PGNiG

Separate financial statements of PGNiG S.A. for 2021

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

2021

Members of the Management Board of PGNiG S.A.

President of the Management Board	Paweł Majewski	*Signed with qualified electronic signature*
Vice President of the Management Board	Artur Cieślik	*Signed with qualified electronic signature*
Vice President of the Management Board	Robert Perkowski	*Signed with qualified electronic signature*
Vice President of the Management Board	Arkadiusz Sekściński	*Signed with qualified electronic signature*
Vice President of the Management Board	Przemysław Wacławski	*Signed with qualified electronic signature*
Vice President of the Management Board	Magdalena Zegarska	*Signed with qualified electronic signature*

Signature of the person responsible for accounting records

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

Warsaw, March 22nd 2022

This document is an English version of the original Polish version.

In case of any discrepancies between the Polish and English version, the Polish version shall prevail

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Financial statements

Statement of profit or loss

Statement of profit or loss		2021	2020
Revenue from sales of gas		30,528	16,390
Other revenue		6,240	4,847
Revenue	Note 2.2.	**36,768**	**21,237**
Cost of gas sold	Note 2.3	(23,098)	(10,431)
Effect of the annex executed with PAO Gazprom/OOO Gazprom Export on cost of gas in 2014–2019	Note 2.3	-	4,915
Other raw materials and consumables used	Note 2.3	(3,165)	(2,470)
Employee benefits expense	Note 2.3	(834)	(806)
Transmission, distribution and storage services		(922)	(919)
Other services	Note 2.3	(1,508)	(1,107)
Depreciation and amortisation expense	Note 2.3	(844)	(819)
Taxes and charges		(608)	(411)
Other income and expenses	Note 2.4.	(768)	(69)
Work performed by the entity and capitalised		10	12
Recognition and reversal of impairment losses on property, plant and equipment, intangible assets, rights-of-use assets	Note 2.3	894	(1,226)
Dividends		740	455
Finance income	Note 2.5	160	38
Interest income calculated using the effective interest rate		198	216
Finance costs	Note 2.5	(253)	(79)
Revaluation of financial assets		(506)	(46)
Profit before tax		**6,264**	**8,490**
Income tax	Note 3.1.1.	(1,143)	(1,581)
Net profit		**5,121**	**6,909**
Weighted average number of ordinary shares (million)		5,778	5,778
Basic and diluted earnings per share (PLN)		0.89	1.20

Statement of comprehensive income

Statement of comprehensive income	2021	2020
Net profit	**5,121**	**6,909**
Hedge accounting	(3,465)	(1,217)
Deferred tax	658	231
Other comprehensive income subject to reclassification to profit or loss	**(2,807)**	**(986)**
Actuarial losses on employee benefits	16	(28)
Deferred tax	(3)	5
Other comprehensive income not subject to reclassification to profit or loss	**13**	**(23)**
Other comprehensive income, net	**(2,794)**	**(1,009)**
Total comprehensive income	**2,327**	**5,900**

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(in PLN million unless stated otherwise)

Statement of cash flows

		2021	2020
Cash flows from operating activities			
Net profit		**5,121**	**6,909**
Depreciation and amortisation expense		844	819
Interest and dividends		(867)	(620)
Net gain/(loss) on investing activities		(411)	1,253
Other non-cash adjustments		361	552
Income tax paid		(1,019)	(1,649)
Income tax expense recognised in profit or loss for the period		1,143	1,582
Movements in working capital	*Note 5.2.4.*	(7,779)	548
Net cash from operating activities		**(2,607)**	**9,394**
Cash flows from investing activities			
Payments for tangible exploration and evaluation assets		(468)	(765)
Payments for other property, plant and equipment and intangible assets		(479)	(291)
Loans		(2,714)	(2,754)
Payments for derivative financial instruments		(45)	(76)
Payments for shares in related entities		(268)	(8)
Payments for acquisition of securities		-	(400)
Other cash used in investing activities		(35)	(29)
Repayments of loans		3,386	651
Proceeds from derivative financial instruments		40	182
Interest received		178	178
Dividends received		740	455
Proceeds from sale of property, plant and equipment and intangible assets		26	63
Net cash from investing activities		**361**	**(2,794)**
Cash flows from financing activities			
Proceeds from borrowings		10,000	-
Other cash generated by financing activities		12	2
Dividends paid		(1,213)	(520)
Repayment of borrowings		-	(3,000)
Interest paid		(70)	(58)
Repayment of lease liabilities		(15)	(15)
Net cash from financing activities		**8,714**	**(3,591)**
Net cash flows		**6,468**	**3,009**
Cash and cash equivalents at beginning of the period		7,534	4,525
Cash and cash equivalents at end of the period	*Note 4.6*	**14,002**	**7,534**
including restricted cash		3,096	946

Restricted cash

The main item of restricted cash are margins provided by the Company to the Commodity Exchange Clearing House (IRGiT) and Intercontinental Exchange Inc. (ICE) in respect of commodity exchange transactions in high-methane gas and electricity sold by the Company.

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(in PLN million unless stated otherwise)

Statement of financial position

		2021	2020
Assets			
Property, plant and equipment	*Note 5.1.1*	11,961	11,766
Licences, mining rights and rights to geological information	*Note 5.1.3*	123	123
Deferred tax assets	*Note 3.2.*	1,260	155
Shares	*Note 7.1*	10,514	10,288
Derivative financial instruments		688	127
Loans	*Note 7.4*	6,817	7,496
Purchased debt instruments	*Note 5.3.2*	394	394
Other assets	*Note 5.3.1*	402	388
Non-current assets		**32,159**	**30,737**
Inventories	*Note 5.2.1*	7,729	2,070
Receivables	*Note 5.2.2*	8,866	1,778
Cash pooling receivables	*Note 4.3*	5,970	1,248
Derivative financial instruments		6,283	1,014
Loans	*Note 7.4*	262	531
Purchased debt instruments	*Note 5.3.2*	8	8
Other assets		83	31
Cash and cash equivalents	*Note 4.6*	8,330	6,329
Current assets		**37,531**	**13,009**
TOTAL ASSETS		**69,690**	**43,746**
Equity and liabilities			
Share capital and share premium		7,518	7,518
Capital reserve		1,867	1,867
Hedging reserve		(4,598)	(17)
Accumulated other comprehensive income		(10)	(23)
Retained earnings		30,793	26,885
Total equity	*Note 4.4*	**35,570**	**36,230**
Financing liabilities	*Note 4.2*	308	310
Derivative financial instruments		4,175	285
Employee benefit obligations	*Note 5.4.1*	331	356
Provision for well decommissioning costs and other environmental liabilities	*Note 5.1.2*	1,982	2,414
Other provisions	*Note 5.4.2*	5	4
Grants	*Note 5.4.3*	420	450
Other liabilities	*Note 5.4.4*	49	52
Non-current liabilities		**7,270**	**3,871**
Financing liabilities	*Note 4.2*	10,020	10
Derivative financial instruments		8,829	822
Trade and tax payables	*Note 5.2.3*	7,279	2,120
Cash pooling liabilities	*Note 4.3*	166	203
Employee benefit obligations	*Note 5.4.1*	131	119
Provision for well decommissioning costs and other environmental liabilities	*Note 5.1.2*	68	35
Other provisions	*Note 5.4.2*	291	275
Other liabilities	*Note 5.4.4*	66	61
Current liabilities		**26,850**	**3,645**
TOTAL LIABILITIES		**34,120**	**7,516**
TOTAL EQUITY AND LIABILITIES		**69,690**	**43,746**

Statement of changes in equity

	Share capital and share premium	Capital reserve	Hedging reserve	Accumulated other comprehensive income	Retained earnings	Total equity
As at Jan 1 2020	**7,518**	**1,867**	**737**	**-**	**20,496**	**30,618**
Net profit	-	-	-	-	6,909	6,909
Other comprehensive income, net	-	-	(986)	(23)	-	(1,009)
Total comprehensive income	**-**	**-**	**(986)**	**(23)**	**6,909**	**5,900**
Dividend	-	-	-	-	(520)	(520)
Change in equity recognised in inventories	-	-	232	-	-	232
As at Dec 31 2020	**7,518**	**1,867**	**(17)**	**(23)**	**26,885**	**36,230**
Net profit	-	-	-	-	5,121	5,121
Other comprehensive income, net	-	-	(2,807)	13	-	(2,794)
Total comprehensive income	**-**	**-**	**(2,807)**	**13**	**5,121**	**2,327**
Dividend	-	-	-	-	(1,213)	(1,213)
Change in equity recognised in inventories	-	-	(1,774)	-	-	(1,774)
As at December 31st 2021	**7,518**	**1,867**	**(4,598)**	**(10)**	**30,793**	**35,570**

(in PLN million unless stated otherwise)

1. General information

1.1 Overview of the Company's business

Company details

Company name:	Polskie Górnictwo Naftowe i Gazownictwo Spółka Akcyjna
Registered office	ul. Marcina Kasprzaka 25, 01-224 Warsaw, Poland
Court of registration	District Court for the Capital City of Warsaw, 13th Commercial Division
National court register (KRS) No.	0000059492
Industry Identification Number (REGON)	012216736
Tax Identification Number (NIP)	525-000-80-28

Polskie Górnictwo Naftowe i Gazownictwo Spółka Akcyjna (the "Company", "PGNiG", "PGNiG S.A.") has been listed on the Warsaw Stock Exchange since 2005. PGNiG S.A. is the parent within its corporate group (the "PGNiG Group"). As at the date of issue of these financial statements for 2021, the State Treasury was the only shareholder holding 5% or more of total voting rights at the General Meeting of PGNiG S.A. The State Treasury is the parent to the Company.

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

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

PGNiG S.A. operates as a structure which as at December 31st 2021 comprised:

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

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

These financial statements will be submitted for authorisation to the PGNiG S.A. Management Board on March 24th 2022.

1.2 Basis of preparation

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

The Company is the parent of the PGNiG Group. For a comprehensive understanding of the financial position and results of PGNiG S.A. as the parent of the PGNiG Group, these financial statements should be read in conjunction with the full-year consolidated financial statements of the PGNiG Group and the Directors' Report on the operations of the PGNiG Group and PGNiG S.A. for the period ended December 31st 2021. The separate financial statements of the Company, the consolidated financial statements of the PGNiG Group and the Directors' Report on the operations of the PGNiG Group and PGNiG S.A. will be made available on the

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Company's website, at www.pgnig.pl, as previously announced in the current report concerning the date of publication of the Group's Consolidated Annual Report for 2021.

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

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

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

Accounting policies

Items denominated in foreign currencies

On initial recognition, transactions denominated in foreign currencies are recognised at the exchange rate of the functional currency as at the transaction date.

At the end of a reporting period:

- monetary items denominated in foreign currencies are translated at the exchange rate of the functional currency effective for the reporting date,
- non-cash items measured at historical cost in a foreign currency are translated at the exchange rate as at the date of the transaction,
- non-cash items measured at fair value in a foreign currency are translated at the exchange rate effective for the date of determining the fair value.

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

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

1.3 Effect of new standards

New and amended standards and interpretations

The following new and amended standards and interpretations effective as of January 1st 2021 had an effect on these financial statements:

Standard	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 Company 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,

(in PLN million unless stated otherwise)

	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 Company 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 Company may see a marginal impact of the reform on the measurement of hedging instruments and loans. The Company 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 Company 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 Company 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,

(in PLN million unless stated otherwise)

- the risk that bilateral negotiations between PGNiG Group companies on the rate to which intra-group loans will be indexed will not be successful before the WIBOR, LIBOR and NIBOR benchmarks cease to be provided,
- 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 Company 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 the Euro Overnight Index Average (EONIA) protocol with banks where the EONIA benchmark was used to calculate interest on collateral.

Taking into account the measures specified above, the Company 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 Company's financial statements or do not apply to its business.

Table A – Exposure of selected items of the statement of financial position indexed to IBOR rates as at December 31st 2021

Type of financial instrument	Current reference rate	Carrying amount
Long-term loans		
intra-group loans	3M LIBOR	629
intra-group loans	3M WIBOR	5,470
intra-group loans	6M WIBOR	360
loan to Elektrociepłownia Stalowa Wola	6M WIBOR	320
Total		**6,779**
Short-term loans		
intra-group loans	3M LIBOR	20
intra-group loans	3M WIBOR	129
intra-group loans	6M WIBOR	42
loan to Elektrociepłownia Stalowa Wola	6M WIBOR	60
Total		**251**
Derivative financial instruments - non-current liabilities		
CCIRS	3M WIBOR, 3M NIBOR	141
Total		**141**

2. Notes to the statement of profit or loss

2.1 Segment information

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

Segment	Description	Operating segments and aggregation criteria
Exploration and Production 	The segment's business focuses on extracting hydrocarbons from deposits and preparing them for sale. 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 PGNiG S.A. and to other segments of PGNiG S.A. It also sells crude oil and other products in Poland and abroad.	The operating segment included in this reportable segment is the hydrocarbon exploration and production business of PGNiG S.A.
Trade and Storage 	The segment's principal business activities are sale of natural gas (imported, produced or purchased on gas exchanges), operation of underground gas storage facilities for trading purposes (Mogilno, Wierzchowice, 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.	The operating segments included in this reportable segment are those operations of PGNiG S.A. which are related to the gas fuel and electricity trading business as well as gas storage. The key aggregation criteria were similarity of the customer base and similar economic characteristics.
Other segments 	Operations that do not qualify for inclusion in any of the previous segments, i.e. the part of PGNiG S.A. comprising the corporate centre, are included in Other Segments. These include: operations of PGNiG S.A.'s corporate centre, research work related to and testing of the measuring devices and systems used in the gas industry, calibration of measuring devices, surveillance of the measuring systems operating at the Polish gas grid entry points in Belarus and Ukraine and at the LNG terminal, technical analyses, specialized trainings dedicated to industry professionals.	Operating segments in this reportable segment include PGNiG S.A.'s activities relating to corporate support for other reportable segments, and other operations of PGNiG S.A. which do not qualify to be included in the above categories.

(in PLN million unless stated otherwise)

2021	Exploration and Production	Trade and Storage	Other segments	Total	Reconciliation with separate financial statements (inter-segment eliminations and adjustments)	Total
Sales to external customers	2,619	34,033	116	**36,768**	-	**36,768**
Inter-segment sales	6,868	119	-	**6,987**	-	**6,987**
Total revenue	9,487	34,152	116	**43,755**	(6,987)	**36,768**
EBITDA	8,032	(1,183)	(156)	**6,693**	-	**6,693**
Depreciation and amortisation expense	(606)	(177)	(61)	**(844)**	-	**(844)**
EBIT (operating profit)	7,426	(1,360)	(217)	**5,849**	-	**5,849**
Recognition and reversal of impairment losses on property, plant and equipment, intangible assets, rights-of-use assets	921	(1)	(26)	**894**	-	**894**
Acquisition of property, plant and equipment and intangible assets*	756	28	187	**971**	-	**971**
Property, plant and equipment	8,471	2,914	576	**11,961**	-	**11,961**
Employment	3,800	310	772	**4,882**	-	**4,882**

2020	Exploration and Production	Trade and Storage	Other segments	Total	Reconciliation with separate financial statements (inter-segment eliminations and adjustments)	Total
Sales to external customers	1,806	19,324	107	**21,237**	-	**21,237**
Inter-segment sales	1,606	26	-	**1,632**	-	**1,632**
Total revenue	3,412	19,350	107	**22,869**	(1,632)	**21,237**
EBITDA	679	8,620	(585)	**8,714**	-	**8,714**
Depreciation and amortisation expense	(572)	(192)	(55)	**(819)**	-	**(819)**
EBIT (operating profit)	108	8,427	(640)	**7,895**	-	**7,895**
Recognition and reversal of impairment losses on property, plant and equipment, intangible assets, rights-of-use assets	(1,135)	(4)	(87)	**(1,226)**	-	**(1,226)**
Acquisition of property, plant and equipment and intangible assets*	891	29	106	**1,026**	-	**1,026**
Property, plant and equipment	8,172	2,954	640	**11,766**	-	**11,766**
Employment	3,792	312	734	**4,838**	-	**4,838**

** In the reporting period, the Company changed the presentation of the item "Acquisition of property, plant and equipment and intangible assets" (previously, expenditure on acquisition of property, plant and equipment and intangible assets) by changing the accounting method from the cash method to the accrual method.*

In 2021, 13% of the Company's total revenue was derived from a single external customer. In the comparative period, the share was 10%. This revenue was earned in the Trade and Storage segment.

