TAURON Polska Energia S.A. Capital Group

Consolidated financial statements

compliant with the International Financial Reporting Standards

approved by the European Union

for the year ended 31 December 2021

(in PLN million)

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Note	Year ended 31 December 2021	Year ended 31 December 2020 *(restated figures)*
Sales revenue	**12**	25 614	20 850
Recompensation revenue		(9)	66
Cost of sales	**13**	(23 623)	(21 708)
Profit (loss) on sale		**1 982**	**(792)**
Selling and distribution expenses	**13**	(562)	(497)
Administrative expenses	**13**	(635)	(637)
Other operating income and expenses	**14**	99	373
Share in profit/(loss) of joint ventures	**24**	32	16
Operating profit (loss)		**916**	**(1 537)**
Interest expense on debt	**15**	(368)	(286)
Finance income and other finance costs	**15**	127	(356)
Profit (loss) before tax		**675**	**(2 179)**
Income tax expense	**17**	(290)	6
Net profit (loss)		**385**	**(2 173)**
Measurement of hedging instruments	**35.4**	455	(103)
Foreign exchange differences from translation of foreign entity		16	12
Income tax	**17**	(88)	19
Other comprehensive income to be reclassified in the financial result		**383**	**(72)**
Actuarial gains (losses)	**38**	118	(144)
Income tax	**17**	(21)	27
Other comprehensive income not to be reclassified in the financial result		**97**	**(117)**
Other comprehensive income, net of tax		**480**	**(189)**
Total comprehensive income		**865**	**(2 362)**
Net profit (loss):			
Attributable to equity holders of the Parent		338	(2 170)
Attributable to non-controlling interests		47	(3)
Total comprehensive income:			
Attributable to equity holders of the Parent		818	(2 359)
Attributable to non-controlling interests		47	(3)
Basic and diluted earnings per share (in PLN):	**18**	**0.19**	**(1.24)**

(in PLN million)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Note	As at 31 December 2021	As at 31 December 2020 *(restated figures)*
ASSETS			
Non-current assets			
Property, plant and equipment	**19**	29 174	29 505
Right-of-use assets	**20**	1 946	1 876
Goodwill	**21**	26	26
Energy certificates and CO_2 emission allowances for surrender	**22.1**	444	501
Other intangible assets	**23**	540	552
Investments in joint ventures	**24**	597	587
Loans granted to joint ventures	**25**	99	97
Derivative instruments	**26**	532	36
Other financial assets	**27**	215	209
Other non-financial assets	**28.1**	159	63
Deferred tax assets	**29**	123	133
		33 855	**33 585**
Current assets			
Energy certificates and CO_2 emission allowances for surrender	**22.2**	157	1 039
Inventories	**30**	543	874
Receivables from buyers	**31**	3 322	2 473
Income tax receivables	**46**	415	84
Receivables arising from other taxes and charges	**32**	292	295
Loans granted to joint ventures	**25**	-	2
Derivative instruments	**26**	465	123
Other financial assets	**27**	89	143
Other non-financial assets	**28.2**	112	83
Cash and cash equivalents	**33**	815	921
Assets classified as held for sale	**34**	10	74
		6 220	**6 111**
TOTAL ASSETS		**40 075**	**39 696**

(in PLN million)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Note	As at 31 December 2021	As at 31 December 2020 *(restated figures)*
EQUITY AND LIABILITIES			
Equity attributable to equity holders of the Parent			
Issued capital	**35.1**	8 763	8 763
Reserve capital	**35.3**	2 749	6 339
Revaluation reserve from valuation of hedging instruments	**35.4**	299	(68)
Foreign exchange differences from translation of foreign entities		43	27
Retained earnings/(Accumulated losses)	**35.5**	4 637	773
		16 491	**15 834**
Non-controlling interests	**35.6**	**33**	**893**
Total equity		**16 524**	**16 727**
Non-current liabilities			
Debt	**37**	10 947	13 171
Provisions for employee benefits	**38**	789	952
Provisions for disassembly of fixed assets, land restoration and other provisions	**39**	436	669
Accruals, deferred income and government grants	**42**	568	495
Deferred tax liabilities	**29**	741	434
Derivative instruments	**26**	116	74
Other financial liabilities	**48**	33	64
Other non-financial liabilities		4	8
		13 634	**15 867**
Current liabilities			
Debt	**37**	2 143	1 481
Liabilities to suppliers	**43**	1 242	1 021
Liabilities due to the acquisition of non-controlling interests	**44**	1 061	-
Capital commitments	**45**	616	857
Provisions for employee benefits	**38**	104	104
Provisions for liabilities due to energy certificates and CO_2 emission allowances	**40**	1 890	1 750
Other provisions	**41**	619	304
Accruals, deferred income and government grants	**42**	177	181
Income tax liabilities	**46**	4	3
Liabilities arising from other taxes and charges	**47**	629	410
Derivative instruments	**26**	379	102
Other financial liabilities	**48**	483	458
Other non-financial liabilities	**49**	570	423
Liabilities directly related to assets classified as held for sale		-	8
		9 917	**7 102**
Total liabilities		**23 551**	**22 969**
TOTAL EQUITY AND LIABILITIES		**40 075**	**39 696**

(in PLN million)

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Note	Equity attributable to the equity holders of the Parent						Non-controlling interests	Total equity
		Issued capital	Reserve capital	Revaluation reserve on valuation of hedging instruments	Foreign exchange differences from translation of foreign entities	Retained earnings/ (Accumulated losses)	Total		
As at 1 January 2020		**8 763**	**6 802**	**16**	**15**	**2 598**	**18 194**	**900**	**19 094**
Coverage of prior years loss		-	(463)	-	-	463	**-**	-	**-**
Dividends		-	-	-	-	-	**-**	(2)	**(2)**
Transactions with non-controlling shareholders		-	-	-	-	(1)	**(1)**	(2)	**(3)**
Transactions with shareholders		**-**	**(463)**	**-**	**-**	**462**	**(1)**	**(4)**	**(5)**
Net loss		-	-	-	-	(2 170)	**(2 170)**	(3)	**(2 173)**
Other comprehensive income		-	-	(84)	12	(117)	**(189)**	-	**(189)**
Total comprehensive income		**-**	**-**	**(84)**	**12**	**(2 287)**	**(2 359)**	**(3)**	**(2 362)**
As at 31 December 2020 *(restated figures)*		**8 763**	**6 339**	**(68)**	**27**	**773**	**15 834**	**893**	**16 727**
Coverage of prior years loss	**35.3**	-	(3 590)	-	-	3 590	**-**	**-**	**-**
Dividends		-	-	-	-	-	**-**	(3)	**(3)**
Acquisition of non-controlling interests	**35.6**	-	-	-	-	(158)	**(158)**	(903)	**(1 061)**
Other transactions with non-controlling shareholders		-	-	-	-	(3)	**(3)**	(1)	**(4)**
Transactions with shareholders		**-**	**(3 590)**	**-**	**-**	**3 429**	**(161)**	**(907)**	**(1 068)**
Net profit		-	-	-	-	338	**338**	47	**385**
Other comprehensive income		-	-	367	16	97	**480**	-	**480**
Total comprehensive income		**-**	**-**	**367**	**16**	**435**	**818**	**47**	**865**
As at 31 December 2021		**8 763**	**2 749**	**299**	**43**	**4 637**	**16 491**	**33**	**16 524**

(in PLN million)

