporting period	422	(152)
Amount reclassified from cash flow hedging reserve to statement of profit or loss as reclassification adjustment	34	(49)
Amount transferred from cash flow hedging reserve and recognised as adjustment to carrying amount of inventories	(66)	(107)
COMMODITY PRICE RISK		
Hedging gains or losses recognised in other comprehensive income during reporting period	(4,584)	(4)
Amount reclassified from cash flow hedging reserve to statement of profit or loss as reclassification adjustment	662	(1,012)
Amount transferred from cash flow hedging reserve and recognised as adjustment to carrying amount of inventories	(2,123)	393
At end of the period	**(5,676)**	**(21)**

Derivative instruments not designated for hedge accounting	2021			2020	
Type of derivative instrument	Notional amount (million)	Maturity of fair value		Notional amount (million)	Fair value
		up to 1 year	over 1 year		
Derivative instruments hedging interest rate risk and currency risk					
CCIRS					
NOK	3,818 NOK	-	(141)	3,818 NOK	(45)
Forwards					
EUR	EUR 206	15	-	EUR 77	10
EUR	EUR 142	(4)	-	EUR 2	-
EUR/USD	204	3	-	-	-
EUR/USD	15	(1)	(3)	-	-
USD	-	-	-	16 USD	5
Currency swap					
EUR	EUR 503	35	-	EUR 558	78
EUR	EUR 338	(36)	-	EUR 534	(78)
		12	**(144)**		**(30)**
Derivative instruments used as economic hedges of electricity purchase prices					
Forwards					
electricity – POLPX	1 MWh	442	-	2 MWh	44
electricity – POLPX	6 MWh	(308)	(2)	15 MWh	5
electricity – OTC	0.15 MWh	79	13	1 MWh	14
electricity – OTC	0.42 MWh	(256)	(31)	1 MWh	(23)
Futures					
electricity – EEX AG	0.38 MWh	230	32	1 MWh	26
electricity – EEX AG	0.11 MWh	(55)	(12)	1 MWh	(17)
		132	**-**		**49**
Derivative instruments used to hedge gas purchase and selling prices					
Forwards					
Gas	-	-	-	0.04 MWh	(1)
gas – OTC	78 MWh	1,652	482	20 MWh	204
gas – OTC	16 MWh	(2,179)	(599)	19 MWh	(239)
Futures					
gas – PPX	2 MWh	352	68	3 MWh	50
gas - PPX	-	(15)	-	-	-
gas – ICE ENDEX B.V.	1 MWh	157	15	3 MWh	59
gas – ICE ENDEX B.V.	-	(40)	(5)	3 MWh	(61)
gas – POWERNEXT SA	2 MWh	317	84	1 MWh	12
gas – POWERNEXT SA	2 MWh	(238)	(45)	2 MWh	(19)
Swap					
HH NYMEX	3 mmBtu	7	1	-	-
HH NYMEX	6 mmBtu	(5)	(7)	-	-
GASPOOL DA	-	-	-	1 MWh	17
GASPOOL DA	-	-	-	1 MWh	(5)
BRENT	0.29 Bbl	(31)	-	0.31 Bbl	(2)
TTF swap DA	14 MWh	2,463	90	28 MWh	431
TTF swap DA	28 MWh	(4,991)	(230)	19 MWh	(248)
TTF swap MA	4 MWh	436	-	-	-
TTF swap MA	1 MWh	(34)	-	3 MWh	(4)
		(2,149)	**(146)**		**194**
Derivative instruments used to hedge oil prices					
Futures					
Crude oil – ICE Futures Europe	0.01 Bbl	1	-	-	-
Crude oil – ICE Futures Europe	0.01 Bbl	(1)	-	-	-
		-	**-**		**-**
Derivative instruments used to hedge purchase prices of CO_2 emission allowances					
Forwards	1 t	(93)	-	1 t	(43)
Futures	1 t	87	-	2 t	38
		(6)	**-**		**(5)**

(in PLN million unless stated otherwise)

Derivative instruments used to hedge share purchase prices					
Options	7 million shares	1	15	7 million shares	16
	Total	**(2,010)**	**(275)**	**Total**	**224**
	Including:			Including:	
	Assets	6,278	799	Assets	1,004
	Liabilities	8,288	1,074	Liabilities	780

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

Instrument	Measurement method	Key inputs
Stock options	Black-Schols-Merthon model.	Market data such as interest rates, foreign-exchange rates, basis spreads, commodity prices, futures and forward curves, and volatility of commodity prices
Forwards, currency swaps, commodity swaps, CCIRS and IRS	Discount method	

7.3 Financial risk management policies

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

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

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

7.3.1 Credit risk

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

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

Maximum risk exposure, equal to the carrying amount of the item	**2021**	**2020**
Cash and cash equivalents	11,410	7,098
Trade receivables	11,437	4,449
Derivative financial instrument assets	8,968	1,453
Total	**31,815**	**13,000**

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 cash equivalents

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 2021, the three banks with which the Group deposited the largest amounts of funds accounted for 28%, 18% and 14% of the total cash balance (in 2020, the distribution was 46%, 19% and 13%).

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	2021		2020	
	Fitch	Cash and cash equivalents	Derivative instruments (assets)	Cash and cash equivalents	Derivative instruments (assets)
Bank\Financial Institution	A-	4,546	1,651	1,385	192
Bank\Financial Institution	A3	2,006	877	-	-
Bank\Financial Institution	AA-	1,546	135	72	-
Bank\Financial Institution	A	1,537	1,126	3,235	287
Bank\Financial Institution	BBB+	788	99	1,997	22
Bank\Financial Institution	A2 (Moody's)	287	977	124	263
Bank\Financial Institution	BB-	144	-	27	-
Bank\Financial Institution	BBB-	3	8	1	-
Bank\Financial Institution	A+	-	3	-	226
Bank\Financial Institution	AA	-	50	-	-
Bank\Financial Institution	BBB	-	15	-	-
Exchanges	-	-	1,325	-	185
OTC market	-	-	2,686	-	262
Bank\Financial Institution, other	-	553	16	257	16
Total		**11,410**	**8,968**	**7,098**	**1,453**

7.3.1.2 Credit risk related to receivables

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

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

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

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

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

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

(in PLN million unless stated otherwise)

There is no credit risk concentration within the Group. As at December 31st 2021, trade receivables from the Group's three largest customers accounted for 10%, 8%, and 3% of total trade receivables (December 31st 2020: 6%, 4%, 2%).