(in PLN million unless stated otherwise)

Revenue by operating segment

2021	Exploration and Production	Trade and Storage	Other segments	Total	Reconciliation with separate financial statements (inter-segment eliminations and adjustments)	Total
Revenue from sales of gas, including:	**7,857**	**29,658**	**-**	**37,515**	**(6,987)**	**30,528**
High-methane gas	4,978	28,884	-	33,862	(5,048)	28,814
Nitrogen-rich gas	2,818	1,106	-	3,924	(1,939)	1,985
LNG	61	365	-	426	-	426
Adjustment to gas sales due to hedging transactions	-	(697)	-	(697)	-	(697)
Other revenue, including:	**1,630**	**4,494**	**116**	**6,240**	**-**	**6,240**
Crude oil and natural gasoline	1,305	-	-	1,305	-	1,305
Sales of electricity	-	3,007	-	3,007	-	3,007
Propane-butane gas	92	-	-	92	-	92
Helium	199	-	-	199	-	199
Right to use storage facilities	-	552	-	552	-	552
CO_2 emission allowances	-	643	-	643	-	643
Other income from operating leases	-	-	16	16	-	16
Other	34	292	100	426	-	426
Total revenue	**9,487**	**34,152**	**116**	**43,755**	**(6,987)**	**36,768**

2020	Exploration and Production	Trade and Storage	Other segments	Total	Reconciliation with separate financial statements (inter-segment eliminations and adjustments)	Total
Revenue from sales of gas, including:	**2,274**	**15,748**	**-**	**18,022**	**(1,632)**	**16,390**
High-methane gas	1,199	13,896	-	15,095	(1,206)	13,889
Nitrogen-rich gas	1,053	716	-	1,769	(426)	1,343
LNG	22	74	-	96	-	96
Adjustment to gas sales due to hedging transactions	-	1,062	-	1,062	-	1,062
Other revenue, including:	**1,138**	**3,602**	**107**	**4,847**	**-**	**4,847**
Crude oil and natural gasoline	823	-	-	823	-	823
Sales of electricity	-	2,437	-	2,437	-	2,437
Propane-butane gas	54	-	-	54	-	54
Helium	235	-	-	235	-	235
Right to use storage facilities	-	573	-	573	-	573
CO_2 emission allowances	-	503	-	503	-	503
Other income from operating leases	-	-	15	15	-	15
Other	26	89	92	207	-	207
Total revenue	**3,412**	**19,350**	**107**	**22,869**	**(1,632)**	**21,237**

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(in PLN million unless stated otherwise)

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

2021	Exploration and Production	Trade and Storage	Other segments	Total
Land	(21)	-	(63)	(84)
Buildings and structures	(1,769)	(47)	(159)	(1,975)
Plant and equipment	(309)	(319)	(38)	(666)
Vehicles and other	(35)	(1)	-	(36)
Total impairment losses on tangible assets	**(2,134)**	**(367)**	**(260)**	**(2,761)**
Tangible exploration and evaluation assets under construction	(992)	-	-	(992)
Other tangible assets under construction	(1)	-	(9)	(10)
Total impairment losses on property, plant and equipment	**(3,127)**	**(367)**	**(269)**	**(3,763)**

2020	Exploration and Production	Trade and Storage	Other segments	Total
Land	(27)	-	(37)	(64)
Buildings and structures	(2,456)	(52)	(163)	(2,671)
Plant and equipment	(402)	(317)	(43)	(762)
Vehicles and other	(49)	(1)	-	(50)
Total impairment losses on tangible assets	**(2,934)**	**(370)**	**(243)**	**(3,547)**
Tangible exploration and evaluation assets under construction	(1,182)	-	-	(1,182)
Other tangible assets under construction	-	-	(9)	(9)
Total impairment losses on property, plant and equipment	**(4,116)**	**(370)**	**(252)**	**(4,738)**

2.2 Revenue

Accounting policies

Revenue

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

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

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

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

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

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

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

(in PLN million unless stated otherwise)

	Total		Domestic sales		Export sales	
	2021	2020	2021	2020	2021	2020
Revenue from sales of gas, including:	**30,528**	**16,390**	**30,068**	**15,414**	**460**	**976**
Revenue from contracts with customers IFRS 15	31,225	15,328	30,765	14,352	460	976
High-methane gas	28,814	13,889	28,582	13,114	232	775
Nitrogen-rich gas	1,985	1,343	1,774	1,143	211	200
LNG	426	96	409	95	17	1
Excluded from the scope of IFRS 15	(697)	1,062	(697)	1,062	-	-
Adjustment to gas sales due to hedging transactions - IFRS 9	(697)	1,062	(697)	1,062	-	-
Other revenue, including:	**6,240**	**4,847**	**5,567**	**4,385**	**673**	**462**
Revenue from contracts with customers IFRS 15	5,672	4,259	4,999	3,797	673	462
Crude oil and natural gasoline	1,305	823	938	594	367	229
Sales of electricity	3,007	2,437	3,007	2,437	-	-
Propane-butane	92	54	92	54	-	-
Helium	199	235	29	19	170	216
CO_2 emission allowances	643	503	643	503	-	-
Other	426	207	290	190	136	17
Excluded from the scope of IFRS 15	568	588	568	588	-	-
Right to use storage facilities - IFRS 16	552	573	552	573	-	-
Other income from operating leases - IFRS 16	16	15	16	15	-	-
Total revenue	**36,768**	**21,237**	**35,635**	**19,799**	**1,133**	**1,438**

Sales are made directly to business customers and via the Polish Power Exchange. Generally, goods are transferred at a specific point in time. Natural gas and electricity are sold on the basis of individual short-term contracts, meeting the definition of a “contract” in accordance with IFRS 15. Such contracts are entered into under long-term master agreements. Crude oil is sold under contracts concluded for an indefinite period. Settlements are made on the basis of the contract price and the quantity of goods received by the customer. The Company did not identify any significant financing component in its contracts nor did it incur any significant incremental cost of obtaining a contract.

Adjustment to gas sales due to hedging transactions presents the effective portion of the hedge under cash flow hedge accounting. The Company uses a net open position basis for hedging. In line with the adopted methodology and given the level of sales generated in Poland in relation to sales generated outside Poland, the Company discloses the aggregate effect of adjustment to gas sales due to hedging transactions as adjustment to revenue earned in Poland.

Effect of COVID-19 on revenue

In 2021, we saw a dynamic rebound of the global economy. Global demand, hitherto deferred due to the prevailing COVID-19 pandemic, begun to recover. This resulted in, among other things, exceptionally strong increase in prices of energy commodities.

Demand for gas in Europe grew not only due to the post-pandemic rebound, but was also stimulated by constraints on alternative energy production including reduced production from RES due to adverse weather conditions. Supply factors also had a significant impact on driving up gas prices in Europe, in the form of reduced gas transmission from Russia, reduced supplies of LNG and historically low reserves held in European storage facilities.

As a result of the cumulative effect of the above factors, gas prices in Europe continued to grow dynamically in 2021, reaching new record highs, and consequently becoming a factor limiting the demand for gas in Poland, whose growth weakened in the fourth quarter 2021 to 1.5% year on year, compared with 9.2% year on year seen in the first three quarters of 2021.

For gas sales through POLPX, the Company's 2021 deliveries by volume increased 16% year onyear , maintaining the momentum from the first half of 2021.

(in PLN million unless stated otherwise)

Revenue-generating non-current assets

	2021	2020
Value of non-current assets other than financial instruments located in Poland	11,347	11,337
Value of non-current assets other than financial instruments located abroad	737	552
Total	**12,084**	**11,889**
% share of assets located abroad in total assets	6%	5%

2.3 Operating expenses

Accounting policies for the most significant items

Cost of gas sold

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

Other raw materials and consumables used

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

Employee benefits expense

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

Transmission, distribution and storage services

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

Other services

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

Depreciation and amortisation expense

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

Taxes and charges

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

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

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

(in PLN million unless stated otherwise)

	2021	2020
Cost of gas sold	**(23,098)**	**(10,431)**
Gas fuel	(23,098)	(10,431)
Effect of the annex executed with PAO Gazprom/OOO Gazprom Export on cost of gas in 2014–2019	**-**	**4,915**
Other raw materials and consumables used	**(3,165)**	**(2,470)**
Electricity for trading	(2,998)	(2,340)
Other raw materials and consumables used	(167)	(130)
Employee benefits expense	**(834)**	**(806)**
Salaries and wages	(620)	(566)
Social security contributions	(106)	(98)
Other employee benefits expense	(106)	(99)
Provisions for employee benefits	(2)	(43)
Transmission, distribution and storage services	**(922)**	**(919)**
Other services	**(1,508)**	**(1,107)**
Regasification services	(343)	(388)
Cost of dry wells written off	(511)	(179)
Cost of seismic surveys written off	(14)	(9)
Repair and construction services	(52)	(66)
Geological and exploration services	(66)	(57)
Mineral resources production services	(25)	(26)
Well abandonment services	(27)	(20)
IT services	(105)	(91)
Other services	(365)	(271)
Depreciation and amortisation expense	**(844)**	**(819)**
Depreciation of non-leased assets	(826)	(801)
Depreciation of the right of use	(18)	(18)
Taxes and charges	**(608)**	**(411)**
Recognition and reversal of impairment losses on property, plant and equipment, intangible assets, rights-of-use assets	**894**	**(1,226)**
Impairment losses on property, plant and equipment and rights-of-use assets	886	(1,214)
Impairment losses on intangible assets	8	(12)
Total	**(30,085)**	**(13,274)**

Cost of gas sold – gaseous fuel

The significant increase in cost of gas sold in 2021 compared to the prior year was a result of an increase in gas procurement costs driven by the strong rebound in the global economy. This resulted in, among other things, exceptionally strong increase in prices of energy commodities.

Effect of annex executed with PAO Gazprom/OOO Gazprom Export

The PLN 4,915m decrease in operating expenses related to gas costs in the period ended December 31st 2020 was attributable to the execution by the Company, on June 5th 2020, of the Annex to the Yamal contract with PAO Gazprom/OOO Gazprom Export.

Costs of lease liability recognised in the statement of comprehensive income

In the periods ended December 31st 2021 and December 31st 2020, the Company recognised a PLN 1m cost of short-term leases in costs of other services.

Tax on extraction of certain minerals

Under ‘Taxes and charges’, the Company recognises tax on extraction of certain minerals. The tax base for crude oil and natural gas is the value of the extracted mineral determined as a product of the volume of the extracted mineral and its average price, which is announced in a public notice by the Minister competent for public finance by the 15th day of each month, in the Official Journal of the Minister of Finance. The average natural gas price depends on the price quoted on POLPX and, in the case of crude oil, on the U.S. dollar exchange rate as well as prices set by the Organization of the Petroleum Exporting Countries ("OPEC"). The rates of tax on production of natural gas and crude oil vary depending on the type of deposit, with deposit’s permeability and porosity taken into account. Extraction of natural gas and oil from low producing wells is tax exempt.

In 2021, the Company assessed and paid tax on production of certain minerals of PLN 305m (PLN 101m for 2020). The tax expense is charged to cost of production of the core product, but it is not deductible for the corporate income tax purposes.

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

In 2021, the Company reversed a significant portion of impairment losses on non-financial assets. For more information, see Note 5.1.4 Impairment of non-financial assets.

(in PLN million unless stated otherwise)

2.4 Other income and expenses

		2021	2020
Measurement and exercise of derivative financial instruments		562	223
Change in inventory write-downs	Note 5.2.1	(108)	355
Change in provision for well decommissioning costs and other provisions related to environmental protection	Note 5.1.2	68	(9)
Change in provision for certificates of origin and energy efficiency certificates	Note 5.4.2	(48)	(25)
Change in other provisions		10	-
Cost of merchandise and materials sold		(1,326)	(637)
- including the amount of value of CO_2 emission allowances sold		*(1,315)*	*(636)*
Other		74	24
Total other income and expenses		**(768)**	**(69)**

2.5 Finance income and costs

	2021	2020
Finance income		
Foreign exchange gains	140	21
Other finance income	20	17
Total finance income	**160**	**38**

	2021	2020
Finance costs		
Loss on measurement and exercise of forward contracts	(100)	(30)
Debt-related interest and fees	(78)	(43)
- including interest on lease liabilities	*(8)*	*(7)*
Loss on modification of financial assets	(63)	-
Other	(12)	(6)
Total finance costs	**(253)**	**(79)**

3. Notes on taxation

3.1 Income tax

Accounting policies

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

Current tax payable is calculated based on taxable profit (tax base) for the period. Tax profit (loss) differs from accounting net profit (loss) due to the different timing of when income and expenses are recognised as realized for tax and accounting purposes, as well as the permanent differences between tax and accounting treatments of income and expenses.

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

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

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

Deferred tax liabilities are recognised for taxable temporary differences associated, among other things, with investments in subsidiaries, associates and joint ventures, unless the Company, acting as the parent, investor or partner in a joint venture, controls the timing of the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets and liabilities are offset if they relate to income taxes levied by the same taxation authority and the Company has a legally enforceable right to perform the offset.

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

(in PLN million unless stated otherwise)

Tax group

In the period from January 1st to December 31st 2020, PGNiG S.A., as the representative of the PGNiG Tax Group ("PGNiG Tax Group"), together with other PGNiG Group companies, paid income taxes as the PGNiG Tax Group. PGNiG S.A. calculated advances and made payments of corporate income tax to the tax office competent for the PGNiG Tax Group. The final settlement of the 2020 corporate income tax liability of the tax group was made in 2021.

On July 14th 2020, the Management Board of the Company decided not to establish another PGNiG Tax Group as of January 1st 2021, which resulted in the expiry of the term of the PGNiG Tax Group agreement on December 31st 2020.

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

		2021	2020
Profit before tax		**6,264**	**8,490**
Corporate income tax at the applicable 19% statutory rate		(1,190)	(1,613)
Dividends received		141	86
Other income not recognised as taxable income		94	146
Non-tax deductible expenses		(188)	(200)
Corporate income tax at the effective tax rate		**(1,143)**	**(1,581)**
Current tax expense		(1,177)	(1,755)
Deferred tax expense	*Note 3.2.*	34	174
Effective tax rate		**18%**	**19%**

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

On April 1st 2020, PGNiG S.A. commenced operations in Klaipeda, Lithuania. Activities conducted in Lithuania constitute a permanent establishment within the meaning of the double tax treaty. The income tax of the tax establishment is settled according to the laws of Lithuania, where the income tax rate is 15%. In 2020-2021, the tax establishment did not recognise any deferred tax liability.