CONSOLIDATED STATEMENT OF CASH FLOWS

	Note	Year ended 31 December 2021	Year ended 31 December 2020 *(restated figures)*
Cash flows from operating activities			
Profit (loss) before taxation		**675**	**(2 179)**
Share in (profit)/loss of joint ventures		(32)	(16)
Depreciation and amortization		2 100	2 017
Impairment losses on non-financial non-current assets		1 129	3 746
Impairment losses on loans granted		(1)	221
Exchange differences		(10)	246
Interest and commissions		367	283
Other adjustments of profit before tax		(90)	(87)
Change in working capital	**50.1**	1 256	(129)
Income tax paid	**50.1**	(392)	(60)
Net cash from operating activities		**5 002**	**4 042**
Cash flows from investing activities			
Purchase of property, plant and equipment and intangible assets	**50.2**	(3 255)	(3 908)
Purchase of financial assets		(28)	(33)
Loans granted		(1)	(105)
Total payments		**(3 284)**	**(4 046)**
Proceeds from sale of property, plant and equipment and intangible assets		76	18
Sale of shares	**50.2**	53	-
Dividends received		47	6
Other proceeds		5	45
Total proceeds		**181**	**69**
Net cash used in investing activities		**(3 103)**	**(3 977)**
Cash flows from financing activities			
Redemption of debt securities		(170)	(60)
Repayment of loans and borrowings	**50.3**	(3 466)	(4 407)
Interest paid	**50.3**	(343)	(216)
Repayment of lease liabilities		(117)	(102)
Other payments		(24)	(25)
Total payments		**(4 120)**	**(4 810)**
Proceeds from contracted loans and borrowings	**50.3**	2 003	3 369
Subsidies received	**50.3**	114	67
Issue of debt securities		-	1 000
Total proceeds		**2 117**	**4 436**
Net cash from financing activities		**(2 003)**	**(374)**
Net increase/(decrease) in cash and cash equivalents		**(104)**	**(309)**
Net foreign exchange difference		(3)	3
Cash and cash equivalents at the beginning of the period	**33**	**895**	**1 204**
Cash and cash equivalents at the end of the period, *of which*:	**33**	**791**	**895**
restricted cash	**33**	314	211

INFORMATION ON THE CAPITAL GROUP AND THE BASIS FOR THE PREPARATION OF THE CONSOLIDATED FINANCIAL STATEMENTS

1. General information about the TAURON Polska Energia S.A. Capital Group and its parent company

TAURON Polska Energia S.A. Capital Group (the "Group", the "Capital Group", "TAURON Group") consists of TAURON Polska Energia S.A. (the "parent entity", the "Company", the "Parent Company") and its subsidiaries. TAURON Polska Energia S.A. with its registered office in Katowice at: ul. ks. Piotra Ściegiennego 3, in Poland, operates as a joint-stock company, incorporated by notarial deed on 6 December 2006. Until 16 November 2007, the Company operated under the name Energetyka Południe S.A. The Company did not change its name or other identifying information in the year ended 31 December 2021.

The Parent Company is entered in the register of entrepreneurs of the National Court Register maintained by the District Court for Katowice-Wschód, Commercial Department of the National Court Register under KRS number: 0000271562.

The duration of the Parent Company and entities included in the Capital Group is unlimited. The entities operate based on relevant licenses granted to individual companies of the Group.

The TAURON Group's core business is reflected in the breakdown into segments: Mining, Generation (the segment comprising generation of electricity from conventional sources and heat generation), Renewable Energy Sources (the segment comprising generation of electricity from renewable sources), Distribution, Sales and other operations, including customer service, which is discussed in more detail in Note 10 to these consolidated financial statements.

These consolidated financial statements of the Group cover the year ended 31 December 2021 and contain comparative information for the year ended 31 December 2020.

These financial statements were approved for publication by the Management Board on 29 March 2022.

Composition of the Management Board

As at 1 January 2021, the composition of the Management Board was as follows:

- Wojciech Ignacok – President of the Management Board,
- Jerzy Topolski – Vice-President of the Management Board,
- Marek Wadowski – Vice-President of the Management Board.

In the period from 1 January 2021 to the date of approval of these consolidated financial statements for publication, the following changes occurred in the composition of the Management Board:

- Mr Wojciech Ignacok resigned from his function of the President of the Management Board with the effect as of 28 February 2021,
- The Supervisory Board of the Company adopted a resolution to appoint Mr Marek Wadowski as the acting President of the Management Board of the Company from 1 March 2021 until the date of appointment of the President of the Management Board of the Company, while on 1 April 2021 it appointed Mr Paweł Strączyński to the Management Board of the Company and entrusted him with the function of the President of the Management Board,
- Mr Marek Wadowski resigned from his position of Vice-President of Management Board for Financial Affairs, with the effect as of the end of the day on 17 May 2021,
- Mr Paweł Strączyński resigned from his position of President of the Management Board of the Company, with the effect as of 4 August 2021,
- As of 5 August 2021, the Supervisory Board of the Company appointed the following members of the Management Board:
  - Mr Artur Michałowski for the position of Vice-President of the Management Board for Trade,
  - Mr Patryk Demski for the position of Vice-President of the Management Board for Strategy and Development,
  - Mr Krzysztof Surma for the position of Vice-President of the Management Board for Finance.

At the same time, the Supervisory Board of the Company adopted a resolution concerning the assignment of the duties of the President of the Management Board of the Company to Mr Artur Michałowski as of 5 August 2021 until the date of appointment of the President of the Management Board of the Company.

- The Supervisory Board of the Company appointed Mr Artur Warzocha to the Management Board of the Company as of 21 January 2022 and nominated him to the position of Vice-President for Corporate Affairs.

As at the date of approval of these consolidated financial statements for publication, the Management Board consisted of:

- Artur Michałowski - Acting President of the Management Board, Vice-President of the Management Board,
- Patryk Demski - Vice-President of the Management Board,
- Krzysztof Surma - Vice-President of the Management Board,
- Jerzy Topolski – Vice-President of the Management Board,
- Artur Warzocha - Vice-President of the Management Board.

2. Composition of TAURON Group and joint ventures

As at 31 December 2021, TAURON Polska Energia S.A. held, directly and indirectly, shares in the following key subsidiaries:

Consolidated financial statements for the year ended 31 December 2021 compliant with the IFRS, approved by the European Union (in PLN million)

Item	Company name	Registered office	Interest in the share capital by TAURON Polska Energia S.A.	Company holding direct equity interests / general partner
MINING				
1	TAURON Wydobycie S.A.	Jaworzno	100.00%	TAURON Polska Energia S.A.
GENERATION				
2	TAURON Wytwarzanie S.A.	Jaworzno	100.00%	TAURON Polska Energia S.A.
3	Nowe Jaworzno Grupa TAURON Sp. z o.o.	Jaworzno	100.00%	TAURON Polska Energia S.A.
4	TAURON Ciepło Sp. z o.o.	Katowice	100.00%	TAURON Polska Energia S.A.
5	TAURON Serwis Sp. z o.o.	Katowice	95.61%	TAURON Polska Energia S.A.
6	Łagisza Grupa TAURON Sp. z o.o.	Katowice	100.00%	TAURON Wytwarzanie S.A.
RENEWABLE ENERGY SOURCES				
7	TAURON Ekoenergia Sp. z o.o.	Jelenia Góra	100.00%	TAURON Polska Energia S.A.
8	Marselwind Sp. z o.o.	Katowice	100.00%	TAURON Polska Energia S.A.
9	TEC1 Sp. z o.o.	Katowice	100.00%	TAURON Polska Energia S.A.
10	TAURON Zielona Energia Sp. z o.o.[1]	Katowice	100.00%	TAURON Polska Energia S.A.
11	TEC1 spółka z ograniczoną odpowiedzialnością Mogilno I sp.k.	Katowice	100.00%	TEC1 Sp. z o.o.
12	TEC1 spółka z ograniczoną odpowiedzialnością Mogilno II sp.k.	Katowice	100.00%	TEC1 Sp. z o.o.
13	TEC1 spółka z ograniczoną odpowiedzialnością Mogilno III sp.k.	Katowice	100.00%	TEC1 Sp. z o.o.
14	TEC1 spółka z ograniczoną odpowiedzialnością Mogilno IV sp.k.	Katowice	100.00%	TEC1 Sp. z o.o.
15	TEC1 spółka z ograniczoną odpowiedzialnością Mogilno V sp.k.	Katowice	100.00%	TEC1 Sp. z o.o.
16	TEC1 spółka z ograniczoną odpowiedzialnością Mogilno VI sp.k.	Katowice	100.00%	TEC1 Sp. z o.o.
17	TEC1 spółka z ograniczoną odpowiedzialnością EW Śniatowo sp.k.	Katowice	100.00%	TEC1 Sp. z o.o.
18	TEC1 spółka z ograniczoną odpowiedzialnością EW Dobrzyń sp.k.	Katowice	100.00%	TEC1 Sp. z o.o.
19	TEC1 spółka z ograniczoną odpowiedzialnością EW Gołdap sp.k.	Katowice	100.00%	TEC1 Sp. z o.o.
20	TEC1 spółka z ograniczoną odpowiedzialnością Ino 1 sp.k.	Katowice	100.00%	TEC1 Sp. z o.o.
21	WIND T1 Sp. z o.o.	Jelenia Góra	100.00%	TAURON Ekoenergia Sp. z o.o.
22	AVAL-1 Sp. z o.o.	Jelenia Góra	100.00%	TAURON Ekoenergia Sp. z o.o.
23	Polpower Sp. z o.o.	Połczyn-Zdrój	100.00%	TAURON Ekoenergia Sp. z o.o.
DISTRIBUTION				
24	TAURON Dystrybucja S.A.	Kraków	99.76%	TAURON Polska Energia S.A.
25	TAURON Dystrybucja Pomiary Sp. z o.o.[2]	Tarnów	99.76%	TAURON Dystrybucja S.A.
SALES				
26	TAURON Sprzedaż Sp. z o.o.	Kraków	100.00%	TAURON Polska Energia S.A.
27	TAURON Sprzedaż GZE Sp. z o.o.	Gliwice	100.00%	TAURON Polska Energia S.A.
28	TAURON Czech Energy s.r.o.	Ostrawa, Czech Republic	100.00%	TAURON Polska Energia S.A.
29	TAURON Nowe Technologie S.A.	Wrocław	100.00%	TAURON Polska Energia S.A.
OTHER				
30	TAURON Obsługa Klienta Sp. z o.o.	Wrocław	100.00%	TAURON Polska Energia S.A.
31	Kopalnia Wapienia Czatkowice Sp. z o.o.	Krzeszowice	100.00%	TAURON Polska Energia S.A.
32	Polska Energia-Pierwsza Kompania Handlowa Sp. z o.o.	Warszawa	100.00%	TAURON Polska Energia S.A.
33	Finanse Grupa TAURON Sp. z o.o.	Katowice	100.00%	TAURON Polska Energia S.A.
34	Bioeko Grupa TAURON Sp. z o.o.	Stalowa Wola	100.00%	TAURON Polska Energia S.A.
35	Wsparcie Grupa TAURON Sp. z o.o.	Tarnów	99.76%	TAURON Dystrybucja S.A.