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 2021, 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 11%, 11% and 10% (December 31st 2020: 18%, 14% and 13%).

7.3.2 Market risk

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

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

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

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

Impact on financial results	Market risk	Approach to risk management
↑	Natural gas and oil product prices	The Group manages the risk by purchasing derivatives to hedge natural gas prices.
	EUR/PLN, USD/PLN and NOK/PLN exchange rates	Trade payables are the main source of the risk. The Group hedges the risk by entering into derivative contracts.
	Interest rates	The Group hedges the risk by purchasing derivatives.
	Other commodity prices	The risk considered immaterial.

(in PLN million unless stated otherwise)

7.3.2.1 Commodity price risk

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

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

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

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

Based on analyses of historical data performed for the last three years, the Group determined that in the past the change in the TTF index accounted for approximately 120% 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 2021 and 2020.

2021	Carrying amount	TTF, EE - price change by:			
		+80%		-80%	
		Profit/(loss)	Other comprehensive income	Profit/(loss)	Other comprehensive income
Energy commodity derivative assets	8,567	11,775	2,273	2,084	4,807
Energy commodity derivative liabilities	14,754	(7,594)	(315)	(11,764)	(1,870)
Effect of TTF, EE* price changes		**4,181**	**1,958**	**(9,680)**	**2,937**

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

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

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

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 for natural gas purchased by the Group (Note 6.2.3.),
- CCIRS derivatives (Note 7.2.),
- Cash and cash equivalents (Note 5.4.).

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

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

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

Based on historical analyses performed for the last three years, the Group determined that in the past currency exchange movements accounted for approximately 8% 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 2021, 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 2021).

(in PLN million unless stated otherwise)

2021	Note	Carrying amount	Value at risk	EUR/PLN				USD/PLN				NOK/PLN			
				Exchange rate change: +10%		Exchange rate change: -10%		Exchange rate change: +10%		Exchange rate change: -10%		Exchange rate change: +10%		Exchange rate change: -10%	
				Profit/ (loss)	Other comprehensive income	Profit/ (loss)	Other comprehensive income	Profit/ (loss)	Other comprehensive income	Profit/ (loss)	Other comprehensive income	Profit/ (loss)	Other comprehensive income	Profit/ (loss)	Other comprehensive income
Financial assets															
Trade receivables	Note 6.2.2.	11,437	6,726	334	-	(334)	-	149	-	(149)	-	7	-	(7)	-
Derivative financial instruments (assets)	Note 7.2.	8,968	385	124	-	-	266	-	203	-	-	-	-	146	-
Cash and cash equivalents	Note 5.4.	11,410	3,766	103	-	(103)	-	135	-	(135)	-	24	-	(24)	-
Financial liabilities															
Financing liability	Note 5.2.	14,638	2,054	(91)	-	91	-	(74)	-	74	-	-	-	-	-
Trade payables	Note 6.2.3.	4,575	4,479	(188)	-	188	-	(156)	-	156	-	(17)	-	17	-
Derivative financial instruments (liabilities)	Note 7.2.	15,031	277	-	(266)	(124)	-	-	-	-	(203)	(146)	-	-	-
Effect of exchange rate movements				**282**	**(266)**	**(282)**	**266**	**54**	**203**	**(54)**	**(203)**	**(132)**	**-**	**132**	**-**

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

(in PLN million unless stated otherwise)

7.3.2.3 Interest rate risk

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

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

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

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

		2021				2020			
		Carrying amount	Balances bearing interest at variable rate	Interest rate change by +50 bps	Interest rate change by - 50 bps	Carrying amount	Balances bearing interest at variable rate	Interest rate change by +20 bps	Interest rate change by - 20 bps
Cash and cash equivalents	Note 5.4.	11,410	3,828	19	(19)	7,098	4,753	10	(10)
CCIRS not designated for hedge accounting – liabilities	Note 7.2.	141	1,759	-	-	45	1,680	-	-
Financing liabilities	Note 5.2.	14,638	12,430	(62)	62	4,178	2,270	(5)	5
Effect after hedge accounting				**(43)**	**43**			**5**	**(5)**

7.3.3 Liquidity risk

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

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

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

To enhance its liquidity position, the Group operates a note programme. For details on the issues of notes, see Note 5.2.

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

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

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

(in PLN million unless stated otherwise)

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.

2021	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	**10,078**	**95**	**1,260**	**1,371**	**2,868**	**15,672**	**14,637**
Bank borrowings	10,011	19	956	1,111	48	**12,145**	**12,153**
Lease liabilities	67	66	304	180	2,820	**3,437**	**2,394**
Other	-	10	-	80	-	**90**	**90**
Trade payables	6,433	68	66	11	27	**6,605**	**6,605**
Derivative financial liabilities							
CCIRS							
- inflows	14	1,672	-	-	-	**1,686**	
- outflows	(14)	(1,810)	-	-	-	**(1,824)**	**141**
Forwards							
- inflows	3,184	4,118	771	11	-	**8,084**	
- outflows	(3,698)	(5,713)	(911)	(14)	-	**(10,336)**	**3,478**
Futures							
- inflows	265	792	189	10	-	**1,256**	
- outflows	(95)	(254)	(56)	(7)	-	**(412)**	**411**
Commodity swap							
- inflows	-	-	-	-	-	**-**	
- outflows	(3,004)	(3,907)	(3,937)	(27)	-	**(10,875)**	**10,875**
Other derivative instruments							
- inflows	-	-	-	-	-	**-**	
- outflows	(37)	(24)	(66)	-	-	**(127)**	**126**
Financial liabilities (outflows)	**23,292**	**11,805**	**5,992**	**1,250**	**75**	**42,414**	
Financial liabilities, including inflows from derivatives	**19,829**	**5,223**	**5,032**	**1,229**	**75**	**31,388**	**36,273**