3.1.2 Current tax settlements of the PGNIG Tax Group

	2021	2020
At beginning of the period (tax receivables and payables, net)	**138**	**32**
Current income tax expense of PGNiG S.A. recognised in profit or loss for the period	1,177	1,755
Income tax expense of PGNiG S.A. paid in the period	(1,019)	(1,649)
Current tax liability / (asset) of the PGNiG Tax Group	(41)	-
At end of the period (tax receivables and payables, net)	**255**	**138**
including:		
- payables	255	138

3.2 Deferred tax expense

	As at Jan 1 2020	Credited/Charged		As at Dec 31 2020	Credited/Charged		As at December 31st 2021
		Net profit/(loss)	Other comprehensive income		Net profit/(loss)	Other comprehensive income	
Deferred tax assets							
Employee benefit obligations	64	8	5	77	(1)	(3)	73
Provision for well decommissioning costs	202	52	-	254	(19)	-	235
Other provisions	25	4	-	29	3	-	32
Measurement of derivatives	124	62	-	186	2,179	-	2,365
Impairment losses on property, plant and equipment	94	64	-	158	(71)	-	87
Unused tax losses of the Pakistan Branch	33	(13)	-	20	(16)	-	4
Inventory write-downs	76	(67)	-	9	20	-	29
Other	14	-	-	14	126	-	140
Total	**632**	**110**	**5**	**747**	**2,221**	**(3)**	**2,965**
Deferred tax liabilities							
Difference between depreciation rates for property, plant and equipment	410	(53)	-	357	106	-	463
Measurement of derivatives	391	(14)	(178)	199	2,094	(1,074)	1,219
Other	33	3	-	36	(13)	-	23
Total	**834**	**(64)**	**(178)**	**592**	**2,187**	**(1,074)**	**1,705**
Set-off of assets and liabilities	(632)	-	-	(592)	-	-	(1,705)
After set-off							
Assets	-	-	-	155	-	-	1,260
Liabilities	(202)	-	-	-	-	-	-
Net effect of changes in the period		**174**	**183**		**34**	**1,071**	

(in PLN million unless stated otherwise)

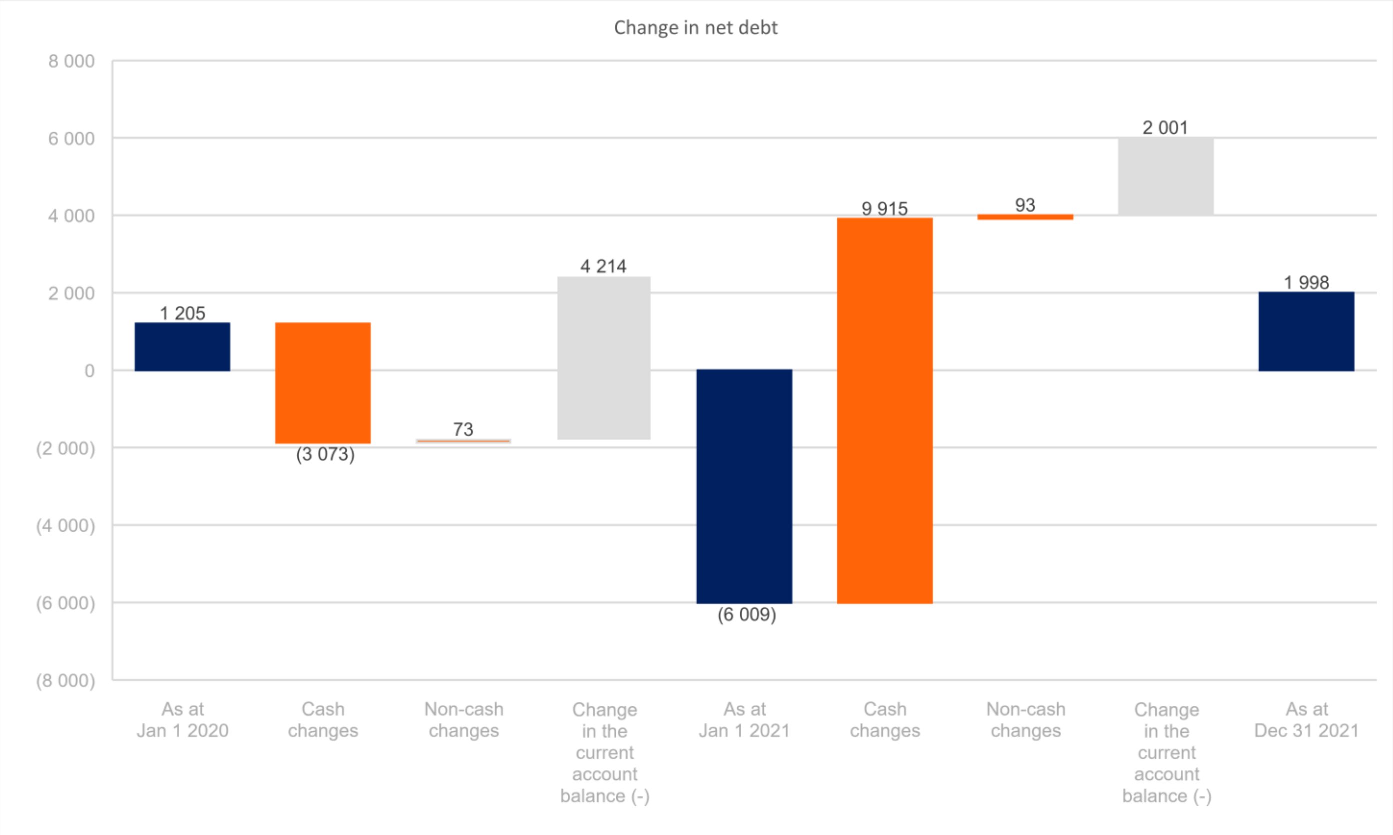
4. Debt and capital management

4.1 Net debt

The Company defines net debt as the total of existing bank and non-bank borrowings, debt securities and lease liabilities, less cash and cash equivalents.

Net debt reconciliation	2021	2020
Borrowings	10,006	-
Lease liabilities	322	320
Debt	10,328	320
Cash and cash equivalents	(8,330)	(6,329)
Net debt = Debt (-) Net cash and cash equivalents	**1,998**	**(6,009)**

	Borrowings	Lease liabilities	Total
As at Jan 1 2020	**3,002**	**318**	**3,320**
Cash changes			
net inflows /(outflows)	(3,000)	(15)	(3,015)
interest paid	(46)	(12)	(58)
Non-cash changes			
accrued interest	44	12	56
new lease contracts	-	13	13
other changes	-	4	4
As at Dec 31 2020	**-**	**320**	**320**
Cash changes			
net inflows /(outflows)	10,000	(15)	9,985
interest paid	(58)	(12)	(70)
Non-cash changes			
accrued interest	65	12	77
new lease contracts	-	12	12
measurement of debt	(1)	-	(1)
other changes	-	5	5
As at December 31st 2021	**10,006**	**322**	**10,328**



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4.2 Financing liability

Accounting policies

Borrowings and debt securities

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

Lease liabilities

Leases are recognised as right-of-use assets and liabilities to pay for those rights as at the date when the leased assets are available for use by the Company. Right-of-use assets are presented in Note 5.1.1.

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

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

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

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

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

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 company will exercise the extension option or will not exercise the termination option is made if a significant event or a significant change in circumstances occurs that affects such assessment and the Company can control the change or the circumstances.

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

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

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

Discount rates applied in the valuation of lease liabilities.

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

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

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

(in PLN million unless stated otherwise)

Contract term	2–5 years	6–10 years	11–14 years	15–21 years	22–47 years	48–99 years
Interest rate	1.3% - 1.65%	1.78% - 2.15%	2.23% - 2.48%	2.55% - 2.76%	2.77% - 2.87%	2.88%

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

Currency: PLN/ debt amount in PLN		2021	2020
Borrowings	Note 4.1.	10,006	-
Lease liabilities	Note 4.1.	322	320
Total, including:		**10,328**	**320**
floating-rate		10,006	-
fixed-rate		322	320

Borrowings and debt securities

As at December 31st 2021, the Company operated the following debt issue programmes:

Type of financing	Objective	Limit	2021	2020
Note programme	To meet the Company's general liquidity needs, also those related to investment projects	PLN 5,000m	-	-
Syndicated loan	To meet the Company's general liquidity needs, also those related to investment projects	PLN 10,000m	10,005	-
Overdraft facilities	To meet the Company's general liquidity needs	PLN 2,775m	1	-
Total			**10,006**	**-**

The facility agreements contain a financial covenant: net debt to EBITDA.

In 2021 and 2020, the Company's financing liabilities were not secured with its property, plant and equipment.

On June 24th 2019, the Company entered into a syndicated revolving credit facility agreement. The agreement was concluded with a syndicate of nine banks. The facility amount is PLN 10,000m and the credit is available for five years from the agreement date. The facility replaced financing in the form of two underwritten note programmes for a total amount of PLN 8,000m. The Company intends to use the facility to finance the day-to-day operations and capital expenditure of PGNiG S.A. and other companies the PGNiG Group. As at December 31st 2021, the facility was fully drawn and its value measured at amortised cost was PLN 10,005m.

In the reporting period and as at the date of authorisation of these financial statements for issue, the Company was not in default under material terms of any debt securities or bank borrowings that could trigger accelerated repayment, including with respect to the covenants.

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

Lease liabilities

Lease liabilities include contracts denominated in currencies other than PLN, i.e. PKR, EUR, AED and RUB, however their amount is immaterial.

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

4.3 Cash pooling

Accounting policies

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

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

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

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

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

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(in PLN million unless stated otherwise)

Significant estimates

Impairment loss on cash pooling receivables

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

The credit risk of a given company is determined based on an internal scoring model using behavioral-qualitative analysis and quantitative analysis of the company's financial data from previous years.

	2021	2020
Gross cash pooling receivables	5,999	1,249
Impairment loss	(29)	(1)
Net cash pooling receivables	**5,970**	**1,248**
Cash pooling liabilities	**166**	**203**

As at December 31st 2021, the Company was a party to two cash pooling agreements:

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

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

Cash flows under the cash pooling arrangement as well as exchange differences on translating cash and cash equivalents are presented in the statement of financial position under cash and cash equivalents, and as an adjustment to cash and cash equivalents in the statement of cash flows. As at December 31st 2021 and December 31st 2020, the fair value of the Company's financial assets and liabilities measured at amortised cost did not materially differ from their carrying amounts.

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

	Class 1 - 12-month expected loss	Class 3 - Impaired	Total
Gross carrying amount as at January 1st 2021	**1,248**	**-**	**1,248**
Repaid receivables	(1,249)	-	(1,249)
Newly recognised receivables	5,995	-	5,995
Other effect	5	-	5
Gross carrying amount as at December 31st 2021	**5,999**	**-**	**5,999**
Accumulated impairment losses as at January 1st 2021	(1)	-	(1)
Recognition in correspondence with expenses	(29)	-	(29)
Reversals in correspondence with income	1	-	1
Accumulated impairment losses as at December 31st 2021	(29)	-	(29)
Net carrying amount as at December 31st 2021	**5,970**	**-**	**5,970**
Gross carrying amount as at January 1st 2020	**2,510**	**5**	**2,515**
Repaid receivables	(2,507)	(5)	(2,512)
Newly recognised receivables	1,249	5	1,254
Other effect	(3)	(5)	(8)
Gross carrying amount as at December 31st 2020	**1,249**	**-**	**1,249**
Accumulated impairment losses as at January 1st 2020	(9)	(5)	(14)
Recognition in correspondence with expenses	(4)	-	(4)
Reversals in correspondence with income	12	5	17
Accumulated impairment losses as at December 31st 2020	(1)	-	(1)
Net carrying amount as at December 31st 2020	**1,248**	**-**	**1,248**

In 2021-2020, there were no transfers between the classes.

4.4 Equity and capital management policies

Accounting policies

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

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

Accumulated other comprehensive income includes actuarial gains and losses on post-employment benefits, taken to equity.

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

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

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

As at December 31st 2021 and December 31st 2020, the share capital comprised 5,778,314,857 shares with a par value of PLN 1 per share. Its total amount was PLN 5,778,314,857.

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

		2021	2020
Net debt	*Note 4.1.*	**1,998**	**(6,009)**
Equity		35,570	36,230
Capital employed (equity + net debt)		37,568	30,221
Leverage		**5.3%**	**-19.9%**

4.5 Dividend paid

Dividend paid in the period	2021	2020
Dividend per share paid (PLN)	0.21	0.09
Number of shares (million)	5,778	5,778
Dividend paid (PLNm)	**1,213**	**520**
- cash dividend paid to the State Treasury	872	374
- cash dividend paid to other shareholders	341	146

On July 9th 2021, the General Meeting of PGNIG S.A. resolved to pay dividend to the Company's shareholders for the financial year 2020 in a total amount of PLN 1,213m, i.e. PLN 0.21 per share. The dividend record date and the dividend payment date were set for July 19th 2021 and August 3rd 2021, respectively.

On June 24th 2020, the General Meeting of PGNIG S.A. resolved to pay dividend to the Company's shareholders for the financial year 2019 in a total amount of PLN 520m, i.e. PLN 0.09 per share. The dividend record date and the dividend payment date were set for July 20th 2020 and August 3rd 2020, respectively.

For detailed information on the dividend policy, see section 1.3.5 of Directors' Report on the operations of the PGNiG Group and PGNiG S.A.

4.6 Cash and cash equivalents

Accounting policies

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

The item 'Other cash' presents mainly margins used for settlements of commodity exchange transactions.

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

	2021	2020
Cash at banks	1,853	951
Bank deposits	3,803	4,586
Other cash	2,674	792
Total	**8,330**	**6,329**

As at December 31st 2021, the Company held restricted cash of PLN 3,096m (December 31st 2020: PLN 946m). Restricted cash consists primarily of deposits held by the Company to secure high-methane gas and electricity sale transactions with IRGiT (commodity clearing house) and on the Intercontinental Exchange Inc. (ICE) of PLN 2,674m (December 31st 2020: PLN 792m) and amounts in VAT (split payment) accounts of PLN 363m (December 31st 2020: PLN 83m).

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

(in PLN million unless stated otherwise)

The Company measures the credit risk by regularly reviewing the banks' financial standings, as reflected in ratings assigned by rating agencies such as Standards&Poor's, Moody's, and Fitch. In the reporting period, the Company did not identify any material credit risks with respect to its cash and cash equivalents, therefore the impairment losses were immaterial.

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

	2021	2020
Banks rated AAA by JCR-VIS Credit Rating Company Limited	115	-
Banks rated AA+ by JCR-VIS Credit Rating Company Limited	-	63
Banks rated A by Fitch/ A2 by Moody's	1,586	3,389
Banks rated A- by Fitch	5,921	1,813
Banks rated BBB+ by Fitch/ BAA1 by Moody's	708	1,064
Total cash at banks	**8,330**	**6,329**

As at December 31st 2021, 80% of cash and cash equivalents were denominated in PLN, 16% in USD and 4% in EUR (2020: 48% in PLN, 49% in USD and 3% in EUR). For more information on interest rate risk for cash and cash equivalents, see Note 6.3.4.

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

Reconciliation of cash and cash equivalents disclosed in the statement of cash flows with cash and cash equivalents disclosed in the statement of financial position

	2021	2020
Cash and cash equivalents at end of the period in the statement of cash flows	**14,002**	**7,534**
Opening balance of net exchange differences on cash	(152)	(4)
Opening balance of inflows/outflows of cash under cash pooling arrangement	(1,051)	(2,406)
Opening balance of impairment losses on cash	(2)	-
Net exchange differences on cash in the period	311	(148)
Changes in impairment losses on cash	(1)	(2)
Inflows/(outflows) of cash under cash pooling arrangement in the period	(4,777)	1,355
Cash at end of the period in the statement of financial position	**8,330**	**6,329**

5. Notes on assets and other liabilities

5.1 Non-financial non-current assets

5.1.1 Property, plant and equipment

Accounting policies

Property, plant and equipment

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

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

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

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

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

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Depreciation methods and periods:

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

Exploration and evaluation expenditure

Natural gas and crude oil exploration and evaluation expenditure covers geological work performed to discover and document deposits and is accounted for with the successful efforts method. Exploration for and evaluation of natural gas and/or crude oil deposits can be commenced once the Company obtains relevant licenses in accordance with the Geological and Mining Law (Note 5.1.3.).