[1] On 1 July 2021 the merger of companies through acquisition of the company took place: TEC3 Sp. z o.o. (the acquiring company) with TEC2 Sp. z o.o. (the acquired company) pursuant to Article 492(1)(1) of the Code of Commercial Companies. On 8 October 2021, the company name was changed from the previous TEC3 Sp. z o.o. to TAURON Zielona Energia Sp. z o.o.
[2] As at the balance sheet day, TAURON Polska Energia S.A. was the user of shares in TAURON Dystrybucja Pomiary Sp. z o.o.

As at 31 December 2021, TAURON Polska Energia S.A. held direct and indirect interest in the following key jointly-controlled entities in Generation Segment:

Consolidated financial statements for the year ended 31 December 2021 compliant with the IFRS, approved by the European Union (in PLN million)

Item	Company name	Registered office	Interest in the share capital and in the decision-making body held by TAURON Polska Energia S.A
1	Elektrociepłownia Stalowa Wola S.A.[1]	Stalowa Wola	50.00%
2	TAMEH HOLDING Sp. z o.o. [2]	Dąbrowa Górnicza	50.00%
3	TAMEH POLSKA Sp. z o.o. [2]	Dąbrowa Górnicza	50.00%
4	TAMEH Czech s.r.o. [2]	Ostrawa, Czech Republic	50.00%

[1] TAURON Polska Energia S.A. holds an indirect share in Elektrociepłownia Stalowa Wola S.A. through its subsidiary, TAURON Wytwarzanie S.A.
[2] TAURON Polska Energia S.A. holds a direct share in the issued capital and in the governing body of TAMEH HOLDING Sp. z o.o., which holds 100% interest in the issued capital and in the governing body of TAMEH POLSKA Sp. z o.o. and TAMEH Czech s.r.o.

Changes in the composition of TAURON Group

- Changes in the share of TAURON Polska Energia S.A. in the capital and in the governing body of Nowe Jaworzno Grupa TAURON Sp. z o.o.

On 13 January 2021, an increase in the share capital of Nowe Jaworzno Grupa TAURON Sp. z o.o. by the amount of PLN 2 million was registered pursuant to the resolution of the Extraordinary Meeting of Shareholders of 3 December 2020. All shares were acquired by the Company for the total amount of PLN 190 million. As a result of this transaction, the Company shareholding in the capital and in the governing body of Nowe Jaworzno Grupa TAURON Sp. z o.o. increased from 85.88% to 86.29%.

On 22 December 2021 the agreement was signed between Fundusz Inwestycji Infrastrukturalny - Kapitałowy Fundusz Inwestycji Zamknięty Aktywów Niepublicznych managed by PFR Towarzystwo Funduszy Inwestycyjnych S.A. and the Company for the acquisition of 176 000 shares in the company Nowe Jaworzno Grupa TAURON Sp. z o.o., which is described in more detail in Note 35.6 to these consolidated financial statements. As a result of this transaction, the Company shareholding in the capital and in the governing body of Nowe Jaworzno Grupa TAURON Sp. z o.o. increased from 86.29% to 100%.

- Decrease in the share capital of TAURON Dystrybucja S.A.

On 21 May 2021, a decrease in the share capital of the subsidiary, TAURON Dystrybucja S.A. was registered in connection with the statutory redemption of shares acquired by the company from shareholders representing no more than 5% of the share capital. As at the balance sheet day, the share of the Company in the capital and in the governing body amounted to 99.76% (as at 31 December 2020 - 99.75%).

As a result of the change in the Company share in TAURON Dystrybucja S.A., the share in subsidiaries held indirectly through TAURON Dystrybucja S.A., i.e. in TAURON Dystrybucja Pomiary Sp. z o.o. and Wsparcie Grupa TAURON Sp. z o.o., also changed.

- Acquisition of shares in Polpower Sp. z o.o.

On 10 June 2021, TAURON Ekoenergia Sp. z o.o. acquired 100% of the shares of Polpower Sp. z o.o. Consequently, TAURON Polska Energia S.A. holds an indirect share of 100% in the company Polpower Sp. z o.o. The total amount of cash disbursed in connection with the transaction reached PLN 4 million. In the opinion of the Company, taking into account in particular the preliminary stage of the project implementation and the lack of business operations at the time of acquisition, the transaction does not constitute a business acquisition within the meaning of IFRS 3 *Business Combinations* and therefore the transaction has been settled as the acquisition of assets that do not constitute a business.

- Decrease in the share capital of TAURON Wytwarzanie S.A.

On 23 November 2021, the reduction of the share capital of the subsidiary, TAURON Polska Energia S.A. by amending the Company Articles of Association through the redemption of a part of the shares belonging to the sole shareholder, TAURON Polska Energia S.A., was registered. The share of the Company in the capital and in the governing body of TAURON Wytwarzanie S.A. did not change and amounts to 100%.

As at 31 December 2021, the share of TAURON Polska Energia S.A. in the capital and in the governing body of the remaining key subsidiaries and jointly-controlled entities has not changed since 31 December 2020.

3. Statement of compliance

These consolidated financial statements have been prepared in compliance with the requirements of the International Financial Reporting Standards ("IFRS") approved by the European Union (the "EU").

The IFRS comprise standards and interpretations approved by the International Accounting Standards Board ("IASB") as well as the International Financial Reporting Interpretation Committee.

The Group companies and the parent company keep their accounting records and prepare financial statements in compliance with the International Financial Reporting Standards approved by the EU, except for TAURON Czech Energy s.r.o., which keeps its accounting records and prepares its financial statements in accordance with accounting policies applicable in the Czech Republic and the companies: Łagisza Grupa TAURON Sp. z o.o., AVAL-1 Sp. z o.o., WIND T1 Sp. z o.o., Polpower Sp. z o.o., TEC1 Sp. z o.o., TAURON Zielona Energia Sp. z o.o., which keep their accounting books and prepare financial statements in accordance with the Accounting Act.