2020	Time to contractual maturity at the reporting date					Total	Carrying amount
	Up to 3 months	3–12 months	1-3 years	3-5 years	over 5 years		
Financing liabilities	**77**	**247**	**281**	**1,282**	**2,335**	**4,222**	**4,184**
Bank borrowings	16	215	83	1,067	614	**1,995**	**1,995**
Lease liabilities	61	20	198	127	1,721	**2,127**	**2,089**
Other	-	12	-	88	-	**100**	**100**
Trade payables	2,252	81	62	11	39	**2,445**	**2,445**
Derivative financial liabilities							
CCIRS							
- inflows	11	34	1,566	-	-	**1,611**	
- outflows	(11)	(34)	(1,742)	-	-	**(1,787)**	**45**
Forwards							
- inflows	1,637	3,848	1,772	281	-	**7,538**	
- outflows	(1,682)	(4,004)	(1,833)	(424)	-	**(7,943)**	**385**
Futures							
- inflows	42	160	28	-	-	**230**	
- outflows	(7)	(59)	(7)	-	-	**(73)**	**97**
Commodity swap							
- inflows	-	-	-	-	-	**-**	
- outflows	(390)	(221)	(105)	(8)	-	**(724)**	**725**
Other derivative instruments							
- inflows	-	-	-	-	-	**-**	
- outflows	(59)	(38)	(54)	-	-	**(151)**	**151**
Financial liabilities (outflows)	**4,417**	**4,664**	**3,886**	**1,598**	**653**	**15,218**	
Financial liabilities, including inflows from derivatives	**2,727**	**622**	**520**	**1,317**	**653**	**5,839**	**8,032**

(in PLN million unless stated otherwise)

8. Other notes

8.1 Assets held for sale

Accounting policies

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

Asset (disposal group) held for sale	Terms and expected date of disposal	Carrying amount	
		2021	2020
Assets of Geovita S.A., a subsidiary designated for sale.	-	74	-
Perpetual usufruct right to land	Auction (sale February 2021)	-	23
Other non-current assets held for sale	Auction (sale expected in 2022)	7	8
Total		**81**	**31**

8.2 Other assets

Accounting policies

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

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

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

Unlisted shares in unconsolidated subsidiaries and shares in jointly controlled entities and associates not accounted for using the equity method are measured at cost (IAS 27.10.a.). Other unlisted shares are measured at fair value unless it can be determined that cost is a better estimate of their fair value.

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.

	2021	2020
Other non-current assets	**1,588**	**1,834**
Loans	422	819
Non-current restricted cash	176	188
Connection charge	129	115
Unlisted shares	93	60
Investment property	165	147
Prepayments for other tangible assets under construction, not related to exploration activities	68	8
Financial receivables (deposits, guarantees, and other)	61	38
Other non-current assets	474	459
Other current assets	**336**	**217**
Securities and other debt instruments	65	47
Property insurance	46	56
Other current assets	225	114

(in PLN million unless stated otherwise)

Change in gross amount of loans advanced in the reporting period

	Loans		
	12-month expected loss	lifetime expected loss	Impaired
Gross amount as at Jan 1st 2020	**704**	**29**	**55**
Repaid financial assets	(16)	(4)	(2)
Newly recognised financial assets	107	16	-
Other effect	26	-	3
Gross amount as at Dec 31st 2020	**821**	**41**	**56**
Transfers between groups	(378)	-	378
Repaid financial assets	(3)	(3)	(3)
Newly recognised financial assets	6	28	-
Other effect	5	-	52
Gross amount as at Dec 31st 2021	**451**	**66**	**483**

Change in impairment losses on loans advanced in the reporting period

	Loans		
	12-month expected loss	lifetime expected loss	Impaired
As at Jan 1st 2020	**11**	**-**	**55**
Increase taken to profit or loss	7	1	3
Decrease taken to profit or loss	(1)	(1)	(2)
As at Dec 31st 2020	**17**	**-**	**56**
Increase taken to profit or loss	1	2	416
Decrease taken to profit or loss	(1)	-	(3)
Transfers	(9)	-	9
Effect of exchange rate movements and other	-	-	4
As at Dec 31st 2021	**8**	**2**	**482**

8.3 Contingent assets and liabilities

Contingent asset	**2021**	**2020**
	Estimated amount	
Grants awarded	144	182
Other contingent assets	13	13
Total	**157**	**195**

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	**2021**	**2020**
	Estimated amount	
Guarantees and sureties	8,276	4,830
Promissory notes	558	554
Other	14	9
Total	**8,848**	**5,393**

As at the end of 2021, the largest item of contingent liabilities was a guarantee issued by the parent for the benefit of the Norwegian State in connection with PUN's work on the Norwegian Continental Shelf, whose carrying amount as at the end of 2021, as translated at the exchange rate quoted by the NBP for December 31st 2021, was PLN 2,286m (PLN 2,896m as at the end of 2020) and was disclosed in the line item Guarantees and sureties.

The increase in contingent liabilities under sureties and guarantees issued in the reporting period was principally due to the guarantees of PLN 1,592m (as translated at the exchange rate quoted by the NBP for December 31st 2021) issued as security for the LNG vessel charter contracts and the issuance of new guarantees securing gas deliveries for a total amount of PLN 1,842m (at the exchange rate quoted by the NBP for December 31st 2021).

(in PLN million unless stated otherwise)

8.4 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.