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

Expenditure incurred on individual wells is initially capitalised in tangible exploration and evaluation assets under construction. If exploration activities are successful and lead to a discovery of recoverable reserves, the Company analyses the areas and prospects to determine whether production would be economically viable. If following the appraisal process a decision is made to launch commercial production of hydrocarbons, the Company reclassifies the tangible exploration and evaluation assets under construction to property, plant and equipment after the production launch. If exploration is unsuccessful or the Company does not file for a licence for appraisal of natural gas and/or crude oil reserves following an analysis of the areas and prospects in terms of economic viability of commercial production, the full amount of capitalised expenditure incurred on the wells drilled in the exploration phase is expensed to profit or loss in the period in which the decision to discontinue exploration was made. Seismic survey expenses capitalised in prior periods and related to a given structure are also recognised in profit or loss.

The Company creates a provision for costs of abandonment of exploration, production and storage wells (for details see Note 5.1.2.). Discounted amounts of such provisions are added to the initial cost of wells recognised in exploration and evaluation assets or in property, plant and equipment, and in the latter case are depreciated over the useful lives of the items to which they relate.

Right-of-use assets

Leases are recognised as right-of-use assets and liabilities to pay for those rights as at the date when the leased assets are available for use by the Company. For information on lease liabilities, see Note 4.2.

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

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

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

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

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

Category	Depreciation period
Perpetual usufruct of land (PWUG)	35–97 years
Right-of-use asset – plots/land	1–73 years
Right-of-use asset – buildings and structures	1–10 years
Right-of-use asset – machinery and equipment	1–8 years
Right-of-use asset – vehicles	1–8 years

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

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

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

Low-cost assets include small office and ICT equipment.

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

As at December 31st 2021, the Company reviewed the useful lives of property, plant and equipment and their effects.

	2021			2020		
	Gross carrying amount	Accumulated depreciation and impairment	Net carrying amount	Gross carrying amount	Accumulated depreciation and impairment	Net carrying amount
Land	28	(8)	20	28	(9)	19
Buildings and structures	16,012	(9,020)	6,992	16,104	(9,290)	6,814
Plant and equipment	5,782	(3,824)	1,958	5,653	(3,718)	1,935
Vehicles and other	311	(225)	86	307	(232)	75
Total own tangible assets	**22,133**	**(13,077)**	**9,056**	**22,092**	**(13,249)**	**8,843**
Tangible exploration and evaluation assets under construction	3,109	(992)	2,117	3,321	(1,182)	2,139
Other tangible assets under construction	476	(10)	466	478	(9)	469
Total tangible assets under construction	**3,585**	**(1,002)**	**2,583**	**3,799**	**(1,191)**	**2,608**
Perpetual usufruct of land (PWUG)	321	(76)	245	290	(47)	243
Right-of-use asset – plots/land	72	(22)	50	66	(22)	44
Right-of-use asset – buildings and structures	19	(9)	10	15	(6)	9
Right-of-use asset – machinery and equipment	5	(4)	1	5	(3)	2
Right-of-use asset – vehicles	34	(18)	16	30	(13)	17
Total right-of-use assets	**451**	**(129)**	**322**	**406**	**(91)**	**315**
Total property, plant and equipment	**26,169**	**(14,208)**	**11,961**	**26,297**	**(14,531)**	**11,766**

In 2021, the Company incurred material expenditure of PLN 405m on tangible assets under construction, related to wells (2020: PLN 607m). The Company also spent PLN 51m on underground gas storage facilities (2020: PLN 36m) and PLN 75m on seismic surveys (2020: PLN 139m).

In 2021, capitalised borrowing costs were PLN 22m (2020: PLN 23m), With the capitalisation rate at 6.2% in 2021 (2020: 5.2%).

Under lease contracts, the Company uses:

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

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

	2021	2020
Contractual obligations assumed	2,590	2,046
Portion discharged as at the reporting date	934	1,170
Contractual obligations after the reporting date	**1,656**	**876**

(in PLN million unless stated otherwise)

Changes in property, plant and equipment

	Land	Buildings and structures	Plant and equipment	Vehicles and other	Total tangible	Tangible assets under construction		Total property, plant and equipment
						Tangible exploration and evaluation assets under construction	Other	
Net carrying amount as at Jan 1 2020	**20**	**7,158**	**2,145**	**96**	**9,419**	**2,225**	**454**	**12,098**
Increase	-	-	-	-	-	703	328	1,031
Decrease	-	(32)	(4)	(3)	(39)	(189)	(15)	(243)
Provision for well decommissioning costs *Note 5.1.2*	-	445	-	-	445	51	2	498
Transfers from tangible assets under construction and between asset groups	-	432	126	10	568	(301)	(300)	(33)
Impairment losses	(1)	(700)	(100)	(14)	(815)	(350)	-	(1,165)
Depreciation expense for the year	-	(489)	(232)	(14)	(735)	-	-	(735)
Net carrying amount as at Dec 31 2020	**19**	**6,814**	**1,935**	**75**	**8,843**	**2,139**	**469**	**11,451**
Increase	-	-	-	-	-	517	457	974
Decrease	-	(79)	(15)	-	(94)	(526)	(2)	(622)
Provision for well decommissioning costs *Note 5.1.2*	-	(305)	-	-	(305)	(22)	(3)	(330)
Transfers from tangible assets under construction and between asset groups	-	385	168	9	562	(181)	(454)	(73)
Impairment losses	1	695	97	14	807	190	(1)	996
Depreciation expense for the year	-	(518)	(227)	(12)	(757)	-	-	(757)
Net carrying amount as at December 31st 2021	**20**	**6,992**	**1,958**	**86**	**9,056**	**2,117**	**466**	**11,639**

Movements in right-of-use assets

	Perpetual usufruct of land (PWUG)	Plots/land	Buildings and structures	Plant and equipment	Vehicles and other	Total right-of-use assets
Net carrying amount as at Jan 1 2020	**249**	**49**	**10**	**3**	**14**	**325**
Increase (new contracts)	-	3	1	-	9	13
Decrease (expired contracts)	-	(1)	-	-	-	(1)
Modifications and changes to term estimate	-	1	2	-	3	6
Changes due to indexation of payments	-	1	-	-	-	1
Impairment losses	(3)	(6)	-	-	(2)	(11)
Depreciation expense for the year	(3)	(3)	(4)	(1)	(7)	(18)
Net carrying amount as at Dec 31 2020	**243**	**44**	**9**	**2**	**17**	**315**
Increase (new contracts)	-	3	3	-	6	12
Decrease (expired contracts)	-	-	(1)	-	(1)	(2)
Provision for environmental liabilities *Note 5.1.2*	32	-	-	-	-	32
Modifications and changes to term estimate	2	1	3	-	-	6
Changes due to indexation of payments	-	1	-	-	-	1
Impairment losses	(29)	4	-	-	1	(24)
Depreciation expense for the year	(3)	(3)	(4)	(1)	(7)	(18)
Net carrying amount as at December 31st 2021	**245**	**50**	**10**	**1**	**16**	**322**

5.1.2 Provision for well and extraction facility decommissioning costs, and other environmental provisions

Accounting policies

Provisions for future well and extraction facility decommissioning costs

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

The provision for well decommissioning costs is recognised when the Company has the obligation to properly decommission and abandon wells after production is discontinued. When the provision for well decommissioning costs is recognised with respect to wells classified as property, plant and equipment, the discounted amount of the provision is added to the initial value of the wells, and after the production phase starts, it is depreciated over the expected useful life of the wells (Note 5.1.1.). Any subsequent adjustments to the provision due to changes in estimates are also recognised as an adjustment to the value of the relevant item of property, plant and equipment. Adjustments to provisions resulting from changes of discount rates (due to the passage of time) are taken to profit or loss. The amount of the provision for future costs of decommissioning of production and storage wells is adjusted for any unused contributions to the Extraction Facilities Decommissioning Fund.

The Extraction Facilities Decommissioning Fund is created pursuant to the Mining and Geological Law, which requires that the Company decommissions extraction facilities once their operation is discontinued. Contributions to the Extraction Facilities Decommissioning Fund are recognised in correspondence with other expenses. The assets accumulated in the Extraction Facilities Decommissioning Fund may be used only to cover the costs of decommissioning of an extraction facility or its specific part, in particular the costs of:

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

Other provisions for environmental liabilities

The Company recognises provisions for future liabilities for:

- costs of identification and remediation of contamination of soil and aquatic environment in connection with the existence of a legal or customary obligation to perform these activities.
- compulsory costs of restoration of leased land/land plots prior to the transfer of the land back to the lessor after the end of the contract.

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

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 occur.

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

Contributions to the Extraction Facilities Decommissioning Fund

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

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

(in PLN million unless stated otherwise)

Provision for environmental liabilities

The amount of the provision is based on the estimates of future restoration costs, which largely depend on the applied discount rate and the estimate of time when the cash flows are expected to take place. Changes in the amount of the provision resulting from a change in the discount rate (as a result of passage of time) is recognised in profit or loss, while changes in the estimated restoration costs are remeasured to the value of the right-of-use asset

		2021	2020
At beginning of the period		**2,449**	**1,970**
Recognised provision capitalised in the cost of property, plant and equipment	*Note 5.1.1*	(298)	498
Recognised provision charged to profit or loss	*Note 2.4.*	21	54
Used		(33)	(29)
Reversal	*Note 2.4.*	(89)	(45)
Interest on cash accumulated in the Extraction Facilities Decommissioning Fund		-	1
At end of the period		**2,050**	**2,449**
- long-term		1,982	2,414
- short-term		68	35

With respect to the costs of decommissioning of wells and site infrastructure, in 2021 the discount rate applied by the Company 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 at the NBP's continuous inflation target of 2.50% (as at the end of 2020, the discount rate was -1.22%, and resulted from the rates of 1.25% and 2.50%, respectively).

5.1.3 Licences, mining rights and rights to geological information

Accounting policies

Licences, mining rights and rights to geological information

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

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

Measurement

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

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

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

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

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

	2021	2020
Gross carrying amount at beginning of the period	**287**	**287**
Accumulated amortisation	(119)	(102)
Accumulated impairment loss	(45)	(36)
Net carrying amount at beginning of the period	**123**	**149**
Gross carrying amount at beginning of the period	**287**	**287**
Transfer from tangible assets under construction and between asset groups	17	5
Decrease	(12)	(5)
Gross carrying amount at end of the period	**292**	**287**
Accumulated impairment loss	(38)	(45)
Amortisation expense for the year	(23)	(22)
Accumulated amortisation excluding amortisation expense for the year	(108)	(97)
Net carrying amount at end of the period	**123**	**123**

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(in PLN million unless stated otherwise)

5.1.4 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 on non-financial assets

Impairment of non-financial assets	2021	2020
Land	(8)	(9)
Buildings and structures	(1,975)	(2,671)
Plant and equipment	(666)	(762)
Vehicles and other	(34)	(48)
Total impairment losses on tangible assets	**(2,683)**	**(3,490)**
Tangible exploration and evaluation assets under construction	(992)	(1,182)
Other tangible assets under construction	(10)	(9)
Total impairment losses on tangible assets under construction	**(1,002)**	**(1,191)**
Perpetual usufruct of land (PWUG)	(66)	(40)
Right-of-use asset – plots/land	(10)	(15)
Right-of-use asset – vehicles	(2)	(2)
Total impairment losses on right-of-use assets	**(78)**	**(57)**
Total impairment losses on property, plant and equipment	**(3,763)**	**(4,738)**

As at the end of the reporting period, reversible impairment losses on tangible assets were PLN 1,521m (2020: PLN 2,481m).

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

	2021		2020	
	impairment loss reversal	impairment loss recognition	impairment loss reversal	impairment loss recognition
Value in use of assets tested for impairment(PLN)	32,519		19,881	
Amount of recognised impairment loss (PLN)	882	543	227	1,551

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(in PLN million unless stated otherwise)

Total effect of tested assets on impairment losses

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

	2021		2020	
	impairment loss reversal	**impairment loss recognition**	**impairment loss reversal**	**impairment loss recognition**
CGU	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 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 production forecast to account for deterioration of reservoir conditions experienced by certain production units.
				* Update of the provision for well decommissioning.
Value in use (PLN)	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 (PLN)	828	356	210	998

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

	2021		2020	
	impairment loss reversal	**impairment loss recognition**	**impairment loss reversal**	**impairment loss recognition**
CGU	CGU - 169		CGU - 169	
Reasons for impairment / value increase	*Decrease in asset value due to change in the valuation of provision for site restoration	* Higher cost of most of the planned repairs and of property maintenance costs.	* Higher rental income from certain properties.	* Higher costs of property maintenance.
	* Higher rental income from certain properties.	*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). As a result, the amount of provision increased in correspondence with the asset value	* Lower cost of planned repairs and property maintenance costs.	*The sum of discounted cash and residual value is lower than the net value of property, plant and equipment.
		* Change in the intended use of the facility		
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

(in PLN million unless stated otherwise)

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

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

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

5.2 Working capital

5.2.1 Inventories

Accounting policies

The Company's most material inventory items include:

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

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

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 differences, are measured at the average weighted cost, which includes in particular: costs of purchase of gas fuel from all sources together with an appropriate portion of costs of system and transaction charges, actual costs of its production from domestic sources, costs of nitrogen rejection and regasification.

(in PLN million unless stated otherwise)

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

Significant estimates

Inventory write-downs

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

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

	2021			2020		
	Initial value	Write-downs	Net carrying amount	Initial value	Write-downs	Net carrying amount
Materials	**7,848**	**(154)**	**7,694**	**2,050**	**(46)**	**2,004**
Gas fuel	7,591	(107)	7,484	1,798	(18)	1,780
Other materials	257	(47)	210	252	(28)	224
Crude oil	**18**	**-**	**18**	**19**	**-**	**19**
Other finished goods	**2**	**-**	**2**	**-**	**-**	**-**
Merchandise	**15**	**-**	**15**	**47**	**-**	**47**
Certificates of origin for electricity	15	-	15	24	-	24
CO_2 emission allowances	-	-	-	23	-	23
Total	**7,883**	**(154)**	**7,729**	**2,116**	**(46)**	**2,070**

Changes in write-downs	2021	2020
Write-downs at beginning of the period	**(46)**	**(401)**
Recognition	(128)	(21)
Reversal	20	376
Charged to profit or loss for current period	**(108)**	**355**
Write-downs at end of the period	**(154)**	**(46)**

5.2.2 Receivables

Accounting policies

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

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

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

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

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

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

(in PLN million unless stated otherwise)

Significant estimates

Impairment losses on receivables

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

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

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

		2021			2020		
		Gross carrying amount	Impairment losses	Net carrying amount	Gross carrying amount	Impairment losses	Net carrying amount
Receivables from non-related entities		**8,242**	**(363)**	**7,879**	**1,676**	**(277)**	**1,399**
Trade receivables		4,422	(198)	4,224	1,333	(112)	1,221
VAT receivable		364	-	364	158	-	158
Other taxes, customs duties and social security receivable		10	-	10	7	-	7
Security deposits receivable		3,251	(1)	3,250	-	-	-
Other receivables		195	(164)	31	178	(165)	13
Receivables from related entities		**1,040**	**(53)**	**987**	**446**	**(67)**	**379**
Trade receivables	Note 7.4.1.	1,025	(40)	985	393	(55)	338
Other receivables		15	(13)	2	53	(12)	41
Total		**9,282**	**(416)**	**8,866**	**2,122**	**(344)**	**1,778**

Trade receivables

The significant year-on-year increase as at December 31st 2021 was largely attributable to the growing prices and volumes of gas supplied by the Company.