The consolidated financial statements contain adjustments which have not been recognised in the accounting records of entities of the Group, introduced in order to achieve compliance of these consolidated financial statements with IFRS approved by the EU.

4. Going concern

These condensed consolidated financial statements have been prepared with the assumption of continuation of activities by the Group as a going concern in the foreseeable future, i.e. in the period not shorter than one year following the balance sheet day. As at the date of approving these consolidated financial statements for publication no circumstances have been detected that could put the going concern operation of the Group at risk.

The Group identifies and actively manages liquidity risk, understood as the possibility of losing or limiting the capacity to settle current expenses. The Group has the full capacity to settle its liabilities as they become due and payable. As at the balance sheet day, the Group has financing available under concluded financing agreements.

In the area of liquidity, financing and securing the continuity of operational activities, the Management Board, having analysed the financial position of the Company and the Group, does not identify any risk to the continuity of operations in the foreseeable future, i.e. within a period of not less than 1 year from the balance sheet day, taking into account the description of the impact of the aggression of the Russian Federation against Ukraine as well as the COVID-19 outbreak on the Group's operations, as further discussed in Notes 59 and 60 to these consolidated financial statements.

5. Functional and presentation currency

The Polish zloty has been used as the presentation currency of these consolidated financial statements and the functional currency of the parent entity and the subsidiaries covered by these consolidated financial statements, except TAURON Czech Energy s.r.o. The functional currency of TAURON Czech Energy s.r.o. is the Czech koruna ("CZK"). Items in the financial statements of TAURON Czech Energy s.r.o. are translated into the TAURON Group's presentation currency using the relevant exchange rates.

These consolidated financial statements are presented in the Polish zloty ("PLN") while all figures are provided in PLN million, unless indicated otherwise.

6. Accounting principles (policy)

Significant accounting principles are presented in individual notes to these consolidated financial statements, except consolidation principles and the methods of accounting for business acquisitions (including jointly-controlled entities), which are presented below.

Consolidation principles and the methods of accounting for business acquisitions (including jointly-controlled entities)

Consolidation

Entities over which the parent company, directly or indirectly through its subsidiaries, exercises control are regarded as subsidiaries.

Subsidiaries are consolidated using the full method from the date of assuming to the date of losing control. Financial statements of subsidiaries are prepared for the same reporting period as those of the parent company, based on the consistent accounting principles. Balances and transactions between the Group entities, including unrealised gains and losses (if not indicating impairment) which result from transactions within the Group, are eliminated.

Business acquisitions

Business acquisitions are accounted for using the acquisition method. As at the acquisition date, the acquiring entity recognises identifiable assets acquired and liabilities assumed and measures them at their fair values.

Goodwill is measured as the excess of the aggregate of the consideration transferred for the acquisition, the amount of any non-controlling interest in the acquired entity and the acquisition date fair value of the acquirer's previously held equity interest in the acquired entity over the net amount determined for the acquisition date of fair values of the identifiable assets acquired, the liabilities and contingent liabilities assumed. If the aforementioned difference is negative, the Group reassesses the identification and valuation of identifiable assets, liabilities and contingent liabilities of the acquired entity and the fair value of the payment and immediately recognises in the statement of comprehensive income any surplus remaining after the reassessment (profit from a bargain purchase).

Where the assets acquired do not constitute a business as defined in IFRS 3 *Business Combinations*, the Group accounts for the transaction as the acquisition of assets.

Acquisition of businesses under common control of the State Treasury

Combinations of businesses under common control of the State Treasury (i.e. those which have remained under the control of the State Treasury before and after the transaction) are accounted for using the pooling of interest method in accordance with the principles described below.

Following the business combination, the continuity of common control is presented in the financial statements, while the fair value remeasurement of the net assets (or recognition of new assets) or measurement of goodwill are not presented therein, as none of the entities combined is actually acquired. The financial statements are prepared as if the combined entities had been combined as of the date when common control began to be exercised.

The difference between the book value of the net assets recognized as a result of a business combination and the value of shares recognised in the accounting records of the acquirer thus far or consideration paid is recognised in the equity of the acquirer.

7. Material values based on professional judgement and estimates

In the process of applying the accounting policy, professional judgement of the management, along with accounting estimates, has been of key importance; it has an impact on the figures disclosed in these consolidated financial statements The assumptions underlying these estimates are based on the best knowledge of the Management Board related to the current and future actions and events in individual areas. In the period covered by these consolidated financial statements, no significant changes occurred in the estimates or estimation methods applied, which could affect the current or future periods, other than those presented below or described hereinafter in these consolidated financial statements.

The items of the consolidated financial statements which are exposed to the risk of material adjustment of the carrying amounts of assets and liabilities have been presented in individual notes to these consolidated financial statements. Significant estimates relate to write-downs on non-financial assets recognised as a result of impairment tests (Note 11) and provisions created (Notes 38-41).

Besides the foregoing, the Group makes significant estimates as regards the contingent liabilities recognised, in particular in the scope of legal proceedings where the Group companies are parties (Note 54).

As at 31 December 2021, the Group assessed that in relation to the assets and liabilities of TAURON Ciepło recognised as at 31 December 2020 as a disposable group held for sale, the conditions of IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* for the classification of the above assets as a disposal group held for sale are not met. In order to ensure comparability of the data in the consolidated financial statements for the year ended 31 December 2021, the Group restated the comparative data accordingly in terms of presentation and measurement of assets and liabilities of TAURON Ciepło Sp. z o.o. for the year ended 31 December 2020 and as at 31 December 2020 (Note 9.2).

8. Standards published and amendments to standards which are not yet effective

The Group did not choose earlier application of any standards or amendments to standards which were published but have not entered into force by 31 December 2021.

- **Standards issued by the International Accounting Standards Board and amendments to standards which have not yet been approved by the European Union and have not entered into force yet**

Consolidated financial statements for the year ended 31 December 2021 compliant with the IFRS, approved by the European Union (in PLN million)

According to the Management Board, the following standards and amendments to standards will not materially affect the accounting policy applied so far:

Standard	Effective in the EU as of *(annual periods beginning on or after the date provided)*
Amendments to IFRS 3 *Business Combinations: Changes to references to the Conceptual Framework*	1 January 2022
Amendments to IAS 16 *Property, Plant and Equipment: Revenues earned before putting into use*	1 January 2022
Amendments to IAS 37 *Provisions, Contingent Liabilities and Contingent Assets: Costs of fulfilling a contract*	1 January 2022
Changes to various standards: *Improvements to IFRS (Cycle 2018-2020):*	
IFRS 1 *First-time Adoption of International Financial Reporting Standards*	1 January 2022
IFRS 9 *Financial Instruments*	1 January 2022
IAS 41 *Agriculture*	1 January 2022
Amendments to IAS 1 *Presentation of Financial Statements* and IFRS Practice Statement 2: *Disclosure of Accounting Policies*	1 January 2023
Amendments to IAS 8 *Accounting policies, Changes in Accounting Estimates and Errors: Definition of Accounting Estimates*	1 January 2023
IFRS 17 *Insurance contracts*	1 January 2023

- **Standards and amendments to standards issued by the International Accounting Standards Board which have not been endorsed by the European Union and have not entered into force yet**

Amendments to IAS 1 *Presentation of Financial Statements: Classification of financial liabilities as current or non-current* to enter into force on 1 January 2023

In accordance with the amendments to IAS 1 *Presentation of Financial Statements*, liabilities are classified as non-current if the entity has a significant right to defer the settlement of the liability for at least 12 months after the end of the reporting period. The expectations of the entity do not affect the classification.

As at the balance sheet day, the Company has a revolving credit agreement under which the drawing period of the credit tranches may be shorter than one year, while the period of availability of funding exceeds 12 months from the balance sheet day and the Company has the right to defer the settlement of the liability by at least 12 months from the end of the reporting period to the date of termination of the agreement. In the case of this credit agreement, the Company classifies the tranches as either a non-current liability or a current liability in accordance with the expectation regarding the repayment of the liability. As at 31 December 2021, under this agreement, the Company has a liability of PLN 160 million classified as non-current liabilities, taking into account the intentions of the Company. Under the agreement, the Company has the right to defer the settlement of the liability for a period exceeding 12 months, thus in accordance with the amendments to IAS 1 *Presentation of Financial Statements* the said liability would be classified as a non-current liability.