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

	2021			2020		
	Joint ventures and associates	Other related parties	Total	Joint ventures and associates	Other related parties	Total
Turnover and revenue/expenses for the period						
Sale of products and services	655	17	672	266	16	282
Interest income from loans	39	23	62	37	4	41
Total	**694**	**40**	**734**	**303**	**20**	**323**
Purchase of services, merchandise and materials	(131)	(44)	(175)	(290)	(66)	(356)
Purchase of tangible assets under construction	(162)	(60)	(222)	(88)	(37)	(125)
Purchase of inventories	(388)	(22)	(410)	(461)	(20)	(481)
Other purchases	-	-	-	-	-	-
Total	**(681)**	**(126)**	**(807)**	**(839)**	**(123)**	**(962)**
Balance at end of the period						
Trade and other receivables (net)	280	7	287	199	3	202
Including impairment losses	(80)	-	(80)	(95)	-	(95)
Loans (net)	425	81	506	792	51	843
Including impairment losses	(413)	(80)	(493)	(17)	(56)	(73)
Total	**705**	**88**	**793**	**991**	**54**	**1,045**
Trade payables	159	14	173	106	13	119
Borrowings	-	-	-	-	-	-
Other liabilities	93	1	94	43	-	43
Total	**252**	**15**	**267**	**149**	**13**	**162**

In 2021, neither the parent nor its consolidated subsidiaries entered into any material related-party transactions other than on arm's length terms.

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

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

	2021	2020
Revenue	12,524	4,584
Expenses	(2,361)	(1,716)
Receivables	3,458	839
Liabilities	15	23

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

(in PLN million unless stated otherwise)

8.4.3 Benefits received by the Group's key personnel

	2021			2020		
	Management Board	Supervisory Board	Total	Management Board	Supervisory Board	Total
Parent*	**8.1**	**0.7**	**8.8**	**10.9**	**0.8**	**11.7**
Short-term employee benefits	8.0	0.7	8.7	9.2	0.8	10.0
Termination benefits	0.1	-	0.1	1.7	-	1.7
Subsidiaries	**24.6**	**3.9**	**28.5**	**23.8**	**3.7**	**27.5**
Short-term employee benefits	23.5	3.9	27.4	22.4	3.7	26.1
Post-employment benefits	0.4	-	0.4	0.2	-	0.2
Other long-term benefits expense	0.3	-	0.3	0.3	-	0.3
Termination benefits	0.4	-	0.4	0.9	-	0.9
Total	**32.7**	**4.6**	**37.3**	**34.7**	**4.5**	**39.2**

** Where applicable, the amounts are given in gross values, i.e. inclusive of VAT, for holding positions in PGNiG S.A.*

For more information on remuneration of the key management personnel and the remuneration policy applied at the Group, see the Directors' Report the operations of the PGNiG Group and PGNiG S.A. for 2021.

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

In 2021 and 2020, none of the members of the management and supervisory personnel of the PGNiG Group received loans from the Group.

8.5 Joint operations

Accounting policies

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

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

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

Figure 2: Countries where the Group conducts joint operations

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

Significant estimates

As at the end of the reporting period, the Group was involved in joint operations, within the meaning of IFRS 11, as part of projects carried out in Norway in the PL 127C, PL146, PL146B, PL333, PL460, PL941, PL1009, PL1009B, PL1013, PL1013B, PL1055, PL1055B, PL1088 and PL1111 licence areas.

As at December 31st 2021, the Group also held interests in other licences on the Norwegian Continental Shelf, covering, among others, the Ormen Lange, Skarv, Gina Krog, Morvin, Vilje, Vale, Marul, Alve, 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 the operations of the PGNiG Group and PGNiG S.A. for 2021.

(in PLN million unless stated otherwise)

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

2021

Joint contractual arrangement	Country where joint operation is conducted	Interests in joint operations	Business of joint operations
Joint operation in the Sieraków licence area	Poland	PGNiG S.A. 51%; Orlen Upstream Sp. z o.o. 49%	Oil and gas exploration and production
Joint operation in the Płotki licence area	Poland	PGNiG S.A. 51%; ORLEN Upstream sp. z o.o. 49%	Oil and gas exploration and production
Joint operation in the Poznań licence area	Poland	PGNiG S.A. 51%; ORLEN Upstream sp. z o.o. 49%	Oil and gas exploration and production
Joint operation in the 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 PL1009/PL1009B licence area	Norway	PGNiG Upstream Norway AS 30%; ConocoPhillips 65%	Oil and gas exploration and production
Joint operation in the PL146/PL333/PL146B/PL1088 licence area	Norway	PGNiG Upstream Norway AS 22.2%; Equinor 77.8%	Oil and gas exploration and production
Joint operation in the PL127C licence area	Norway	PGNiG Upstream Norway AS 11.9175%; Aker BP 88.0825%	Oil and gas exploration and production
Joint operation in the PL941 licence area	Norway	PGNiG Upstream Norway AS 20%; Aker BP 80%	Oil and gas exploration and production
Joint operation in the PL1013/1013B licence area	Norway	PGNiG Upstream Norway AS 40%; Pertolia NOCO 60%	Oil and gas exploration and production
Joint operation in the PL1055/1055B licence area	Norway	PGNiG Upstream Norway AS 60%; Norske Shell 40%	Oil and gas exploration and production
Joint operation in the PL1111 licence area	Norway	PGNiG Upstream Norway AS 60%; Lime Petorleum 40%	Oil and gas exploration and production

2020

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

(in PLN million unless stated otherwise)

8.6 Changes in the structure of the Group in the reporting period

8.6.1 Acquisition of INEOS E&P Norge AS (IFRS 3)

On March 25th 2021, PGNiG Upstream Norway AS (PUN), a subsidiary of PGNiG, entered into a conditional agreement (Agreement) to acquire INEOS E&P Norge AS (INEOS) from the INEOS Group. The acquirer, within the meaning of IFRS 3, is PUN. The scope of the Agreement included interests in 22 licences on the Norwegian Continental Shelf, the Nyhamna gas processing plant and transfer to PUN of INEOS staff. The purchase price provided for in the Agreement was USD 615m, with January 1st 2021 being the effective transaction date. In accordance with the contractual mechanism, the consideration payable to INEOS was to be adjusted for income generated by INEOS between the effective transaction date and the acquisition date, as well as for the balances of the over-/undercall positions and amounts receivable/payable at the effective transaction date and for the time value of money. Conditions precedent to the Agreement included the grant of corporate approvals within the PGNiG Group and the grant of administrative approvals by the Norwegian authorities.