Security deposits receivable

The line item Security deposits receivable, the Company presents security deposits under bilateral transactions.

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 Company'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 Company 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 Company 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 Company 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 Company's key trading partners.

As at reporting date, the prices of CDS, based on which the Company adjusts the probability of default, were lower than at year end 2020. At the same time, the trading partners' creditworthiness assessments were revised, which also affected the expected probability of default. As a result, the (upward) adjustment to the expected credit loss due to COVID-19 was changed relative to the adjustment recognised at year-end 2020.

The expected credit loss on short-term and long-term trade receivables was estimated at PLN 392m, including on non-impaired receivables of PLN 22m. The amount of PLN 1m reflects the estimated effect of COVID-19 on the recoverability of trade receivables at the reporting date and the related expected credit loss in future periods. The expected credit loss is PLN 5m lower than the expected credit loss on trade receivables estimated at the end of 2020.

In the tables below, the Company recognises both the non-current and current portions of gross carrying amounts and allowances for trade and other receivables.

(in PLN million unless stated otherwise)

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

	Trade receivables covered by statistical analysis		Trade receivables covered by case-by-case analysis			Total
	Class 2 - Lifetime expected loss	Class 3 - Impaired	Class 1 - 12-month expected loss	Class 2 - Lifetime expected loss	Class 3 - Impaired	
Gross carrying amount as at January 1st 2021	**299**	**138**	**1,005**	**33**	**251**	**1,726**
Transfer from group with 12-month expected loss	1	-	-	-	-	1
Transfer from group with lifetime expected loss	-	-	-	-	32	32
Transfer from impaired group	-	-	-	-	95	95
Transfer to group with 12-month expected loss	(26)	-	-	-	-	(26)
Transfer to group with lifetime expected loss	(117)	(2)	(1)	-	(13)	(133)
Transfer to impaired group	(33)	(95)	-	-	-	(128)
Transfer from group with lifetime expected loss	-	1	26	117	-	144
Repaid receivables	(4,570)	(27)	(16,067)	(475)	(2,022)	(23,161)
Newly recognised receivables	4,996	-	19,485	593	1,912	26,986
Write-off due to use of impairment losses	-	-	-	-	(3)	(3)
Other effect	(114)	13	(38)	15	38	(86)
Gross carrying amount as at December 31st 2021	**436**	**28**	**4,410**	**283**	**290**	**5,447**
Accumulated impairment losses as at January 1st 2021	**(31)**	**(25)**	**(14)**	**-**	**(98)**	**(168)**
Recognition in correspondence with expenses	(5)	(2)	(15)	(23)	(176)	(221)
Reversals in correspondence with income	3	-	11	8	136	158
Transfer to impaired group	30	12	13	-	-	55
Transfer from group with 12-month expected loss	-	(13)	-	-	-	(13)
Transfer from group with lifetime expected loss	-	-	-	-	(30)	(30)
Transfer from impaired group	-	-	-	-	(12)	(12)
Impairment losses used	-	-	-	-	1	1
Other decrease	-	-	-	-	(8)	(8)
Accumulated impairment losses as at December 31st 2021	(3)	(28)	(5)	(15)	(179)	(238)
Net carrying amount as at December 31st 2021	**433**	**-**	**4,405**	**268**	**111**	**5,209**
Statistical estimate of default rate	0.4% - 6.7%	29.8% - 100%				
Gross carrying amount as at January 1st 2020	**278**	**20**	**1,173**	**35**	**233**	**1,739**
Transfer from group with 12-month expected loss	18	-	-	-	-	18
Transfer to group with lifetime expected loss	-	-	(18)	-	-	(18)
Transfer to impaired group	(109)	-	-	-	-	(109)
Transfer from group with lifetime expected loss	-	109	-	-	-	109
Repaid receivables	(3,357)	(39)	(20,670)	(669)	(232)	(24,967)
Newly recognised receivables	3,457	13	20,493	666	272	24,901
Write-off due to use of impairment losses	(1)	-	-	-	(17)	(18)
Other effect	13	35	27	1	(5)	71
Gross carrying amount as at December 31st 2020	**299**	**138**	**1,005**	**33**	**251**	**1,726**
Accumulated impairment losses as at January 1st 2020	**(2)**	**(13)**	**(1)**	**-**	**(141)**	**(157)**
Recognition in correspondence with expenses	(42)	(2)	(26)	-	(32)	(102)
Reversals in correspondence with income	11	-	13	-	57	81
Transfer to impaired group	1	-	-	-	-	1
Transfer from group with lifetime expected loss	-	(1)	-	-	-	(1)
Impairment losses used	-	2	-	-	17	19
Effect of exchange rate movements and other	1	(10)	-	-	1	(8)
Accumulated impairment losses as at December 31st 2020	(31)	(24)	(14)	-	(98)	(167)
Net carrying amount as at December 31st 2020	**268**	**114**	**991**	**33**	**153**	**1,559**
Statistical estimate of default rate	0.3% - 6.6%	29.4% - 100%				

(in PLN million unless stated otherwise)

Change in gross carrying amount and impairment losses on other receivables

	Other receivables covered by statistical analysis		Other receivables covered by case-by-case analysis		Total
	Class 2 - Lifetime expected loss	Class 3 - Impaired	Class 1 - 12-month expected loss	Class 3 - Impaired	
Gross carrying amount as at January 1st 2021	**4**	**230**	**68**	**9**	**311**
Transfer to group with lifetime expected loss	-	-	(31)	-	(31)
Transfer to impaired group	-	(65)	-	-	(65)
Transfer from group with 12-month expected loss	31	-	-	-	31
Transfer from impaired group	-	-	-	65	65
Repaid receivables	(44)	-	(767)	(14)	(825)
Newly recognised receivables	32	-	3,269	15	3,316
Other effect	(22)	(1)	768	3	748
Gross carrying amount as at December 31st 2021	**1**	**164**	**3,307**	**78**	**3,550**
Accumulated impairment losses as at January 1st 2021	-	(230)	-	-	(230)
Recognition in correspondence with expenses	-	-	(1)	(15)	(16)
Reversals in correspondence with income	-	-	-	3	3
Transfer to impaired group	-	65	-	-	65
Transfer from impaired group	-	-	-	(65)	(65)
Effect of exchange rate movements and other	-	1	-	12	13
Accumulated impairment losses as at December 31st 2021	-	(164)	(1)	(65)	(230)
Net carrying amount as at December 31st 2021	**1**	**-**	**3,306**	**13**	**3,320**
Statistical estimate of default rate	0.4% - 6.7%	29.8% - 100%			
Gross carrying amount as at January 1st 2020	**12**	**171**	**103**	**101**	**387**
Repaid receivables	(9)	-	(484)	-	(493)
Newly recognised receivables	10	65	425	-	500
Write-off due to use of impairment losses	-	-	-	(76)	(76)
Other effect	(9)	(6)	24	(16)	(7)
Gross carrying amount as at December 31st 2020	**4**	**230**	**68**	**9**	**311**
Accumulated impairment losses as at January 1st 2020	-	(168)	-	(76)	(244)
Reversals in correspondence with income	-	9	-	-	9
Impairment losses used	-	-	-	76	76
Effect of exchange rate movements and other	-	(71)	-	-	(71)
Accumulated impairment losses as at December 31st 2020	-	(230)	-	-	(230)
Net carrying amount as at December 31st 2020	**4**	**-**	**68**	**9**	**81**
Statistical estimate of default rate	0.3% - 6.6%	29.4% - 100%			

In 2020, there were no transfers between classes.

Trade receivables are the source of the Company's credit and currency risk exposure. For information on credit risk management, credit risk concentration, and assessment of the credit quality of receivables, see Note 6.3.1. For information on currency risk related to receivables, see Note 6.3.3. As at December 31st 2021 and December 31st 2020, the fair value receivables did not differ materially from the respective carrying amounts.

5.2.3 Trade and tax payables

Accounting policies

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

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

		2021	2020
Amounts payable to non-related entities		**5,488**	**1,577**
Trade payables		2,128	422
VAT payable		2,425	756
Other taxes, customs duties and social security payable		171	129
Amounts payable under purchase of non-financial non-current assets		30	24
Corporate income tax payable	*Note 3.1.2.*	255	138
Amounts payable under purchase of exploration and evaluation assets		19	20
Liabilities under security and other deposits		452	78
Other		8	10
Amounts payable to related entities		**1,791**	**543**
Trade payables	*Note 7.4.1.*	1,708	450
Amounts payable under purchase of non-financial non-current assets		26	20
Amounts payable under purchase of exploration and evaluation assets		56	59
Other		1	14
Total		**7,279**	**2,120**

(in PLN million unless stated otherwise)

The significant year-on-year increase in trade payables as at December 31st 2021 was mainly attributable to higher costs and volumes of purchased energy commodities.

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

As at December 31st 2021 and December 31st 2020, the fair values of trade payables did not differ materially from their respective carrying amounts.

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

2021	Difference resulting from the statement of financial position	Net cash from investing activities	Net cash from financing activities	Elimination of non-cash items	Net cash from operating activities (movements in working capital)
Inventories	(5,658)	-	-	-	(5,658)
Receivables	(6,140)	(519)	-	(420)	(7,079)
Employee benefit obligations	(13)	-	-	-	(13)
Provisions	(382)	332	-	45	(5)
Other liabilities	4,979	(13)	34	-	5,000
Other assets	(19)	-	(5)	-	(24)
Total working capital	**(7,233)**	**(200)**	**29**	**(375)**	**(7,779)**

2020	Difference resulting from the statement of financial position	Net cash from investing activities	Net cash from financing activities	Elimination of non-cash items	Net cash from operating activities (movements in working capital)
Inventories	1,160	-	-	-	1,160
Receivables	(1,982)	2,099	-	(39)	78
Employee benefit obligations	70	-	-	-	70
Provisions	489	(470)	-	(9)	10
Other liabilities	(791)	52	(35)	-	(774)
Other assets	10	-	(6)	-	4
Total working capital	**(1,044)**	**1,681**	**(41)**	**(48)**	**548**

5.3 Notes on other assets

5.3.1 Other non-current assets

Accounting policies

Cash of the Extraction Facilities Decommissioning Fund is accumulated by the Company in a separate bank account from the first day of operation to the start of decommissioning of extraction facilities. The Fund's cash is increased by the amount of interest accruing on the Fund's assets. And may be used only to cover the costs of decommissioning of an extraction facility or its specific part. Due to formal and legal 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 Company's statement of financial position as other assets under non-current assets. The amount of the provision for decommissioning of production and storage wells is adjusted for any unused contributions to the Extraction Facilities Decommissioning Fund (Note 5.1.2.).

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

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

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

Financial receivables (deposits, guarantees, and other) include mainly deposits placed with trading partners and financial receivables not classified as trade or other receivables. They are initially recognised at fair value. Following initial recognition, they are classified at amortised cost less impairment losses.

(in PLN million unless stated otherwise)

	2021			2020		
	Gross carrying amount	Impairment losses	Net carrying amount	Gross carrying amount	Impairment losses	Net carrying amount
Cash of the Extraction Facilities Decommissioning Fund	139	-	139	145	-	145
Other intangible assets	110	(5)	105	101	(6)	95
Finance lease receivables	1	-	1	1	-	1
Connection charge	79	-	79	84	-	84
Financial receivables (deposits, guarantees, and other)	109	(52)	57	90	(53)	37
Other	21	-	21	26	-	26
Total	**459**	**(57)**	**402**	**447**	**(59)**	**388**

Cash of the Extraction Facilities Decommissioning Fund

In the reporting period, the Company tested the Fund for impairment. No significant credit risk was identified, and the amount of recognised impairment loss was immaterial.

5.3.2 Purchased debt instruments

	2021	2020
Purchased debt instruments, gross	441	441
Impairment loss	(39)	(39)
Purchased debt instruments, net	**402**	**402**
- long-term	394	394
- short-term	8	8

The line item ‘Purchased debt instruments’ includes corporate notes for a total amount of PLN 39m acquired from Geofizyka Kraków S.A. in liquidation bankruptcy; the notes were acquired under the Short-Term Note Issuance Programme Agreement of May 6th 2014. As the notes were not redeemed by Geofizyka Kraków S.A. in liquidation bankruptcy, the asset was fully impaired and classified as impaired assets.

The item also includes an amount of PLN 402m in fixed-rate notes issued by Bank Gospodarstwa Krajowego for the COVID-19 Fund, maturing on June 5th 2030. The notes are guaranteed by the State Treasury. The Company did not recognise any impairment loss on the notes.

5.4 Notes on provisions and liabilities

5.4.1 Employee benefit obligations

Accounting policies

Short-term employee benefits

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

Short-term employee benefits paid by the Company include:

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

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

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

The Company recognises provisions for unused holiday entitlements.

(in PLN million unless stated otherwise)

Long-term employee benefits

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

- benefits paid during the employment period,
- post-employment benefits.

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

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

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

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

	2021		2020	
	Non-current	Current	Non-current	Current
Liabilities under length-of-service awards	200	17	204	17
Liabilities under severance payments	78	10	94	2
Liabilities under awards and annual and other bonuses	-	72	-	64
Wages and salaries payable	-	1	-	-
Amounts payable for unused holiday entitlements	-	21	-	26
Termination benefits	-	7	-	7
Other employee benefit obligations (Company Social Benefits Fund)	53	3	58	3
Total	**331**	**131**	**356**	**119**

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

	Benefits paid during the employment period		Post-employment benefits	
	2021	2020	2021	2020
Obligations at beginning of the period	**221**	**189**	**157**	**126**
Interest expense	7	5	4	3
Current service cost	11	11	5	5
Benefits paid	(22)	(17)	(6)	(5)
Actuarial gain/(loss) – changes in financial assumptions	(33)	18	(30)	19
Actuarial gain/(loss) – changes in demographic assumptions	33	15	14	9
Obligations at end of the period	**217**	**221**	**144**	**157**

The technical rate applied to calculate the discounted value of future payments under employee benefits 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).

5.4.2 Other provisions

Accounting policies

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

Provision for certificates of origin and energy efficiency certificates

If at a reporting date the number of certificates in not sufficient to meet the requirements stipulated in the Energy Law and the Energy Efficiency Act, the Group recognises a provision for cancellation of certificates of origin and energy efficiency certificates or for the payment of emission charge, whichever of the two is lower.

The provision and the registered certificates of origin disclosed under inventories are accounted for at the time of registering their cancellation

Significant estimates

Provision for certificates of origin and energy efficiency certificates

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

The provision for energy efficiency certificates is recognised as at the end of the reporting period based on the volume of electricity consumed (excluding internally generated electricity consumed) and the volume of gas fuel (in energy units), electricity and heat sold to end customers (with the exceptions provided for in the Energy Efficiency Act), the applicable

(in PLN million unless stated otherwise)

in the Register of Certificates of Origin maintained by the Polish Power Exchange (PPX). Provision for liabilities associated with exploration work abroad Owing to the Force Majeure risk present in Libya, operating activities were suspended in that country. Therefore, the Company has been maintaining a provision for licence obligations under licence agreements concluded with the Libyan government. Provision for claims under extra-contractual use of land In the ordinary course of business, the Company installs technical equipment used for transmission and distribution of gas on land owned by third parties, which are often natural persons. Where possible, at the time of installing the elements of the infrastructure, the Company entered into agreements establishing standard land easements and transmission easements. The Company recognises a provision for claims under extra-contractual use of land. The provision for claims under extra-contractual use of land is estimated in respect of those claims in the case of which correspondence has been exchanged with the claimant in the last three years and which have been confirmed to be valid (see 'Significant estimates'). Provision for financial guarantees A provision for financial guarantees is recognised if a surety has been granted to a creditor and the debtor defaults.	regulatory percentage ratios, and the average price of the entire portfolio of energy efficiency property rights. Provision for liabilities associated with exploration work abroad The amount of the provision is estimated based on the valuation of obligations contracted under the licence agreements, but not met. Provision for claims under extra-contractual use of land The Company estimates the amount of the provision for claims under extra-contractual use of land based on: • An estimate survey made by an expert appraiser, or • Its own valuation, taking into account the size of the controlled area in square meters, the amount of annual rent per square meter for similar land in a given municipality, and the period of extra-contractual use of land (not more than six years), or • If it is not possible to obtain reliable data required to apply the method described above, the Company analyses submitted claims on a case-by-case basis. As the amounts used in the above calculations are arrived at based on a number of underlying variables, the actual amounts of the consideration (compensation) for extra-contractual use of land that the Company will be required to pay may differ from amounts of the related provisions. Provision for financial guarantees The impairment amount is estimated in accordance with the expected loss model appropriate for the case-by-case approach, taking into account the credit risk profile of a company, the guarantee amount, the expected repayment date, and the premium received in respect of the guarantee. The credit risk of a company is assessed based onan internal scoring model using the qualitative behavioural analysis and quantitative analysis of the company's historical financial data.