According to the Management Board, the following standards and amendments to standards will not materially affect the accounting policies applied so far:

Standard	Effective date specified in the Standard, not endorsed by the EU *(annual periods beginning on or after the date provided)*
IFRS 14 *Regulatory Deferral Accounts*	1 January 2016*
Amendments IFRS 10 *Consolidated Financial Statements and* IAS 28 *Investments in Associates and Joint Ventures: Sale or Contribution of Assets between Investor and its Associate or Joint Venture* with subsequent amendments	the effective date has been postponed
Amendments to IAS 12 *Income Taxes: Deferred Tax related to Assets and Liabilities arising from a Single Transaction*	1 January 2023
Amendments to IFRS 17 *Insurance contracts: Initial Application of IFRS 17 Insurance contracts and IFRS 9 Financial Instruments - Comparative Information*	1 January 2023

** The European Commission decided to refrain from launching the process of endorsement of this interim standard for use in the territory of the EU until the publication of the final version of IFRS 14 Regulatory Deferral Accounts.*

9. Changes in accounting policies used and restatement of comparable data

The accounting principles (policy) adopted for the preparation of these consolidated financial statements are consistent with those used for the preparation of the annual consolidated financial statements of the Group for the year ended 31 December 2020, except for the application of the amendments to the standards specified below. The Group has also restated the comparable data as described below.

(in PLN million)

9.1. Application of amendments to standards

According to the Management Board, the following amendments to standards have not materially affected the accounting policy applied so far:

Standard	Effective date in the EU *(annual periods beginning on or after the date provided)*
Amendments to IFRS 4 *Insurance Contracts: deferral of IFRS 9 Financial Instruments*	1 January 2021
Amendments to IFRS 9 *Financial Instruments*, IAS 39 *Financial Instruments: Recognition and Measurement*, IFRS 7 *Financial Instruments: Disclosures*, IFRS 4 I*nsurance Contracts* and IFRS 16 *Leases*: *Interest Rate Benchmark Reform*	1 January 2021
Amendments to IFRS 16 *Leases: Covid-19-Related Rent Concessions beyond 30 June 2021* (apply for financial years which starts at the latest on 1 January 2021 and later)	1 April 2021

9.2. Restatement of comparable data

Change in the plan concerning the sale of shares in TAURON Ciepło Sp. z o.o.

As at 31 December 2021, the Group assessed that in relation to the assets and liabilities of TAURON Ciepło Sp. z o.o., the conditions resulting from IFRS 5 *Non-current assets held for sale and discontinued operations* were no longer met in the scope of classification of the aforementioned assets as held for sale. In the framework of the project aimed at market verification of the possibility to sell shares and the potential continuation of the sales process, the Company conducted negotiations on an exclusivity basis with Polskie Górnictwo Naftowe i Gazownictwo S.A. On 29 January 2021, Polskie Górnictwo Naftowe i Gazownictwo S.A. expressed its intention to discontinue the negotiations aimed at acquiring shares in TAURON Ciepło Sp. z o.o. After the market verification of the possibility to dispose of TAURON Ciepło Sp. z o.o. and taking into account the current development prospects of the domestic district heating sector, on 22 December 2021 the Company decided to keep TAURON Ciepło Sp. z o.o. within the TAURON Group structures.

As at 30 June 2020 the Company estimated that in relation to the assets and liabilities of TAURON Ciepło Sp. z o.o. the conditions resulting from IFRS 5 *Non-current assets held for sale and discontinued operations* have been fulfilled in the scope of classification of the aforementioned assets as a group held for sale, accordingly, as at 30 June 2020, the Group reclassified the assets and liabilities of TAURON Ciepło Sp. z o.o. as a disposable group of assets classified as held for sale and liabilities related to assets classified as held for sale, respectively, and the activities of TAURON Ciepło Sp. z o.o. were presented as part of discontinued operations. The measurement of assets and liabilities of TAURON Ciepło Sp. z o.o. (net assets) as at 30 June 2020 to the fair value conducted by the Company based on the information gathered in the course of the ongoing market sale process of shares in TAURON Ciepło Sp. z o.o. amounted to PLN 1 343 million. As at 31 December 2020, the fair value estimate did not change significantly and amounted to PLN 1 342 million.

Based on paragraph 28 of IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations,* in view of the fact that the disposable group for which the sale plan was changed was the subsidiary, the Group assesses that it is necessary to restate the comparable data in these consolidated financial statements accordingly. The comparable data were restated as if the assets and liabilities of TAURON Ciepło Sp. z o.o. in the previous reporting periods had not been classified as a disposable group held for sale and had not been measured to the fair value.

In order to ensure comparability of the the data in the consolidated financial statements for the year ended 31 December 2021, the Group restated the comparative data accordingly in terms of presentation and measurement of assets and liabilities in TAURON Ciepło Sp. z o.o. for the year ended 31 December 2020 and as at 31 December 2020. Assets and liabilities of TAURON Ciepło Sp. z o.o. after restatement are presented in relevant items of the consolidated statement of financial position. The value of assets and liabilities was based on the recoverable value of individual cash-generating units of TAURON Ciepło Sp. z o.o. ("CGU"), which is the value in use of the aforementioned CGU as at 31 December 2020, as estimated within the recent impairment tests performed by the Group as at 31 December 2020. The key assumptions of the tests performed, in particular with regard to the adopted price paths for coal, electricity and CO_2 emission allowances, are described in Note 11 of the consolidated financial statements of TAURON Polska Energia S.A. Capital Group for the year ended 31 December 2020. Moreover, the feed-in tariff revenue of heat companies has been assumed, ensuring the coverage of justified costs and gaining a reasonable level of return on the capital employed. For the individual CGUs related to heat and electricity generation, the lifetime of the generating units was assumed until 2049. For the CGU related to heat transmission, a detailed forecast within a 10-year period was adopted including the residual value.

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The table below presents the recoverable amount of individual cash-generating unit, the carrying amount of these units after an impairment loss in accordance with IAS 36 *Impairment of Assets* and the amount of the impairment loss recognized as part of the change in presentation and valuation of assets and liabilities of TAURON Ciepło Sp. z o.o.

CGU	Company	Discount rate (after tax) assumed in tests as at:	Recoverable amount	Carrying amount according to restated figures	Impairment loss
		31 December 2020	As at 31 December 2020	As at 31 December 2020	Year ended 31 December 2020
CGU ZW Katowice	TAURON Ciepło Sp. z o.o.	8.52%	405	351	-
CGU ZW Bielsko-Biała			134	134	(250)
CGU ZW Tychy			328	328	(310)
CGU ZW OCL			29	29	(11)
CGU Transmission		6.87%	738	685	-
Total			**1 634**	**1 527**	**(571)**

Restatement of comparative data for the year ended 31 December 2020 and as at 31 December 2020

The restatement of comparable data in the scope of presentation and measurement of assets and liabilities of TAURON Ciepło Sp. z o.o. resulted in an increase of the net financial result for 2020 and, consequently, the Group's retained earnings as at 31 December 2020 by the amount of PLN 315 million. The aforementioned increase arises from:

- lack of the necessity to recognise under the restated financial result a write-down of net assets of TAURON Ciepło Sp. z o.o. to the fair value in the amount of PLN 826 million,
- charge to the net financial result for 2020 with the amount of PLN 462 million as a result of the necessity to recognise an impairment loss on TAURON Ciepło Sp. z o.o. assets in the total amount of PLN 571 million, based on the recoverable amount estimated in the framework of the impairment tests performed as at 31 December 2020,
- charge to the net financial result with the amount of PLN 49 million as a result of the recognition of depreciation and other changes in non-financial non-current assets for the second half of 2020.

Change in the presentation of assets and liabilities on account of derivative instruments

In connection with its operations, the Group is a party to transactions of a derivative nature aimed, to a significant extent, at hedging the Group against risks associated with its operations. The types of derivative instruments concluded and further information on these transactions are presented in Note 26 to these consolidated financial statements.