The estimated volume of hydrocarbon resources attributable to INEOS' licence interests is approximately 117m barrels of oil equivalent (as at January 1st 2021), of which over 94% are natural gas resources. Following the transaction, PGNiG's estimated average gas output in Norway may increase by some 1.5 bcm per annum over the next five years. As part of the transaction, PUN is also to acquire a portfolio of exploration licences with INEOS acting as the operator under six of them.

The acquisition of INEOS is set to contribute to the delivery of the PGNiG Group Strategy for 2017–2022 (with an outlook until 2026) by increasing its proven hydrocarbon reserves and production levels. As a result of the acquisition of INEOS, PUN's gas production volumes in Norway may reach a peak level of 4 bcm per year in 2027.

On September 24th 2021, all the conditions precedent to the Agreement and conditions for the acquisition by PUN of control over INEOS were satisfied. The consideration transferred, of PLN 1,309m (translated at exchange rates as at December 31st 2021), was paid on September 30th 2021, which is the acquisition date for that transaction within the meaning of IFRS 3. Pursuant to the Agreement, the transaction will be finally settled within 60 days of the acquisition date. The final accounting for the business combination in accordance with IFRS 3 will take place within 12 months of the acquisition date.

The transaction-related costs incurred by the Group amounted to PLN 11.3m and were recognised in the line item Other income and expenses in the Group's consolidated statement of profit or loss for 2021.

Presented below are the fair values of identified assets and liabilities and the calculation of goodwill identified for the acquisition.

A. Consideration transferred

Cash	1,309
Total consideration transferred	1,309
Total consideration transferred as disclosed in the statement of cash flows	**1,309**

B. Identifiable assets acquired and liabilities assumed

Property, plant and equipment	3,746
Inventories	19
Receivables	513
Other assets	24
Deferred tax assets	286
Trade and tax payables	(1,270)
Employee benefit obligations	(3)
Provisions	(492)
Other liabilities	(116)
Deferred tax liability	(2,734)
Total identifiable net assets	**(27)**

Assets	4,588
Liabilities	(4,615)
Net assets	**(27)**

C. Goodwill

Total purchase price (A)	1,309
Fair value of identifiable net assets (B)	(26)
Goodwill (A) - (B)	**1,283**

Revenue and net profit earned by INEOS from the acquisition date to the end of the current reporting period, recognised in the consolidated statement of profit or loss, were PLN 2,198m and PLN 374m, respectively.

Estimated revenue and net profit earned by INEOS in the reporting period, calculated as if the acquisition date were the beginning of the reporting period, are PLN 4,248m and PLN 624m, respectively.

Significant estimates

Classification of an acquisition of assets as either a business combination (under IFRS 3) or an asset acquisition (under IAS 16)

A reporting entity must determine whether a particular transaction or other event is a business combination by applying the relevant definition provided in IFRS 3. If the acquisition of assets does not satisfy the definition of a business combination, the reporting entity must account for the transaction or other event as an asset acquisition based on the relevant provisions of IAS 16.

In accordance with IFRS 3, a business is an integrated set of activities and assets that is capable of being conducted and managed for the purpose of providing goods or services to customers, generating investment income (such as dividends or interest) or generating other income from ordinary activities.

In order to determine whether a particular transaction should be classified as a business combination in accordance with IFRS 3 (and thus accounted for using the acquisition method) or an asset acquisition in accordance with IAS 16, the reporting entity is often required to apply professional judgement.

In the Exploration and Production segment, projects in the production phase are typically classified as businesses, whereas projects in the exploration phase are regarded as asset acquisitions. The acquisition of INEOS involves both production assets (mainly licences) and workforce operating those assets, which is an indication that the transaction should be classified as a business combination and accounted for as prescribed by IFRS 3.

Technical and residual goodwill

If, when accounting for a transaction using the acquisition method, it turns out that the amount of the consideration transferred exceeds the net value at the acquisition date of identifiable assets acquired and liabilities assumed, the resulting difference is recognised as goodwill. For the purpose of subsequent impairment testing, goodwill arising from the business combination should, upon the acquisition, be allocated to each of the acquirer's cash-generating units or groups of cash-generating units that is expected to benefit from the synergies of the combination. Under the Norwegian tax regime, the acquirer of a business is deemed for tax purposes to acquire the acquiree's assets and liabilities at a value equal to their tax bases at the acquisition date. As all assets and liabilities acquired are measured at fair value at the acquisition date if the acquisition method of accounting is applied, the acquirer books a net deferred tax liability reflecting the difference between the fair value of the assets acquired and their tax bases. The amount of the resulting deferred tax liability in the acquirer's books can be recognised directly as goodwill arising from the transaction and allocated directly to the relevant cash-generating units being the subject of the transaction. The resulting goodwill is referred to as technical goodwill.

In the case of the transaction concerned, technical goodwill of PLN 2,814m was recognised.

The difference between goodwill (which amounts to PLN 1,283m for the transaction concerned) and technical goodwill for the transaction represents residual goodwill. Given that the hydrocarbon prices, as a factor affecting final settlement of the acquisition of INEOS, were significantly higher than the prices prevailing at the time when the terms of the transaction were agreed between its parties, residual goodwill arising from the transaction was negative at PLN -1,531m. This amount was allocated to individual cash-generating units in proportion to their value.

Such allocation of goodwill between technical and residual goodwill will have its implications for impairment testing of the carrying amount of goodwill in subsequent periods. Following initial recognition of the acquisition of INEOS in PUN's books, the difference between depreciation and amortisation of assets acquired at fair value for accounting purposes and their depreciation and amortisation for tax purposes will result in the reversal of the deferred tax liability. In order to avoid impairment losses being recognised on that part of goodwill which is reflected in the current balance of the deferred tax liability in PUN's books, goodwill subject to periodic impairment testing will always be reduced by the net balance at the time of testing of the deferred tax liability allocated to the relevant cash-generating unit.