	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	Provision for financial guarantees	Other provisions	Total
As at January 1st 2021	**66**	**175**	**6**	**5**	**7**	**20**	**279**
Increase	52	15	-	-	3	9	79
Used	(31)	-	(6)	-	-	-	(37)
Reversal	(4)	-	-	(1)	(1)	(19)	(25)
As at December 31st 2021	**83**	**190**	-	4	**9**	**10**	**296**
- non-current	-	5	-	-	-	-	5
- current	83	185	-	4	9	10	291
As at Jan 1 2020	**48**	**177**	**6**	**4**	**14**	**21**	**270**
Increase	27	-	-	1	1	4	33
Used	(7)	-	-	-	-	-	(7)
Reversal	(2)	(2)	-	-	(8)	(5)	(17)
As at Dec 31 2020	**66**	**175**	6	5	**7**	**20**	**279**
- non-current	-	4	-	-	-	-	4
- current	66	171	6	5	7	20	275

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

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

5.4.3 Grants

Accounting policies

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

(in PLN million unless stated otherwise)

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

	2021	2020
Grants to finance assets:		
Kosakowo Underground Gas Storage Facility	49	53
Wierzchowice Underground Gas Storage Facility	335	356
Strachocina Underground Gas Storage Facility	46	49
Conversion of Ełk and Olecko to E gas	-	4
Husów Underground Gas Storage Facility	21	23
Total	**451**	**485**
- non-current	420	450
- current	31	35

Grants to finance assets:

In 2021 and 2020, the Company did not receive any significant co-financing for property, plant and equipment.

5.4.4 Other liabilities

	2021	2020
Non-current		
Liabilities under licences, rights to geological information and mining rights	33	34
Other	16	18
Total	**49**	**52**
Current		
Grants	31	35
Other deferred income	16	13
Liabilities under licences, rights to geological information and mining rights	19	13
Total	**66**	**61**

6. Financial instruments and financial risk management

6.1 Financial instruments and financial risk management

Accounting policies

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

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

The Company classifies financial assets based on:

- the Company's business model of financial asset management. The model concerns the way in which the Company manages its financial assets in order to generate cash flows. The objective of the business model adopted by the Company is to hold assets in order to collect contractual cash flows (the "hold" model).
- assessment of the profile of contractual cash flows. At the time of initial recognition of a financial asset, the Company determines whether the contractual cash flows are solely payments of principal and interest on the principal amount outstanding, and whether are thus consistent with the underlying loan agreement. Interest may include consideration for the time value of money, credit risk, other basic lending risks, as well as costs and profit margin.

Classification of financial assets and liabilities is as follows:

Financial assets measured at amortised cost, passing the SPPI test

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

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

Financial assets at fair value through profit or loss

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

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

Financial liabilities at amortised cost

This item comprises mainly:

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

Financial liabilities measured at fair value through profit or loss

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

Hedge derivatives

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

Impairment of financial assets

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

Class 1 – Not impaired exposures 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 are characterised by low risk (or the risk increase has been insignificant) and high level of creditworthiness confirmed by external rating institutions.

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

Class 3 – Impaired exposures. 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.

Impairment approaches

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

- the statistical approach, where impairment losses on financial assets are recognised for a large number of current financial assets of relatively small values (the homogeneous portfolio) related to the Company's operations. Impairment losses are determined based on an analysis of historical data on payment of financial assets in particular ageing groups and the migration matrix method. The results of the analysis are used to calculate recovery ratios on the basis of which the amounts of impairment losses on financial assets in each ageing group are determined.
- the case-by-case approach, where expected credit losses are estimated for those items that could not be classified into a homogeneous portfolio, such as:
  - corporate loans,
  - lease receivables,
  - acquired debt securities,
  - material trade receivables (all trade receivables of counterparties covered by the case-by-case approach as at the reporting date),
  - trade receivables with initial maturity of more than one year,
  - receivables from sale of shares,

- receivables from Group entities under cash pooling arrangements, dividends and tax settlements,
- margins used for exchange settlements.

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

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

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

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

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

Class 3 – the amount of the impairment loss is the amount of receivables that are more than 90 days past due and/or of receivables from debtors subject to insolvency proceedings. and/or other qualitative indications that the debtor is not able to fully satisfy all financial claims.

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

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

Modification of contractual cash flows

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

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

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

The quantitative criterion – exceeding the materiality threshold, i.e. a 10% difference between the carrying amount after the change of schedule and the carrying amount before the change.

Qualitative criteria:

- change of the variable interest rate into a fixed interest rate and vice versa;
- material change in conditions resulting in change with regard to passing the SPPI test.

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

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

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

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

(in PLN million unless stated otherwise)

6.2 Derivative financial instruments

Accounting policies

Derivative financial instruments not designated for hedge accounting

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

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

Derivative instruments are initially recognised at fair value and as at each reporting date they are remeasured at fair value, with gains or losses from the measurement recognised in the statement of profit or loss under:

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

Hedge accounting

The Company applies cash flow hedge accounting with respect to:

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

The portion of gains or losses arising from change in the fair value of a cash flow hedge which is determined to be an effective hedge is recognised as a separate item of equity (Hedging reserve – Note 4.4.). The ineffective portion is charged to profit or loss. The effective hedge taken to equity over its lifetime is reclassified to initial cost of inventories or affects profit or loss on gas sales.

As part of its risk management strategy, which consists in particular in managing the risk from a net open position in contracts to purchase or sell gas and petroleum products, the Company hedges

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

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

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

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

	2021		2020	
	Assets	Liabilities	Assets	Liabilities
Derivative instruments covered by cash flow hedge accounting	1,891	5,669	449	619
Derivative instruments not covered by hedge accounting	5,080	7,335	692	488
	6,971	**13,004**	**1,141**	**1,107**

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(in PLN million unless stated otherwise)

6.2.1 Derivative instruments not designated for hedge accounting

Type of derivative instrument	2021	2020
Derivative instruments hedging interest rate risk and currency risk		
CCIRS	(141)	(45)
	(141)	(45)
Derivative instruments hedging currency risk		
Forwards	10	15
Average rate forwards/currency swaps (EUR)	(1)	-
	9	15
Derivative instruments hedging commodity risk		
Commodity swap	(2,300)	190
	(2,300)	190
Derivative instruments used as economic hedges of electricity purchase prices		
Forwards	187	50
	187	50
Derivative instruments used to hedge gas purchase prices		
Forwards	-	(1)
	-	(1)
Derivative instruments used to hedge purchase prices of CO_2 emission allowances		
Forwards	(438)	(73)
Futures	428	68
	(10)	(5)
Total, including:	**(2,255)**	**204**
Assets	5,080	692
Liabilities	(7,335)	(488)

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

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

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

6.2.2 Hedging instruments designated for hedge accounting

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

Currency risk hedges

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

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

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

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

Based on analyses of historical data performed for the last three years, the Company determined that in the past changes in the exchange rate accounted for approximately 8% of the volatility of the price of gas purchased/sold at the intraday price.

Commodity risk hedges

The Company applies cash flow hedge accounting with respect to future, highly probable cash flows associated with the purchase / sale of gas and petroleum products. As for projected purchases and sales at prices resulting from PPX future indices, the Company hedges against a covert risk component being the value of the TTF DA index. In the case of contracts based on price formulas including the prices of BRENT and other petroleum products, the Company hedges against the risk component being the price of BRENT crude oil.

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

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

(in PLN million unless stated otherwise)

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

Type of hedging instrument	Notional amount*	Carrying amount at December 31st 2021		Period when cash flow will occur and affect the financial result	Change in fair value of hedging instrument used as basis for recognising hedge ineffectiveness in a given period	Hedging gains or losses for reporting period, recognised in other comprehensive income	Hedge ineffectiveness amount taken to profit or loss (since the inception of the hedging relationship)	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)	2,507	149	2	Up to 12 months	221	247	-	Not applicable**	Not applicable
Forward contracts to purchase USD for EUR (EUR/USD)	3,690	181	1	up to 3 years	174	216	-	(1)	Revenue from sales of gas
Average rate forwards (EUR/PLN)	3,507	2	90	up to 3 years	(133)	(41)	-	36	Revenue from sales of gas
COMMODITY PRICE RISK									
Basis swap contracts for gas price indices	445	327	-	1–3 months	(258)	(231)	-	584	Revenue from sales of gas
Swap contracts for gas price indices	21,497	541	5,540	up to 4 years	(5,070)	(5,116)	1	78	Revenue from sales of gas
Swap contracts for HH price indices	3,035	484	36	up to 3 years	465	460	2	Not applicable**	Not applicable
Swap contracts for petroleum product price indices	507	207	-	Up to 12 months	421	304	-	Not applicable**	Not applicable
Total	**35,188**	**1,891**	**5,669**		**(4,180)**	**(4,161)**	**3**	**697**	

** Not all instruments were fully designated for hedge accounting.*
*** For these relationships, the relevant amounts are not reclassified to profit or loss but adjust the initial value of inventories (for more information, see the 'Reconciliation of hedging reserve' table).*

(in PLN million unless stated otherwise)

Type of hedging instrument	Notional amount*	Carrying amount at December 31st 2020		Period when cash flow will occur and affect the financial result	Change in fair value of hedging instrument used as basis for recognising hedge ineffectiveness in a given period	Hedging gains or losses for reporting period, recognised in other comprehensive income	Hedge ineffectiveness amount taken to profit or loss (since the inception of the hedging relationship)	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)	2,268	11	38	up to 3 years	75	60	-	Not applicable**	Not applicable
Forward contracts to purchase USD for EUR (EUR/USD)	1,183	-	41	up to 4 years	(38)	(39)	-	2	Revenue from sales of gas
Average rate forwards (EUR/PLN)	2,611	-	73	up to 3 years	(41)	(172)	-	(51)	Revenue from sales of gas
COMMODITY PRICE RISK									
Basis swap contracts for gas price indices	403	11	37	1–3 months	(100)	(99)	-	38	Revenue from sales of gas
Swap contracts for gas price indices	4,274	286	410	up to 4 years	889	(49)	32	(1,051)	Revenue from sales of gas
Swap contracts for HH price indices	610	24	20	up to 4 years	(19)	(7)	-	Not applicable**	Not applicable
Swap contracts for petroleum product price indices	699	117	-	up to 3 years	151	151	-	Not applicable**	Not applicable
Total	**12,048**	**449**	**619**		**917**	**(155)**	**32**	**(1,062)**	

** Not all instruments were fully designated for hedge accounting.*
*** For these relationships, the relevant amounts are not reclassified to profit or loss but adjust the initial value of inventories (for more information, see the 'Reconciliation of hedging reserve' table).*

(in PLN million unless stated otherwise)

Cash flow hedges

Hedged items as at December 31st 2021	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/PLN)	(221)	147	-
Natural gas (EUR/USD)	(174)	180	-
Natural gas (EUR/PLN)	133	(75)	(22)
COMMODITY PRICE RISK			
Gas contracts indexed to European gas price indices (daily or monthly)	5,330	(4,644)	(1,916)
Gas contracts indexed to monthly HH price indices	(462)	448	(1)
Gas contracts indexed to monthly petroleum product indices	(421)	207	-
TOTAL	**4,185**	**(3,737)**	**(1,939)**

Hedged items as at December 31st 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
CURRENCY RISK			
Natural gas (USD/PLN)	(75)	(26)	-
Natural gas (EUR/USD)	38	(41)	-
Natural gas (EUR/PLN)	41	(69)	(24)
COMMODITY PRICE RISK			
Gas contracts indexed to European gas price indices (daily or monthly)	(807)	(176)	195
Gas contracts indexed to monthly HH price indices	24	3	-
Gas contracts indexed to monthly petroleum product indices	(151)	117	-
TOTAL	**(930)**	**(192)**	**171**

Reconciliation of hedging reserve

	2021	2020
Gross amount at beginning of the period	(21)	911
Net amount at beginning of the period	(17)	738
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	35	(49)
Amount transferred from cash flow hedging reserve and recognised as adjustment to carrying amount of inventories	(66)	(107)
Gross hedging reserve	**391**	**(308)**
Deferred tax on settlement and measurement of hedging instruments	74	(59)
Net hedging reserve	**317**	**(249)**
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	(1,013)
Amount transferred from cash flow hedging reserve and recognised as adjustment to carrying amount of inventories	(2,124)	393
Gross hedging reserve	**(6,046)**	**(624)**
Deferred tax on settlement and measurement of hedging instruments	(1,149)	(119)
Net hedging reserve	**(4,897)**	**(505)**
Gross amount at end of the period	**(5,676)**	**(21)**
Net amount at end of the period	**(4,598)**	**(17)**

6.3 Financial risk management

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

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

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

6.3.1 Credit risk

The Company is mainly exposed to credit risk under:

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

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

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

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

The Group applies uniform rules governing the process of granting credit limits to counterparties (including joint counterparties) and ensuring effective collection of trade receivables. The entire process was also covered by the internal system for reporting, among other things, credit risk exposures and for monitoring past due receivables.

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

The Company has a concentration of credit risk related to its trade debtors, With receivables from its three largest customers accounting for 47% of the total. Considering the long-standing business relationships with the those customers and their established position in the Polish market, the Company considers the credit quality of the receivables as good.

In the case of trade receivables from related entities (Note 5.2.2.), there is a significant credit risk concentration. Receivables from a single related entity account for 40% of total trade receivables from related entities. Despite the concentration, the Company considers the credit risk of these receivables to be low as the debtor is a PGNiG Group company.

As regards receivables under loans to PGNiG Group companies (Note 7.4.), there is credit risk concentration. As at December 31st 2021, 40% (27% in 2020) of the receivables was due from Polska Spółka Gazownictwa Sp. z o.o., 33% (34% in 2020) from PGNiG Termika S.A. and 11% (11% in 2020) from Elektrociepłownia Stalowa Wola S.A. The credit quality of the receivables from subsidiaries was assessed by the Company as good, and therefore the credit risk is limited. A part of loan receivables from Elektrociepłownia Stalowa Wola S.A. was classified as class 3 and covered by an impairment loss. As at the end of 2021, the total amount of impairment losss on loans advanced to Elektrociepłownia Stalowa Wola S.A. was PLN 413m.

In the case of cash pooling receivables (Note 4.3.), there is a 64% credit risk concentration. Credit risk related to those receivables is limited as these entities are PGNiG Group subsidiaries. The credit quality of the receivables is assessed as very good.

Credit risk associated with guarantees issued is limited to the amount of guarantees for liabilities of the PGNiG Group companies. The highest-value guarantee secures PGNiG Upstream Norway AS's liabilities up to PLN 2,886m, or EUR 627.5m (2020: PLN 2,896m, or EUR 627.5m). In 2021, it accounts for more than 33% of the total amount of all financial guarantees issued by PGNiG S.A. (2020: 52%).