Taking into account the scale of the transactions concluded, their importance in terms of hedging material aspects of the Group's operations as well as the significance of measurement of the transactions concluded as at the balance sheet day, the Group decided to present derivative assets and liabilities separately in the statement of financial position. Prior to the change in presentation, derivative assets and liabilities were presented under other financial assets and other financial liabilities of the Group. In the Group's opinion, the separate presentation of derivative assets and derivative liabilities will enable it to present information about the structure and nature of the Group's financial assets and financial liabilities to its customers in a clearer manner.

The impact of the changes described above on the consolidated statement of comprehensive income for the year ended 31 December 2020 and the statement of financial position as at 31 December 2020 is presented in the tables below:

(in PLN million)

	Year ended 31 December 2020 *(approved figures)*	Change of presentation and measurement of assets and liabilities of TAURON Ciepło Sp. z o.o.	Year ended 31 December 2020 *(restated figures)*
Sales revenue	20 367	483	20 850
Recompensation revenue	66	-	66
Cost of sales	(20 697)	(1 011)	(21 708)
Loss on sale	**(264)**	**(528)**	**(792)**
Selling and distribution expenses	(492)	(5)	(497)
Administrative expenses	(613)	(24)	(637)
Other operating income and expenses	338	35	373
Share in profit/(loss) of joint ventures	16	-	16
Operating loss	**(1 015)**	**(522)**	**(1 537)**
Interest expense on debt	(283)	(3)	(286)
Finance income and other finance costs	(358)	2	(356)
Loss before tax	**(1 656)**	**(523)**	**(2 179)**
Income tax expense	(78)	84	6
Net loss on continuing operations	**(1 734)**	**(439)**	**(2 173)**
Net loss on discontinued operations	**(754)**	**754**	**-**
Net loss	**(2 488)**	**315**	**(2 173)**
Measurement of hedging instruments	(103)	-	(103)
Foreign exchange differences from translation of foreign entity	12	-	12
Income tax	19	-	19
Other comprehensive income on continuing operations to be reclassified in the financial result	**(72)**	**-**	**(72)**
Actuarial losses	(141)	(3)	(144)
Income tax	27	-	27
Other comprehensive income on continuing operations not to be reclassified in the financial result	**(114)**	**(3)**	**(117)**
Other comprehensive income on discontinued operations	**(3)**	**3**	**-**
Other comprehensive income, net of tax	**(189)**	**-**	**(189)**
Total comprehensive income	**(2 677)**	**315**	**(2 362)**
Net loss:			
Attributable to equity holders of the Parent	(2 485)	315	(2 170)
Attributable to non-controlling interests	(3)	-	(3)
Total comprehensive income:			
Attributable to equity holders of the Parent	(2 674)	315	(2 359)
Attributable to non-controlling interests	(3)	-	(3)
Loss per share (in PLN):			
basic and diluted net loss for the period attributable to shareholders of the parent company	(1.42)	0.18	(1.24)
basic and diluted net loss from continuing operations for the period attributable to shareholders of the parent company	(0.99)	(0.25)	(1.24)

(in PLN million)

	As at 31 December 2020 *(approved figures)*	Change of presentation and measurement of assets and liabilities of TAURON Ciepło Sp. z o.o.	Change of presentation of assets and liabilities due to derivative instruments	As at 31 December 2020 *(restated figures)*
ASSETS				
Non-current assets				
Property, plant and equipment	27 927	1 578	-	29 505
Right-of-use assets	1 739	137	-	1 876
Goodwill	26	-	-	26
Energy certificates and CO_2 emission allowances for surrender	501	-	-	501
Other intangible assets	549	3	-	552
Investments in joint ventures	587	-	-	587
Loans granted to joint ventures	97	-	-	97
Derivative instruments	-	-	36	36
Other financial assets	207	38	(36)	209
Other non-financial assets	63	-	-	63
Deferred tax assets	40	93	-	133
	31 736	**1 849**	**-**	**33 585**
Current assets				
Energy certificates and CO_2 emission allowances for surrender	1 008	31	-	1 039
Inventories	777	97	-	874
Receivables from buyers	2 363	110	-	2 473
Income tax receivables	84	-	-	84
Receivables arising from other taxes and charges	283	12	-	295
Loans granted to joint ventures	2	-	-	2
Derivative instruments	-	-	123	123
Other financial assets	266	-	(123)	143
Other non-financial assets	80	3	-	83
Cash and cash equivalents	909	12	-	921
Assets classified as held for sale	1 903	(1 829)	-	74
	7 675	**(1 564)**	**-**	**6 111**
TOTAL ASSETS	**39 411**	**285**	**-**	**39 696**

This is a translation of the document originally issued and signed in Polish

(in PLN million)

	As at 31 December 2020 *(approved figures)*	Change of presentation and measurement of assets and liabilities of TAURON Ciepło Sp. z o.o.	Change of presentation of assets and liabilities due to derivative instruments	As at 31 December 2020 *(restated figures)*
EQUITY AND LIABILITIES				
Equity attributable to equity holders of the Parent				
Issued capital	8 763	-	-	8 763
Reserve capital	6 339	-	-	6 339
Revaluation reserve from valuation of hedging instruments	(68)	-	-	(68)
Foreign exchange differences from translation of foreign entities	27	-	-	27
Retained earnings/(Accumulated losses)	458	315	-	773
	15 519	**315**	**-**	**15 834**
Non-controlling interests	**893**	**-**	**-**	**893**
Total equity	**16 412**	**315**	**-**	**16 727**
Non-current liabilities				
Debt	13 108	63	-	13 171
Provisions for employee benefits	932	20	-	952
Provisions for disassembly of fixed assets, land restoration and other provisions	669	-	-	669
Accruals, deferred income and government grants	400	95	-	495
Deferred tax liabilities	434	-	-	434
Derivative instruments	-	-	74	74
Other financial liabilities	137	1	(74)	64
Other non-financial liabilities	8	-	-	8
	15 688	**179**	**-**	**15 867**
Current liabilities				
Debt	1 479	2	-	1 481
Liabilities to suppliers	965	56	-	1 021
Capital commitments	838	19	-	857
Provisions for employee benefits	101	3	-	104
Provisions for liabilities due to energy certificates and CO_2 emission allowances	1 623	127	-	1 750
Other provisions	274	30	-	304
Accruals, deferred income and government grants	166	15	-	181
Income tax liabilities	3	-	-	3
Liabilities arising from other taxes and charges	393	17	-	410
Derivative instruments	-	-	102	102
Other financial liabilities	550	10	(102)	458
Other non-financial liabilities	423	-	-	423
Liabilities directly related to assets classified as held for sale	496	(488)	-	8
	7 311	**(209)**	**-**	**7 102**
Total liabilities	**22 999**	**(30)**	**-**	**22 969**
TOTAL EQUITY AND LIABILITIES	**39 411**	**285**	**-**	**39 696**

BUSINESS SEGMENTS

The Group presents segment information for the current and comparative reporting periods in accordance with IFRS 8 *Operating Segments*.

The organisation and management of the Group is carried out on a segment basis, taking into account the type of products and services offered. Each segment constitutes a strategic business entity offering different products and operating on different markets.

The Group applies the same accounting principles (policy) to all operating segments. The Group accounts for transactions between segments as if they referred to unrelated parties, i.e. using current market prices. Revenue from transactions between segments is eliminated in the consolidation process.

After elimination of costs arising from intercompany transactions, general and administrative expenses of the Parent Company are presented under unallocated expenses. General and administrative expenses of the Parent Company are incurred for the benefit of the entire Group and cannot be directly attributed to the specific operating segment.

Segment assets do not include deferred tax, income tax receivables or financial assets, except for receivables from buyers and other financial receivables, assets relating to gain on measurement of commodity financial derivative instruments as well as cash and cash equivalents, which represent segment assets.

Segment liabilities do not include deferred tax, income tax liability or financial liabilities, except for liabilities to suppliers, capital commitments and payroll liabilities as well as liabilities relating to loss on measurement of commodity derivative instruments, which represent segment liabilities.

The Group's financing (including financial revenue and costs) and income tax are monitored at the Group level and they are not allocated to segments.

None of the Group's operating segments has been combined with another segment to create reporting operating segments.