Goodwill arising on the acquisition of INEOS is not deductible for tax purposes.

(in PLN million unless stated otherwise)

8.6.2 Other changes in the structure of the Group in the reporting period

Date	Company	Event
January 8th 2021	PST Europe Sales GmbH (subsidiary of PGNiG Supply & Trading GmbH)	On January 8th 2021, following the merger of PST Verwaltungs GmbH with PST Europe Sales GmbH, PST Verwaltungs GmbH ceased to exist. There were no changes in the share capital of PST Europe Sales GmbH. Effective January 1st 2022, PST Europe Sales GmbH went into liquidation and as of that date the company's name is PST Europe Sales GmbH in liquidation.
April 1st 2021	PGNiG TERMIKA Energetyka Przemysłowa – Technika Sp. z o.o.* (subsidiary of PGNiG TERMIKA Energetyka Przemysłowa S.A.)	On April 1st 2021, the name SEJ-SERWIS spółka z ograniczoną odpowiedzialnością was changed to PGNiG TERMIKA Energetyka Przemysłowa – Technika spółka z ograniczoną odpowiedzialnością.
April 22nd 2021	Polskie Centrum Brokerskie Sp. z o.o.* (subsidiary of PGNiG Serwis Sp z o.o.)	On April 22nd 2021, the Extraordinary General Meeting of PGNiG Serwis Doradztwo Ubezpieczeniowe Sp. z o.o. of Warsaw resolved to change the company's name to Polskie Centrum Brokerskie Sp. z o.o. The relevant entry in the National Court Register was made on June 11th 2021.
August 5th 2021	PGNiG SPV 8 Sp. z o.o.*	On August 5th 2021, PGNiG SPV 8 Sp. z o.o. was established. Polskie Górnictwo Naftowe i Gazownictwo S.A., acquired all shares in the company, i.e. 15,000 shares with a par value of PLN 100 per share, with a total par value of PLN 1,500,000. On September 2nd 2021, the company was entered in the National Court Register.
August 5th 2021	PGNiG SPV 9 Sp. z o.o.*	On August 5th 2021, PGNiG SPV 9 Sp. z o.o. was established. Polskie Górnictwo Naftowe i Gazownictwo S.A. acquired all shares in the company, i.e. 2,500 shares with a par value of PLN 100 per share, with a total par value of PLN 250,000. On August 31st 2021, the company was entered in the National Court Register.
August 5th 2021	PGNiG SPV 10 Sp. z o.o.*	On August 5th 2021, PGNiG SPV 10 Sp. z o.o. was established. Polskie Górnictwo Naftowe i Gazownictwo S.A. acquired all shares in the company, i.e. 2,500 shares with a par value of PLN 100 per share, with a total par value of PLN 250,000. On September 6th 2021, the company was entered in the National Court Register.
August 30th 2021	LLC 'Karpatgazvydobuvannya'*	On August 30th 2021, PGNiG S.A. acquired 85% of shares in Limited Liability Company Karpatgazvydobuvannya of Kiev (Ukraine). On February 15th 2022, the General Meeting of LLC, Karpatgazvydobuvannya, passed a resolution to increase the share capital of the company by UAH 160,362,000. PGNiG S.A. acquired a further interest for UAH 136,307,700, and ERU Management Services LLC (ERU) for UAH 24,054,300. The proportion of equity interests in the company was maintained, with PGNiG S.A. holding 85% and ERU 15% of the shares. After the increase, the share capital of LLC 'Karpatgazvydobuvannya' is UAH 160,363,000, including PGNiG S.A.'s equity interest of UAH 136,308,550

(in PLN million unless stated otherwise)

		The capital increase was registered on February 18th 2022.
December 16th 2021	Geovita S.A.	On December 16th 2021 PGNiG S.A. and Polski Holding Hotelowy sp. z o.o. of Warsaw (PHH) entered into a conditional sale agreement concerning all shares in Geovita S.A. of Jadwisin. Pursuant to the agreement, the seller (PGNiG S.A.), subject to the fulfilment of certain conditions precedent, sells to the buyer (PHH) a total of 113,407,782 shares in Geovita S.A. with a par value of PLN 1 per share, with a total par value of PLN 113,407,782, representing in aggregate 100% of the share capital of Geovita S.A. for a total price of PLN 56,307,000. On February 28th 2022, the last of the conditions precedent were fulfilled. At present, steps are being taken to transfer ownership of all Geovita shares from PGNiG S.A. to PHH.

** Not consolidated due to immateriality.*

8.7 Other relevant information

8.7.1 Auditor fees

	2021	2020
Audit of the full-year separate financial statements and the full-year consolidated financial statements of the Group	1.81	1.70
Other assurance services, including review of financial statements	0.59	0.49
Other services	0.48	0.80
Total	**2.88**	**2.99**

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

The current contract was executed on May 20th 2020 and covers the years 2021-2022. The previous contract was concluded on April 12th 2019 and covered the years 2019–2020.

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

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8.8 Events after the reporting date