6.3.2 Commodity price risk

To hedge against commodity risk, in 2021 and 2020 the Company applied cash flow hedge accounting. For details on hedge accounting, see Note 6.2.

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

6.3.3 Currency risk

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

(in PLN million unless stated otherwise)

- trade payables/receivables (mainly in respect of natural gas purchased by the Company (Note 5.2.3.),
- CIRS interest rate derivatives concluded as collateral for the NOK-denominated loan granted to PGNiG Upstream Norway AS(Note 6.2.1),
- cash and cash equivalents (Note 4.6.).

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

On December 29th 2021, PGNiG Upstream Norway AS repaid the entire amount of the NOK-denominated loan. As at December 31st 2021, the CIRS transaction securing the loan was not closed.

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

6.3.4 Interest rate risk

The main source of interest rate risk in the Company are loans granted to its subsidiaries, mainly to Polska Spółka Gazownictwa Sp. z o.o. (Note 7.4.).

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

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

		2021			2020		
		Carrying amount	**Balances bearing interest at variable rate**	**Interest rate movement: +/- 30 bp***	**Carrying amount**	**Balances bearing interest at variable rate**	**Interest rate movement: +/- 30 bp***
Loans (intra-group loans)	*Note 7.4*	7,079	7,090	+/- 322	8,027	7,577	+/- 229
Cash and cash equivalents	*Note 4.6*	8,330	-	-	6,329	-	-
Financing liabilities	*Note 4.2*	10,328	10,006	+/- 3	320	-	-
Total effect				**+/- 325**			**+/- 229**

** In the current year, the Company changed the method of calculating interest on items exposed to the interest rate risk. The comparative data for the year ended December 31st 2020 was adjusted accordingly.*

6.3.5 Liquidity risk

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

The cash pooling system (Note 4.3.) arranged with Bank Pekao S.A. and PKO BP S.A. is used to improve the effectiveness of liquidity management at the PGNiG Group. The arrangement facilitates liquidity planning within the Group and has reduced dependency on borrowed funds. More efficient use of free cash helped to reduce financing costs within the Group.

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(in PLN million unless stated otherwise)

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

	2021					2020				
	up to 1 year	1-5 years	over 5 years	Total undiscounted flows	Carrying amount	up to 1 year	1-5 years	over 5 years	Total undiscounted flows	Carrying amount
Financing liabilities	10,034	77	786	10,897	10,328	24	80	750	854	320
Borrowings	10,006	-	-	10,006	10,006	-	-	-	-	-
Lease liabilities	28	77	786	891	322	24	80	750	854	320
Trade and tax payables	7,279	-	-	7,279	7,279	2,120	-	-	2,120	2,120
Trade payables	7,204	-	-	7,204	7,204	2,040	-	-	2,040	2,040
Amounts payable under purchase of non-current non-financial exploration and evaluation assets	75	-	-	75	75	80	-	-	80	80
Cash pooling liabilities	166	-	-	166	166	203	-	-	203	203
Total, net of derivatives	**17,479**	**77**	**786**	**18,342**	**17,773**	**2,347**	**80**	**750**	**3,177**	**2,643**
Financial guarantees issued	472	125	461	1,058	1,058	102	239	503	844	844
Derivative financial instruments (liabilities only as at the reporting date)										
IRS, CCIRS										
- inflows	1,686	-	-	1,686	1,686	45	1,566	-	1,611	1,611
- outflows	(1,824)	-	-	(1,824)	(1,824)	(44)	(1,742)	-	(1,786)	(1,786)
Forward and futures contracts										
- inflows	5,571	288	-	5,859	5,859	5,370	1,770	281	7,421	7,421
- outflows	(6,975)	(294)	-	(7,269)	(7,269)	(5,439)	(1,816)	(424)	(7,679)	(7,679)
Commodity swaps										
- outflows	(6,911)	(3,963)	-	(10,874)	(10,874)	(611)	(105)	(8)	(724)	(724)
Currency swap										
- outflows	(60)	(66)	-	(126)	(126)	(97)	(54)	-	(151)	(151)
Total inflows, net of inflows from derivatives	**(15,770)**	**(4,323)**	**-**	**(20,093)**	**(20,093)**	**(6,191)**	**(3,717)**	**(432)**	**(10,340)**	**(10,340)**
Total inflows, including inflows from derivatives	**(8,513)**	**(4,035)**	**-**	**(12,548)**	**(12,548)**	**(776)**	**(381)**	**(151)**	**(1,308)**	**(1,308)**

(in PLN million unless stated otherwise)

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

A 1% increase would result in a PLN 8m increase in the liability.

7. Investments in related entities and related-party transactions

7.1 Shares

Accounting policies

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

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

		2021			2020		
		Gross carrying amount	Impairment losses	Net carrying amount	Gross carrying amount	Impairment losses	Net carrying amount
Shares in subsidiaries	Note 7.3	13,075	(2,602)	10,473	12,920	(2,673)	10,247
Shares in joint ventures	Note 7.3	38	-	38	38	-	38
Shares in associates	Note 7.3	12	(10)	2	12	(10)	2
Other		89	(88)	1	89	(88)	1
Total		**13,214**	**(2,700)**	**10,514**	**13,059**	**(2,771)**	**10,288**

In 2021, PGNiG S.A. increased its equity interest in PGNiG Upstream Norway AS by PLN 229m, in PGNiG Ventures Sp. z o.o. by PLN 23m, in PGNiG Upstream North Africa B.V. by PLN 6m, in PGNiG Gazoprojekt S.A. by PLN 5m and in PGNiG SPV 7 Sp. z o.o, PGNiG SPV 8 Sp. z o.o., PGNiG SPV 9 Sp. z o.o., PGNiG SPV 10 Sp. z o.o. and LLC Karpatgazvydobuvannya by a total of PLN 6m.

In the comparative period, PGNiG S.A. acquired a PLN 5m interest in PGNiG Upstream North Africa B.V. and increased its equity interest in PGNiG Ventures Sp. z o.o. by PLN 3m.

The impairment loss includes an adjustment between the carrying amount of the non-cash contribution and its fair value at the time of the contribution of shares. As at December 31st 2021, the amount of the adjustment was PLN 1,969m and related mainly to the following companies: Polska Spółka Gazownictwa Sp. z o.o. - PLN 1,516m, PGNiG Obrót Detaliczny Sp. z o.o. - PLN 344m, PGNiG Technologie S.A. - PLN 82m. As at December 31st 2020, the adjustment was PLN 2,011m and related mainly to the following companies: Polska Spółka Gazownictwa Sp. z o.o. - PLN 1,516m, PGNiG Obrót Detaliczny Sp. z o.o. - PLN 344m, PGNiG Technologie S.A. - PLN 82m, and Geovita Sp. z o.o. - PLN 42m.

7.2 Impairment losses on shares

In 2021, the Company recognised an additional impairment loss of PLN 6m on shares in PGNiG Upstream North Africa B.V. (PLN 5m in 2020). As a result, the total amount of the impairment loss was PLN 533m as at December 31st 2021 (PLN 527m as at December 31st 2020).

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

(in PLN million unless stated otherwise)

7.3 Detailed information on subsidiaries, associates and joint ventures

No.	Name	Country of registration	Direct percentage interest in share capital (equal to share of voting rights) 2021	Direct percentage interest in share capital (equal to share of voting rights) 2020	Carrying amount 2021	Carrying amount 2020
	Subsidiaries					
1	GEOFIZYKA Toruń S.A.	Poland	100.00%	100.00%	68	68
2	Exalo Drilling S.A.	Poland	100.00%	100.00%	333	333
3	PGNiG Upstream Norway AS	Norway	100.00%	100.00%	1,339	1,110
4	PGNiG Upstream North Africa B.V.	The Netherlands	100.00%	100.00%	-	-
5	Geovita S.A.	Poland	100.00%	100.00%	-	36
6	PGNiG Technologie S.A.	Poland	100.00%	100.00%	83	83
7	PGNiG Supply & Trading GmbH	Germany	100.00%	100.00%	40	40
8	PGNiG Termika S.A.	Poland	100.00%	100.00%	2,772	2,772
9	Gas Storage Poland Sp. z o.o.	Poland	100.00%	100.00%	6	6
10	PGNiG Serwis Sp. z o.o.	Poland	100.00%	100.00%	10	10
11	Polska Spółka Gazownictwa Sp. z o.o.	Poland	100.00%	100.00%	4,908	4,908
12	PGNiG Obrót Detaliczny Sp. z o.o.	Poland	100.00%	100.00%	772	772
13	PGNiG Ventures Sp. z o.o.	Poland	100.00%	100.00%	26	4
14	PGNiG SPV 6 Sp. z o.o.	Poland	100.00%	100.00%	51	51
15	PGNiG SPV 7 Sp. z o.o.	Poland	100.00%	100.00%	1	-
16	PGNiG Gazoprojekt S.A.	Poland	93.73%	93.73%	18	13
17	GAS-TRADING S.A.	Poland	43.41%	43.41%	1	1
18	Polski Gaz Towarzystwo Ubezpieczeń Wzajemnych	Poland	100.00%	100.00%	40	40
19	PGNiG SPV 8 Sp. z o.o.	Poland	100.00%	-	2	-
20	PGNiG SPV 9 Sp. z o.o.	Poland	100.00%	-	-	-
21	PGNiG SPV 10 Sp. z o.o.	Poland	100.00%	-	-	-
22	LLC 'Karpatgazvydobuvannya'	Ukraine	85.00%	-	3	-
					10,473	**10,247**
	Joint ventures					
1	SGT EUROPOL GAZ S.A.	Poland	48.00%	48.00%	38	38
					38	**38**
	Associates					
1	PFK GASKON S.A.	Poland	45.94%	45.94%	-	-
2	ZWUG INTERGAZ Sp. z o.o.	Poland	38.30%	38.30%	2	2
3	"Dewon" PSA	Ukraine	36.38%	36.38%	-	-
					2	**2**

In connection with the planned sale of shares in Geovita S.A., the carrying amount of the shares in 2021 was transferred to assets held for sale and was presented in the line item 'Other assets' in the statement of financial position as at December 31st 2021.

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

7.4 Loans

Accounting policies

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

Loans are measured:

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

(in PLN million unless stated otherwise)

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

Significant estimates

Impairment losses on loans

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

	2021			2020		
	Loans to direct subsidiaries	Loans to indirect subsidiaries and associates	Total	Loans to direct subsidiaries	Loans to indirect subsidiaries and associates	Total
At beginning of the period	**6,964**	**1,063**	**8,027**	**4,961**	**965**	**5,926**
Loans	2,589	125	2,714	2,649	105	2,754
Interest accrued	153	67	220	156	50	206
Exchange differences	182	5	187	22	-	22
Principal repayments	(3,375)	(11)	(3,386)	(628)	(23)	(651)
Interest paid	(157)	(13)	(170)	(157)	(21)	(178)
Financial valuation	(26)	(3)	(29)	(8)	(5)	(13)
Modification	(63)	-	(63)	-	-	-
Impairment losses – other	(1)	(420)	(421)	(31)	(8)	(39)
Balance at end of the period	**6,266**	**813**	**7,079**	**6,964**	**1,063**	**8,027**
- long-term	6,113	704	6,817	6,453	1,043	7,496
- short-term	153	109	262	511	20	531

As at December 31st 2021, the Company calculated the fair value of loans. The tests performed showed that the difference between the fair value of the loans and their carrying amount does not exceed 7.2%. As at December 31st 2020, the difference was 3%.

No.	Borrower	Purpose	Currency	Interest rate	Due date	Balance 2021	Balance 2020
1	Elektrociepłownia Stalowa Wola S.A. (ECSW S.A.)	a) consolidation agreement – subordinated loan advanced to satisfy the conditions for receiving financing for Elektrociepłownia Stalowa Wola S.A. from Bank Gospodarstwa Krajowego and PGNiG S.A.	PLN	fixed interest rate of 7.93%	June 30th 2033	-	265
		b) syndicated loan from Bank Gospodarstwa Krajowego and PGNiG S.A.(tranches A and B)	PLN	6M WIBOR + margin of 1.45%	June 14th 2030	425	421
		c) other loans advancedin connection with project costs incurred at the design, construction and commissioning stage of the CCGT project in Stalowa Wola – loans subordinated to the financing specifiedin item b)	PLN	fixed interest rates 7,93%, 7,51% or 7,63%	June 30th 2033	-	104
		d) VAT loan	PLN	1M WIBOR + margin of 2.5%	March 31st 2021	-	2
2	PGNiG Termika S.A.	a) co-financing of the acquisition of 99.8% of shares in Vattenfall Heat Poland S.A.	PLN	3M WIBOR + margin of 1.15%	December 31st 2021	-	352
		b) revolving loan to finance investments and liquidity	PLN	3M WIBOR + margin of 1.31%	June 30th 2028	2,417	2,333
3	PGNiG Upstream Norway AS	a) financing of general corporate needs of PGNiG Upstream Norway AS, in particular financing of the Skarv project (including acquisition of interests in the production licences on the Norwegian Continental Shelf covering the Skarv, Snadd and Gro fields)	NOK	3M NIBOR +margin of 3%	December 31st 2031	-	1,766
		b) financing of the general corporate needs of PGNiG Upstream Norway AS, current capital expenditure and exploration expenditure (currency of the loan: NOK; disbursements and repaymts may be denominated in NOK, USD and EUR)	USD	3M LIBOR +margin of 3%	December 31st 2031	649	192
4	Polska Spółka Gazownictwa Sp. z o.o.	a) financing of expansion and modernisation the national gas distribution network	PLN	3M WIBOR + margin of 1.81%	December 31st 2025	868	799

(in PLN million unless stated otherwise)

		b) Early repayment of contracts concluded in 2007-2013 and financing of day-to-day operations and investment activities		3M WIBOR + margin of 1.64%	June 30th 2029	2,138	1,384
5	PGNiG TERMIKA Energetyka Przemysłowa S.A.	a) financing of the investment programme covered by the SEJ Group Business Plan and refinancing of bond issue	PLN	6M WIBOR + margin of 1.56%	December 31st 2023	253	260
		b) financing of the strategic project 'Securing heat supply for the city of Rybnik after 2022'		6M WIBOR + margin of 1.59%	December 30th 2033	10	10
		c) Financing of day-to-day operations		6M WIBOR + margin of 1.57%	December 30th 2033	124	-
6	Exalo Drilling S.A.	Financing of day-to-day operations	PLN	3M WIBOR + margin of 3.17%	November 29th 2030	46	-
7	Other					149	139
						7,079	**8,027**

Significant changes in loans in the current reporting period

Loans to Elektrociepłownia Stalowa Wola S.A.

At year-end 2021, the gross carrying amount of the loan measured at amortised cost was PLN 838m, and the impairment-adjusted amount was PLN 425m. The entire amount of the loan to settle VAT payable was fully repaid in 2021.

The increase in impairment losses from PLN 18m disclosed as at December 31st 2020 to PLN 413m as at December 31st 2021 resulted from the assessment of projected results of Elektrociepłownia Stalowa Wola. Based on the analysis, the carrying amount of the loan of PLN 404m was reclassified to impaired assets, which resulted in a significant increase in the amount of the impairment loss.

Loans to PGNiG Termika S.A.

With the payment of a PLN 356m instalment in December 2021, the loan advanced to PGNiG Termika S.A. under the agreement of August 23rd 2011, amended on July 1st 2018, was repaid in full.

In 2021, tranches of the loan granted under the agreement of July 30th 2018 were disbursed for a total amount of PLN 850m. In 2021, PGNiG Termika S.A. also made repayments under the agreement, for a total amount of PLN 750m. As at December 31st 2021, PGNiG S.A.'s capital exposure under the agreement was PLN 2,450m.