The Management Board separately monitors operating results of the segments in order to take decisions concerning allocation of the resources, to assess the effects of the allocation and to evaluate performance. The evaluation of performance is based on EBITDA and operating profit or loss. The Group defines EBITDA as EBIT increased by depreciation, amortisation and write-offs for non-financial assets. TAURON Group recognises write-downs on non-financial assets of entities consolidated using the full method and share in write-downs on non-financial assets of entities measured using the equity method as write-downs on non-financial assets. EBIT is defined by the Group as the profit/(loss) before tax, financial income and costs, i.e. operating profit/(loss).

10. Information on operating segments

Operating segments	Core business	Subsidiaries/ Entities recognized with the equity method
Mining 	*Hard coal mining*	TAURON Wydobycie S.A.
Generation  	*Generation of electricity using conventional sources, including combined heat.* *Generation, distribution and sales of heat*	TAURON Wytwarzanie S.A. Nowe Jaworzno Grupa TAURON Sp. z o.o. TAURON Ciepło Sp. z o.o. TAURON Serwis Sp. z o.o. Łagisza Grupa TAURON Sp. z o.o. *TAMEH HOLDING Sp. z o.o.* [1] *TAMEH POLSKA Sp. z o.o.* [1] *TAMEH Czech s.r.o.* [1] *Elektrociepłownia Stalowa Wola S.A.* [1]
Renewable Energy Sources 	*Generation of electricity using renewable sources*	TAURON Ekoenergia Sp. z o.o. Marselwind Sp. z o.o. TEC1 Sp. z o.o. TAURON Zielona Energia Sp. z o.o. TEC1 spółka z ograniczoną odpowiedzialnością Mogilno I sp.k. TEC1 spółka z ograniczoną odpowiedzialnością Mogilno II sp.k. TEC1 spółka z ograniczoną odpowiedzialnością Mogilno III sp.k. TEC1 spółka z ograniczoną odpowiedzialnością Mogilno IV sp.k. TEC1 spółka z ograniczoną odpowiedzialnością Mogilno V sp.k. TEC1 spółka z ograniczoną odpowiedzialnością Mogilno VI sp.k. TEC1 spółka z ograniczoną odpowiedzialnością EW Śniatowo sp.k. TEC1 spółka z ograniczoną odpowiedzialnością EW Dobrzyń sp.k. TEC1 spółka z ograniczoną odpowiedzialnością EW Gołdap sp.k. TEC1 spółka z ograniczoną odpowiedzialnością Ino 1 sp.k. WIND T1 Sp. z o.o. AVAL-1 Sp. z o.o. Polpower Sp. z o.o. TAURON Wytwarzanie S.A [2]
Distribution 	*Distribution of electricity*	TAURON Dystrybucja S.A. TAURON Dystrybucja Pomiary Sp. z o.o.
Sales 	*Wholesale trading in electricity, trading in CO_2 emission allowances and energy certificates and sale of electricity to domestic end users or entities which further resell electricity*	TAURON Polska Energia S.A. TAURON Sprzedaż Sp. z o.o. TAURON Sprzedaż GZE Sp. z o.o. TAURON Czech Energy s.r.o. TAURON Nowe Technologie S.A.

[1] *Entities recognized with the equity method.*
[2] *TAURON Wytwarzanie S.A. classifies activity related to photovoltaic power generation in the Renewable Energy Sources segment.*

In addition to the key operating segments listed above, the TAURON Group also conducts operations in quarrying stone (including limestone) for the power industry, metallurgy, construction and highway engineering industry as well as in the area of production of sorbents for use in wet desulphurisation installations and fluidised bed boilers (Kopalnia Wapienia Czatkowice Sp. z o.o.). The operations of TAURON Obsługa Klienta Sp. z o.o., Finanse Grupa TAURON Sp. z o.o., Bioeko Grupa TAURON Sp. z o.o., Wsparcie Grupa TAURON Sp. z o.o. and Polska Energia Pierwsza Kompania Handlowa Sp. z o.o. are also treated as other operations of the Group.

(in PLN million)

In connection with the discontinuation of the classification of assets and liabilities of the subsidiary company, TAURON Ciepło Sp. z o.o. as a disposable group, as described in more detail in Note 9.2 of these consolidated financial statements, the data as at 31 December 2020 and for the year ended 31 December 2020 were restated accordingly.

10.1. Operating segments

Year ended 31 December 2021

	Operating segments							
	Mining	Generation	Renewable Energy Sources	Distribution	Sales	Other	Unallocated items / Eliminations	Total
Revenue								
Sales to external customers	689	3 504	159	3 446	17 639	177	-	**25 614**
Inter-segment sales	778	6 315	502	3 653	6 495	1 000	(18 743)	**-**
Total segment revenue	**1 467**	**9 819**	**661**	**7 099**	**24 134**	**1 177**	**(18 743)**	**25 614**
Recompensation revenue	**-**	**-**	**-**	**-**	**(9)**	**-**	**-**	**(9)**
Profit/(loss) of the segment	**(458)**	**(57)**	**224**	**1 767**	**(564)**	**92**	**(29)**	**975**
Share in profit/(loss) of joint ventures	-	32	-	-	-	-	-	**32**
Unallocated expenses	-	-	-	-	-	-	(91)	**(91)**
EBIT	**(458)**	**(25)**	**224**	**1 767**	**(564)**	**92**	**(120)**	**916**
Finance income (costs)	-	-	-	-	-	-	(241)	**(241)**
Profit/(loss) before income tax	**(458)**	**(25)**	**224**	**1 767**	**(564)**	**92**	**(361)**	**675**
Income tax expense	-	-	-	-	-	**-**	(290)	**(290)**
Net profit/(loss) for the period	**(458)**	**(25)**	**224**	**1 767**	**(564)**	**92**	**(651)**	**385**
Assets and liabilities								
Segment assets	899	8 252	2 470	21 117	4 508	891	-	**38 137**
Investments in joint ventures	-	597	-	-	-	-	-	**597**
Unallocated assets	-	-	-	-	-	-	1 341	**1 341**
Total assets	**899**	**8 849**	**2 470**	**21 117**	**4 508**	**891**	**1 341**	**40 075**
Segment liabilities	857	2 713	195	2 038	2 015	591	-	**8 409**
Unallocated liabilities	-	-	-	-	-	-	15 142	**15 142**
Total liabilities	**857**	**2 713**	**195**	**2 038**	**2 015**	**591**	**15 142**	**23 551**
EBIT	**(458)**	**(25)**	**224**	**1 767**	**(564)**	**92**	**(120)**	**916**
Depreciation/amortization	**(143)**	**(453)**	**(151)**	**(1 203)**	**(41)**	**(110)**	**-**	**(2 101)**
Impairment	**(185)**	**(947)**	**(1)**	**3**	**1**	**(6)**	**-**	**(1 135)**
EBITDA	**(130)**	**1 375**	**376**	**2 967**	**(524)**	**208**	**(120)**	**4 152**
Other segment information								
Capital expenditure *	276	240	90	2 044	82	200	-	**2 932**

** Capital expenditure includes expenditures for property, plant, equipment, intangible assets and right-of-use assets, excluding acquisition of CO_2 emission allowances and energy certificates.*