Date	Company	Event
January 5th 2022	PGNiG S.A.	On January 5th 2022, PGNiG SA entered into an overdraft facility agreement with Societe Generale SA Oddział w Polsce, securing additional short-term financing of PLN 750m for up to nine months from the agreement date.
January 14th 2022	PGNiG S.A.	On January 14th 2022, PGNiG SA received by email from an attorney-in-fact acting for PAO Gazprom and OOO Gazprom Export (“Gazprom”) a call for arbitration before the Court of Arbitration of Stockholm (the “Gazprom Request”), including a request to change the price terms of gas supplied by Gazprom under the contract for the supply of natural gas to the Republic of Poland of September 25th 1996 (the “Yamal Contract"). The Gazprom Call contains a request to increase the contract price as part of Gazprom's request to renegotiate the contract price of December 8th 2017 (“Gazprom 2017 Request) and Gazprom's request to renegotiate the contract price of November 9th 2020 (“Gazprom 2020 Request”). Gazprom 2017 Request was submitted in response to PGNiG's request of November 1st 2017 to reduce the contract price (“PGNiG 2017 Request”). Gazprom 2020 Request was submitted in response to PGNiG's request of November 1st 2020 for reduction of the contract price, subsequently modified by PGNiG on October 28th 2021 (“PGNiG 2020/2021 Request”). In the opinion of PGNiG, the request to increase the contract price under Gazprom 2017 Request and Gazprom 2020 Request is entirely without merit, which PGNiG has demonstrated in PGNiG 2017 Request and PGNIG 2020/2021 Request, which contained a demand for the contract price to be reduced. In accordance with the rules of arbitration applicable to arbitration proceedings initiated as a result of the Gazprom Call, the Company is required to take further steps on the matter (including to submit a response to the Gazprom Call) within 30 days from the date of receipt of the call. PGNiG will take appropriate steps within the prescribed time limit.
January 31st 2022	PGNiG S.A.	On January 31st 2022, PGNIG received a decision of the President of the Office of Competition and Consumer Protection to approve concentration consisting in the establishment by ORLEN Południe and PGNiG of a joint venture, i.e. PGNiG SPV 7 Sp. z o.o., which will be involved in the acquisition and construction of biomethane units; development of technologies used to produce biomethane; as well as production, marketing and use of biomethane in various areas of PGNiG's and the ORLEN Group's operations. ORLEN Południe S.A. and PGNiG S.A. will hold 51% and 49% of shares in the joint venture, respectively.
February 2nd 2022	PGNiG S.A.	On February 2nd 2022, PGNiG S.A. received from an attorney-in-fact acting for PJSC Gazprom “Gazprom”) a call for arbitration in accordance with the UNCITRAL Arbitration Rules (the “Gazprom Call”), including a demand that PGNiG recognises: (1) Gazprom's right as a shareholder to receive dividends from profits of EuRoPol GAZ s.a. of Warsaw („EPG”) and (2) the rights under the corporate governance rules vested in Gazprom and the members of the EPG management board appointed by Gazprom. The second respondent named in the Gazprom Call, in addition to PGNiG, is EPG. In the Company's opinion, the demands contained in the Gazprom Call are entirely without merit. PGNiG exercises its rights and obligations as a shareholder of EPG in accordance with the provisions of applicable law, while the decisions concerning the distribution of net profit for a given financial year are made by the general meeting of EPG. PGNiG holds, directly and indirectly through its subsidiary GAS-TRADING S.A., 51.18% of shares in EPG, while 48.82% of shares are held by Gazprom. The

(in PLN million unless stated otherwise)

		amount of EPG's earnings retained from previous years, available for distribution to shareholders, is PLN 1.74bn. In accordance with the rules of arbitration applicable to arbitration proceedings initiated as a result of the Gazprom Call, the Company is required to take further steps on the matter (including to submit a response to the Gazprom Call) within 30 days from the date of receipt of the call. PGNiG will take appropriate steps within the prescribed time limit.
February 11th 2022	PGNiG S.A.	On February 11th 2022, the Company submitted a response to the Gazprom Call, in which it requested that Gazprom's claims be dismissed as being formally inadmissible, or possibly as unfounded in substance, including the request to increase the contract price included in Gazprom's requests for renegotiation of the contract price of December 8th 2017 and November 9th 2020. In addition, if the ad hoc Arbitration Tribunal determines that the contract price was permissible to change in 2017, the Company filed a counterclaim to reduce the contract price as of November 1st 2017, based on PGNiG's November 1st 2017 request to reduce the contract price. The Company also filed a counterclaim to reduce the contract price from November 1st 2021, as part of PGNiG's request of November 1st 2020 to reduce the contract price, subsequently modified by PGNiG on October 28th 2021.
February 23rd 2022	PGNiG S.A.	On February 23rd 2022, PGNiG S.A. entered into credit facility agreements with a bank syndicate of Bank of China Limited, acting through Bank of China Limited Luxembourg Branch, and Bank of China (Europe) S.A., acting through Bank of China (Europe) S.A. Branch in Poland for an amount of PLN 1,200m, and with banks: Deutsche Bank Polska S.A. for an amount of PLN 400m and Credit Agricole Bank Polska S.A. for an amount of PLN 200m, thus raising additional short-term financing for up to nine months from the agreement date.
February 24th 2022	PGNiG S.A.	On February 24th 2022, the Russian Federation invaded Ukraine. In Ukraine the PGNiG Group operates through the PGNiG SA Representative Office in Kiev, the Exalo Drilling Group (Exalo Drilling Ukraine LLC) and LLC Karpatgazvydobuvannya (exploration and production activities carried out in cooperation with ERU Management Services). As at the date of this Report, the value of assets engaged in Ukraine did not represent a material part of the Group's total assets. Employees of the PGNiG Group and their families have been evacuated from areas at risk of being affected by the military conflict. For more information on the impact on the Group's business, see the Directors' Report the operations of the PGNiG Group and PGNiG S.A. for 2021.
February 28th 2022	Elektrociepłownia Stalowa Wola S.A. (a subsidiary of PGNiG TERMIKA S.A.)	On February 28th 2022, ECSW S.A. and Abener Energia S.A. signed an annex (the "Annex") to the settlement agreement of December 31st 2021 defining the terms on which ECSW and Abener Energia will settle their mutual claims arising from all court and arbitration proceedings between the parties conducted in connection with the contract to construct a CCGT unit (the "Settlement"). Pursuant to the Annex, the deadline for the performance of Abener Energia's obligations, the non-performance of which would be a condition precedent to the termination of the Settlement, including the submission of apostilled documents confirming the consent of the pledgees (whose pledges encumber the claims due to Abener Energia under the Arbitration Court Judgment) to the conclusion of the Annex has been extended from February 28th 2022 to March 7th 2022. Under the Annex Abener Energia is required to provide an unconditional and irrevocable consent of the judicial authority, court commissioner, administrator or other competent authority designated by the Spanish court conducting insolvency proceedings against Abengoa S.A., to execute and perform this Annex by March 4th 2022. ECSW is required to submit a resolution of its supervisory board approving the