As at December 31st 2021, the gross carrying amount of the loans to PGNiG Termika S.A. by PGNiG S.A. measured at amortised cost was PLN 2,457m, while the impairment-adjusted amount was PLN 2.417m.

Loan to PGNiG Upstream Norway AS

In October 2021, PGNiG Upstream Norway AS made a PLN 1,811m early full repayment of the loan granted to the company under the 2010 agreement. The agreement remains in effect, with its term expiring on December 31st 2031.

Moreover, under the multi-currency loan agreement signed in 2020 to finance general corporate purposes, current capital expenditure and exploration expenditure, a tranche of PLN 813m was disbursed to PGNiG Upstream Norway A. S. in August 2021. In December 2021, PGNiG Upstream Norway AS made an early repayment of PLN 403m. As at December 31st 2021, the gross carrying amount of the loan measured at amortised cost was PLN 654m, and its net carrying amount was PLN 649m.

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

In 2021, under a revolving loan agreement of July 31st 2019, later amended on October 23rd 2020, tranches of the loan for a total amount of PLN 750m were disbursed to Polska Spółka Gazownictwa Sp. z o.o. At year-end 2021, PGNiG S.A.'s capital exposure under the agreement was PLN 2,333m.

In April 2021, PLN 67m was disbursed under an agreement of February 19th 2019.

As at December 31st 2021, the gross carrying amount of the loans advanced to Polska Spółka Gazownictwa Sp. z o.o. measured at amortised cost was PLN 3,017m, and the-impairment adjusted amount was PLN 3,006m.

(in PLN million unless stated otherwise)

Loans to PGNiG Termika Energetyka Przemysłowa S.A.

Under an agreement of on November 23rd 2021, a revolving loan of PLN 125m was granted to PGNiG Termika Energetyka Przemysłowa S.A. to finance day-to-day operations. The loan is secured by a blank promissory note with a promissory note declaration. The loan is repayable by December 2033.

As at December 31st 2021, the aggregate gross carrying amount of loans advanced to PGNiG Termika Energetyka Przemysłowa S.A. by PGNiG S.A., measured at amortised cost, was PLN 392m, while the carrying amount net of impairment losses was PLN 387m.

Loan to Exalo Drilling S.A.

On January 12th 2021, PGNiG S.A. and Exalo Drilling S.A. entered into a PLN 50m non-revolving loan agreement to finance day-to-day operations o f the latter. The loan is secured by a blank promissory note with a promissory note declaration. The loan is due for repayment in 2030.

As at December 31st 2021, the carrying amount of the loan measured at amortised cost was PLN 46m, both net and gross.

Impact of COVID-19 on expected credit losses on loans

The Company monitors the credit risk associated with its long-term financial instruments on an ongoing basis. The Company's trading partners (predominantly other PGNiG Group companies) operate in sectors with potentially high sensitivity to the effects of COVID-19. Ratings assigned to parent organisations of the Company's counterparties are investment grade, which limits the risk of counterparty default in the lifetime of financial instruments held by the Company, and therefore no indication of significant increase in the credit risk of the financial instruments was identified as at the reporting date.

The expected credit loss calculated for loans was estimated at PLN 552m, of which PLN 4m reflects the estimated effect, as at the reporting date, of COVID-19 on the probability of future default by the counterparties. As at December 31st 2021, the expected credit loss on loans, calculated for a 12-month period, was PLN 69m. The total expected credit loss for loans was lower by PLN 6m compared to the expected credit loss on loans as at the end of 2020.

	Class 1 - 12-month expected loss	Class 2 - Lifetime expected loss	Class 3 - Impaired	Measured at fair value through profit or loss	Total
Gross carrying amount as at January 1st 2021	**7,992**	**10**	**157**	**-**	**8,159**
Transfer to group with 12-month expected loss	-	(10)	-	-	(10)
Transfer to impaired group	(378)	-	-	-	(378)
Transfer from group with 12-month expected loss	-	-	378	-	378
Transfer from group with lifetime expected loss	10	-	-	-	10
Principal repayments	(3,382)	-	(4)	-	(3,386)
Loans	2,711	-	-	3	2,714
Other effect	86	-	52	6	144
Gross carrying amount as at December 31st 2021	**7,039**	**-**	**583**	**9**	**7,631**
Accumulated impairment loss as at January 1st 2021	(75)	(1)	(56)	-	(132)
Recognition in correspondence with expenses	(60)	-	(417)	-	(477)
Reversals in correspondence with income	56	-	3	-	59
Transfer to group with 12-month expected loss	-	1	-	-	1
Transfer to impaired group	9	-	-	-	9
Transfer from group with 12-month expected loss	-	-	(9)	-	(9)
Transfer from group with lifetime expected loss	(1)	-	-	-	(1)
Effect of exchange rate movements and other	2	-	(4)	-	(2)
Accumulated impairment loss as at December 31st 2021	(69)	-	(483)	-	(552)
Net carrying amount as at December 31st 2021	**6,970**	**-**	**100**	**9**	**7,079**
Gross carrying amount as at January 1st 2020	**5,851**	**9**	**159**	**-**	**6,019**
Principal repayments	(649)	-	(2)	-	(651)
Loans	2,752	2	-	-	2,754
Other effect	38	(1)	-	-	37
Gross carrying amount as at December 31st 2020	**7,992**	**10**	**157**	**-**	**8,159**
Accumulated impairment loss as at January 1st 2020	(37)	(2)	(54)	-	(93)
Recognition in correspondence with expenses	(87)	(1)	(3)	-	(91)
Reversals in correspondence with income	49	2	1	-	52
Accumulated impairment loss as at December 31st 2020	(75)	(1)	(56)	-	(132)
Net carrying amount as at December 31st 2020	**7,917**	**9**	**101**	**-**	**8,027**

In 2020, there were no transfers between classes.

(in PLN million unless stated otherwise)

7.4.1 Related-party transactions

		Subsidiaries		Associates		Joint ventures	
		2021	2020	2021	2020	2021	2020
Turnover and income/expenses in the reporting year							
Sale of products and services to related entities		3,242	2,043	-	-	647	257
Purchases from related entities		9,523	3,575	-	-	101	265
Dividends received		738	454	2	1	-	-
Finance income, interest income calculated using the effective interest rate and gain or loss on derecognition of financial assets measured at amortised cost		300	197	21	3	39	38
Finance costs		65	1	-	-	-	-
At end of the period							
Trade receivables from related entities	*Note 5.2.2*	711	164	-	-	274	174
Loans to related entities net of impairment losses	*Note 7.4*	6,654	7,235	-	-	425	792
including impairment losses		*61*	*59*	*78*	*56*	*413*	*17*
Trade payables to related entities	*Note 5.2.3*	1,604	410	-	-	104	40
Financing liabilities	*Note 4.2*	9	8	-	-	-	-

The line item 'Purchases from related entities' mainly includes purchase and storage costs of gas. In 2021 and 2020, the Company did not enter into any material transactions with related entities other than on arm's length terms.

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

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

In 2021–2020, PGNiG S.A. generated the highest turnover in transactions with the following entities in which the State Treasury holds equity interests: Operator Gazociągów Przesyłowych GAZ-SYSTEM S.A., Polski Koncern Naftowy ORLEN S.A., ORLEN Południe S.A., PGE Energia Ciepła S.A. (former PGE Górnictwo i Energetyka Konwencjonalna S.A.) Grupa LOTOS S.A., Grupa Azoty Zakłady Azotowe PUŁAWY S.A., Grupa Azoty S.A., Grupa Azoty Zakłady Azotowe Kędzierzyn S.A., Grupa Azoty Zakłady Chemiczne POLICE S.A., KGHM Polska Miedź S.A.

7.4.3 Benefits received by the Company's key management personnel

	2021			2020		
	Management Board	Supervisory Board	Total	Management Board	Supervisory Board	Total
Short-term employee benefits	8.032	0.720	8.752	9.202	0.767	9.969
Termination benefits	0.053	-	0.053	1.698	-	1.698
Total	**8.085**	**0.720**	**8.805**	**10.900**	**0.767**	**11.667**

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

(in PLN million unless stated otherwise)

8. Other notes

8.1 Contingent assets and liabilities

Contingent liabilities	2021	2020
Sureties	711	716
Guarantees	7,995	4,642
Promissory notes	558	553
Total	**9,264**	**5,911**

Guarantees are the largest item of contingent liabilities. As at December 31st 2021 and as at December 31st 2020, the largest item is a guarantee for the licence held by PGNiG Upstream Norway AS in the Skarv field on the Norwegian Continental Shelf, measured at PLN 2,886m (2020: PLN 2,896m). Guarantees also include security for gas supplies and an overdraft facility granted to the PGNiG Group companies by financial institutions, with the largest item being a security guarantee provided for PGNiG Supply&Trading GmbH for a total amount of PLN 2,557m in 2021 (2020: PLN 654m). In 2021, the Company provided guarantees to PGNiG Supply&Trading GmbH and PGNiG Upstream Norway AS for a total amount of PLN 1,624m for the charter of an LNG tanker (PLN 752m in 2020).

8.2 Joint operations

Accounting policies

Joint operations

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

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

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

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

For detailed information on the joint operations as at December 31st 2021, see section 5.1.3. 'Operations in Poland' and section 5.1.4. 'Foreign operations' in the Directors' Report on the operations of the PGNiG Group and PGNiG S.A.

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

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

(in PLN million unless stated otherwise)

	2021			2020		
	Gas fuel trading	Other activities	Total (PLN)	Gas fuel trading	Other activities	Total (PLN)
Statement of profit or loss						
Revenue	28,990	7,778	36,768	15,121	6,117	21,238
Operating expenses	(25,830)	(5,089)	(30,919)	(12,828)	(514)	(13,342)
Operating profit/(loss)	**3,160**	**2,689**	**5,849**	**2,293**	**5,603**	**7,896**
Finance income and costs	-	415	415	-	595	595
Profit/loss before tax	**3,160**	**3,104**	**6,264**	**2,293**	**6,198**	**8,491**
Income tax	-	(1,143)	(1,143)	-	(1,582)	(1,582)
Net profit/(loss)	**3,160**	**1,961**	**5,121**	**2,293**	**4,616**	**6,909**
Statement of financial position						
Non-current assets	-	32,159	32,159	-	30,737	30,737
Receivables	4,740	4,126	8,866	1,389	389	1,778
Inventories	7,484	245	7,729	1,781	289	2,070
Other current assets	-	20,936	20,936	-	9,161	9,161
Total assets	**12,224**	**57,466**	**69,690**	**3,170**	**40,576**	**43,746**
Trade and tax payables	4,679	2,600	7,279	930	1,190	2,120
Equity and other items of equity and liabilities	47	62,364	62,411	28	41,598	41,626
Total equity and liabilities	**4,726**	**64,964**	**69,690**	**958**	**42,788**	**43,746**

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

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

The last step in the cost accounting process is result orders. Types of activity, which is one of the defining characteristics of result orders, are used to aggregate costs and revenues to the relevant activities of the Company.

Receivables, inventories and payables recognised as at the reporting date were allocated to gas fuel trading activities using the direct identification method based on a detailed analysis of the accounting records.

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

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

	2021	2020
Audit of full-year separate financial statements and consolidated financial statements of the Group	0.18	0.18
Other assurance services, including review of financial statements	0.47	0.40
Total	**0.65**	**0.58**

In the period ended December 31st 2021, PKF Consult Sp. z o.o. Sp. k., an audit firm, was the auditor of the separate financial statements of PGNiG S.A. and the consolidated financial statements of the PGNiG Group; pursuant to the contract of April 12th 2020, PKF Consult Sp. z o.o. Sp. k. performed interim reviews and audits of the separate and consolidated financial statements for 2021–2022.

8.5 Other relevant information

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

Contracts for supplies of gas fuel and crude oil – for detailed information, see section 4.1 “Exploration and Production” and section 4.2.2 “Wholesale business” in the Directors' Report on the operations of the PGNiG Group and PGNiG S.A.

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

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

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

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

For detailed information on remuneration of the key management personnel at PGNiG S.A., see section 6.3.4 in the Directors' Report on the operations of the PGNiG Group and PGNiG S.A. Remuneration policy for members of the management and supervisory bodies of PGNiG

8.6 Events subsequent to the reporting date

- On January 5th 2022, PGNiG S.A. entered into an overdraft facility agreement with Société Générale S.A. Oddział w Polsce, to secure additional short-term financing of PLN 750m, for a period of up to nine months from the agreement date.
- On January 14th 2022, PGNiG S.A. received from PAO Gazprom and OOO Gazprom Export (jointly "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 requests to renegotiate the contract price of December 8th 2017 and November 9th 2020, which were submitted in response to PGNiG S.A.'s requests to reduce the contract price of November 1st 2017 and November 1st 2020. On February 11th 2022, PGNiG S.A. submitted a response to the call in which it requested that Gazprom's claims be dismissed as formally inadmissible, or as substantively unfounded, or, if the ad hoc Arbitration Tribunal finds that change to the contract price is permitted – that counterclaims be admitted to reduce the contract price of as November 1st 2017 in line with the request of November 1st 2017 and as of November 1st 2021 in line with the request of November 1st 2020.

  On March 9th 2022, the Stockholm Court of Appeal handed down its judgment in this case, dismissing 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. The award is not final since, in accordance with section 43(2) of the Swedish Arbitration Act 1999, the Stockholm Court of Appeal has granted permission for the award to be appealed to the Supreme Court, considering the case to be precedent-setting.
- On February 2nd 2022, PGNiG S.A. announced that it had received from PJSC Gazprom a call for arbitration under the UNCITRAL Arbitration Rules, including a demand for recognition by PGNiG S.A. of: (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 PJSC Gazprom and the members of the EPG management board appointed by Gazprom. EPG is the second respondent named in the call for arbitration. On March 2nd 2022, the Company submitted a response to Gazprom's call for arbtration in which it rejected all of Gazprom's claims on substantive and procedural grounds.
- On January 31st 2022, PGNIG S.A. 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 S.A. 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.A.'s and the ORLEN Group's operations.
- On January 21st 2022, PGNiG S.A. entered into an up to PLN 1,500m revolving loan agreement with PGNiG Obrót Detaliczny Sp. z o.o. for a period until January 20th 2027. The loan is secured by a blank promissory note with a promissory note declaration.
- On January 26th 2022, the Act on Special Measures to Protect Gas Fuel Customers in View of the Situation on the Gas Market came into effect. It has enabled the protection of certain categories of end users from significant rises in gas fuel prices attributable to the accumulation of a number of market factors, including supply disruptions caused by the dominant gas supplier to the EU. For details, see the Management Board's Report on the operations of PGNiG S.A. and the PGNiG Group, section 3.3 'Changes in the PGNiG Group's environment in early 2022'.
- On February 24th 2022, the Russian Federation invaded Ukraine. For details, see the Management Board's Report on the operations of PGNiG S.A. and the PGNiG Group, section 3.3 'Changes in the PGNiG Group's environment in early 2022'.
- On February 28th 2022, the last of the conditions precedent to the sale of all shares in Geovita S.A. based in Jadwisin was satisfied. The shares in Geovita S.A. were acquired by Polski Holding Hotelowy Sp. z o.o. of Warsaw. On March 4th 2022, the ownership of Geovita S.A. shares was transferred from PGNiG S.A. to Polski Holding Hotelowy Sp. z o.o.
- On March 16th 2022, PGNiG S.A. received a conditional decision of the President of the Office of Competition and Consumer Protection (the "President of UOKiK") to approve concentration consisting in 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 of September 15th 2000.

- 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 2022 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 the Company's obligation to repurchase natural gas in the event that the emergency stocks are released.