(in PLN million unless stated otherwise)

		execution of the Annex by March 4th 2022. PGNiG indirectly holds a 50% equity interest in ECSW through its subsidiary PGNiG TERMIKA S.A. On March 8th 2022, the Management Board of PGNIG S.A. was notified that the terms of the settlement had been fulfilled and the parties proceeded to execute the Settlement.
March 2nd 2022	PGNiG S.A.	On March 2nd 2022, PGNiG filed a response to Gazprom's Call for Arbitration regarding EuRoPol GAZ S.A. in which it rejected all of Gazprom's claims on substantive and procedural grounds.
March 4th 2022	PGNiG S.A.	On March 4th 2022, PGNiG S.A. passed a resolution to approve the execution by the Company of an agreement on engaging the Government Agency for Strategic Reserves (“GASR”) to perform tasks related to maintaining emergency stocks of natural gas (the “Agreement”). Pursuant to Art. 70c.3.1 of the Act of February 16th 2007 on Stocks of Crude Oil, Petroleum Products and Natural Gas, and on the Rules to Be Followed in the Event of Threat to National Fuel Security or Disruptions on the Petroleum Market (the “Act”), upon execution of the Agreement the GASR will purchase from PGNiG, for the State Treasury, natural gas held as emergency stocks at the price specified in the Act, and will assume PGNiG’s rights and obligations under storage contracts with the storage system operator with respect to emergency stocks. Gas will be sold to RARS for the purpose of maintaining mandatory stocks at the price specified in the Act, corresponding to the arithmetic mean of settlement prices under supply contracts planned in Q2 and Q3 2022, as quoted in the last 30 calendar days immediately preceding the date of transfer of ownership of natural gas, published on the website of the company operating the Polish Power Exchange.2022 Pursuant to the Act of January 26th 2022 on Special Solutions for the Protection of Gas Fuel Customers in View of the Situation on the Gas Market, GASR’s expenditure on the activity referred to in Art. 70c.3.1 of the Act is capped at PLN 6bn in 2022. Energy companies operating in Poland, whose business consists in gas trading with foreign partners, and entities importing natural gas are required to maintain emergency stocks of natural gas in an amount equal to at least 30-day average daily imports.
March 7th 2022	PGNiG Obrót Detaliczny Sp. z o.o.	On March 7th 2022, PGNiG Obrót Detaliczny Sp. z o.o. received a tranche of compensation (PLN 1,255m) from the Price Difference Payment Fund pursuant to Art. 8.1 of the Act of January 26th 2022 on Special Solutions for the Protection of Gas Fuel Consumers in View of the Situation on the Gas Market (the “Compensation”). PGNiG Obrót Detaliczny is one of the entities entitled to receive the Compensation.
March 9th 2022	PGNiG S.A.	On March 9th 2022, the Stockholm Court of Appeal handed down its judgment on the appeal filed by PAO Gazprom and OOO Gazprom export (Gazprom) against the final award of the Stockholm Ad Hoc Arbitration Tribunal, dated March 30th 2020, in the arbitration proceedings brought by PGNiG against Gazprom concerning a reduction of the contract price for gas supplied under the contract for sale of natural gas to Poland dated September 25th 1996 (Yamal Contract). In the judgment, the Stockholm Court of Appeals: 1. dismissed Gazprom's complaint as unfounded in its entirety, i.e. to the extent it alleged that the ad hoc Arbitration Tribunal, in deciding to reduce the contract price for gas supplied under the Yamal Contract, exceeded the powers granted to the Tribunal by PGNiG and Gazprom in the Yamal Contract and awarded PGNiG the costs of legal representation. and

(in PLN million unless stated otherwise)

		2. ordered Gazprom to reimburse the legal representation costs to PGNiG. The judgment is not final as, in accordance with section 43(2) of the Swedish Arbitration Act 1999, the Stockholm Court of Appeal granted permission for the award to be appealed to the Supreme Court, considering the case to be precedent-setting.
March 16th 2022	PGNiG S.A.	On March 16th 2022, the Company's Management Board received a positive conditional decision of the President of UOKiK to approve the merger with PKN ORLEN S.A. (ORLEN). The approval granted by the Polish antitrust authority is subject to the condition that PGNiG and ORLEN will implement a remedial measure involving their commitment to sell the controlling interest in the subsidiary Gas Storage Poland sp. z o.o. of Dębogórze (“GSP”) to an independent investor within 12 months from the date of the Company’s merger with ORLEN, within the meaning of Art. 493.2 of the Commercial Companies Code. Among the commitments proposed to be made by the Company and ORLEN is the one to execute an agreement, for a period of at least ten years, designating GSP or its legal successor as the operator of the gas fuel storage system owned by the entity formed through the merger of PGNiG and ORLEN. Currently, GSP is the operator of the gas fuel storage system in storage facilities owned by PGNiG.
March 18th 2022	PGNiG S.A.	On March 18th 2022, PGNiG executed an agreement engaging the Government Agency for Strategic Reserves (“GASR”) to perform tasks related to maintaining emergency stocks of natural gas for the period from March 18th to September 30th 2022, with an option to extend its effective term until September 30th 2023 (the “Agreement”). Under the Agreement, PGNiG sold to GASR in favour of the State Treasury 10,063,104 MWhm of natural gas constituting emergency stocks, with a value of PLN 5,955m. Pursuant to the authorisations under the Act of January 26th 2022 on Special Solutions for the Protection of Gas Fuel Customers in View of the Situation on the Gas Market, GASR will pay the price in instalments, by August 31st 2022. The agreement also contains provisions stipulating PGNiG's obligation to repurchase natural gas in the event that the emergency stocks are released.

Management Board of PGNiG S.A.

President of the Management Board	Paweł Majewski	--
Vice President of the Management Board	Artur Cieślik	--
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	Magdalena Zegarska	--
Person responsible for the preparation of the consolidated financial statements	Aleksandra Sobieska-Moroz	--

Warsaw, March 22nd 2022

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