Year ended 31 December 2020 *(restated data)*

	Operating segments							
	Mining	Generation	Renewable Energy Sources	Distribution	Sales	Other	Unallocated items / Eliminations	Total
Revenue								
Sales to external customers	327	2 869	147	3 310	14 054	143	-	**20 850**
Inter-segment sales	725	1 653	469	3 556	3 196	971	(10 570)	**-**
Total segment revenue	**1 052**	**4 522**	**616**	**6 866**	**17 250**	**1 114**	**(10 570)**	**20 850**
Recompensation revenue	**-**	**-**	**-**	**-**	**66**	**-**	**-**	**66**
Profit/(loss) of the segment	**(887)**	**(3 254)**	**146**	**1 857**	**642**	**136**	**(96)**	**(1 456)**
Share in profit/(loss) of joint ventures	-	16	-	-	-	-	-	**16**
Unallocated expenses	-	-	-	-	-	-	(97)	**(97)**
EBIT	**(887)**	**(3 238)**	**146**	**1 857**	**642**	**136**	**(193)**	**(1 537)**
Finance income (costs)	-	-	-	-	-	-	(642)	**(642)**
Profit/(loss) before income tax	**(887)**	**(3 238)**	**146**	**1 857**	**642**	**136**	**(835)**	**(2 179)**
Income tax expense	-	-	-	-	-	-	6	**6**
Net profit/(loss) for the period	**(887)**	**(3 238)**	**146**	**1 857**	**642**	**136**	**(829)**	**(2 173)**
Assets and liabilities								
Segment assets	1 116	9 467	2 439	20 079	4 614	776	-	**38 491**
Investments in joint ventures	-	587	-	-	-	-	-	**587**
Unallocated assets	-	-	-	-	-	-	618	**618**
Total assets	**1 116**	**10 054**	**2 439**	**20 079**	**4 614**	**776**	**618**	**39 696**
Segment liabilities	1 048	2 102	239	1 814	1 781	559	-	**7 543**
Unallocated liabilities	-	-	-	-	-	-	15 426	**15 426**
Total liabilities	**1 048**	**2 102**	**239**	**1 814**	**1 781**	**559**	**15 426**	**22 969**
EBIT	**(887)**	**(3 238)**	**146**	**1 857**	**642**	**136**	**(193)**	**(1 537)**
Depreciation/amortization	**(170)**	**(393)**	**(151)**	**(1 166)**	**(44)**	**(93)**	**-**	**(2 017)**
Impairment	**(560)**	**(3 189)**	**-**	**-**	**3**	**-**	**-**	**(3 746)**
EBITDA	**(157)**	**344**	**297**	**3 023**	**683**	**229**	**(193)**	**4 226**
Other segment information								
Capital expenditure *	345	1 437	40	1 908	61	248	-	**4 039**

** Capital expenditure includes expenditures for property, plant, equipment, intangible assets and right-of-use assets, excluding acquisition of CO2 emission allowances and energy certificates.*

The increase in EBITDA of the Generation segment in relation to the comparable period results mainly from the effects of restructuring the portfolio of CO_2 emission allowances and the commencement of the operation of the Capacity Market from 1 January 2021 (without including the Operational Capacity Reserve and Intervention Cold Reserve services in the catalogue of system services from 2021, from which the revenues were received in 2020), which is described in more detail in Note 12 to these consolidated financial statements as well as from generating margins on electricity sales in the current reporting period, including on the electricity contract between Nowe Jaworzno Grupa TAURON Sp. z o.o. and the Company. The positive effect of the factors presented above was partially offset by the recognition in the results of the Generation segment of costs a provision for onerous contracts in the amount of PLN 289 million in relation to electricity sales contracts in connection with the effects of the shutdown of the 910 MW unit in Jaworzno until 29 April 2022.

The decline in EBITDA of the Sales segment in relation to the comparative period results mainly from the lower margin obtained on the sales of electricity, which is a result of higher electricity purchase costs, including under the execution of the contract for the purchase of electricity from the 910 MW unit in Jaworzno at a higher electricity sales price, higher volume and higher revenue from fixed commercial charges.

The most significant reason for the increase in sales revenues between segments achieved by the Generation segment in relation to the comparable period is the performance of electricity sales by the Nowe Jaworzno Grupa TAURON Sp. z o.o. company to the Company under the long-term electricity sales agreement concluded between the above-mentioned entities.

In the year ended 31 December 2021, revenues from sales to Izba Rozliczeniowa Giełd Towarowych S.A. constituted 11% of the Group's total revenues in the Sales segment and amounted to PLN 2 798 million. In the year ended 31 December 2020, the Group did not identify individual customers that would generate sales revenue in excess of 10% of the total sales revenue of TAURON Group.

Restructuring of the hard coal mining sector in Poland

In 2020, works commenced on transforming the coal mining industry in Poland. As agreed between representatives of the Government and representatives of TAURON Wydobycie S.A., this company participated in negotiations on the preparation of the social agreement concerning the transformation of the hard coal mining sector and selected transformation processes in the Silesian Voivodeship ("Social Agreement"). The Social Agreement covers, among others, a schedule for the liquidation of the mines belonging to Polish mining companies, a financing mechanism for companies in the coal mining sector as well as employment guarantees and a social protection package for mine workers. On 28 May 2021, the agreement was signed by the government party, trade union representatives, representatives of mining municipalities and mining companies (employers). Signing of the agreement made it possible to launch the process of negotiating with the European Commission as part of the prenotification of granting state aid for the liquidation of the hard coal (power) sector in Poland.

After the balance sheet day, on 3 February 2022, the Act of 17 December 2021 amending the Act on the functioning of the hard coal mining industry (the "Act"), establishing a system of public aid for hard coal mining. The Act provides for the value of subsidies in the amount of over PLN 28.8 billion for the years 2022-2031, while the value of subsidies for the following years has not been specified. The Act clarifies, among others, the rules for granting public aid in the form of subsidies to reduce the production capacity of coal mines, stipulates the suspension of the repayment and ultimate redemption of a part of the mining companies' liabilities towards the Social Insurance Institution (ZUS) and defines the possibility of increasing their capital by issuing Treasury securities. On 4 February 2022, the Regulation of the Minister of State Assets on capacity reduction subsidies for mining companies entered into force, setting out the detailed conditions of the support system regarding capacity reduction subsidies. The support system adopted in the Act constitutes state aid and is subject to notification to the European Commission. As at the date of approval of these consolidated financial statements for publication, it was not notified.

Extending the subsidy scheme to TAURON Wydobycie S.A., as referred to in the Act, will have a significant impact on the operations of the company and its current financing (enabling it to cover financial losses related to its production activities and liquidation costs over the entire lifetime of the company, as provided for in the Social Agreement). Accession of TAURON Wydobycie S.A. to the subsidy scheme requires the preparation of documents in the form of a business program until 2049 and a technical and economic plan as well as the application for a subsidy. The operational program and the application for granting the subsidy have to be approved by the Minister of State Assets. The above plans and the application for a subsidy for 2022 were submitted by the company to the Minister of State Assets on 25 February 2022. On 15 March 2022, the Minister of State Assets approved the operational program submitted by TAURON Wydobycie S.A. As at the date of approval of these consolidated financial statements for publication, the company has not received information about the approval of the request for subsidy. As part of the impairment tests, the Group took into account the proceeds from the projected subsidies until 2049.

The above events may materially affect the shape and financial data of the Mining segment in future reporting periods.

(in PLN million)

10.2. Geographical areas of operations

The activity of the Group is mostly carried out on the territory of Poland. The table below presents sales to foreign customers.

	Year ended 31 December 2021	Year ended 31 December 2020
Sales to foreign customers, *including:*	**859**	**174**
Czech Republic	416	172
United Kingdom	271	-
Germany	169	-
Other	3	2

Sales to overseas customers in the year ended 31 December 2021 mainly related to the sales of electricity, and the restructuring of the portfolio of CO_2 emission allowances which accounted for 44% and 35% of revenue to overseas customers, respectively. For the year ended 31 December 2020, sales to overseas customers included predominantly electricity sales and accounted for 92% of revenue to overseas customers.

IMPAIRMENT OF NON-FINANCIAL ASSETS

11. Impairment in value of non-financial assets

SELECTED ACCOUNTING PRINCIPLES

Goodwill is tested for impairment every year and each time when indications of impairment have been identified. Other non-financial non-current assets are tested for impairment if indications exist that they may have been impaired.

Within the impairment tests the Group estimates the recoverable amount of an asset or the cash-generating unit (“CGU”) to which the specific asset belongs. In order to conduct an impairment test, goodwill acquired under a business combination or M&A transaction is assigned to CGU or CGU groups upon acquisition. Information concerning identification of the CGU to which goodwill is allocated is presented in Note 21.

The recoverable value of an asset or CGU corresponds to the higher of the fair value less costs of sales or the value in use. If the carrying amount of an asset/CGU is higher than its recoverable amount, impairment occurs and the value of the asset is reduced to the recoverable amount determined.

Impairment losses are allocated to goodwill in the first place and the remaining amount is allocated to individual assets forming the CGU based on the share of the carrying amount of each asset in the carrying amount of the CGU, whereas as a result of such allocation the carrying amount of the asset may not be lower than the highest of three amounts: the fair value less disposal costs, the value in use and zero.

If the indications of impairment driving the recognition of an impairment loss in a preceding period are no longer present, the impairment loss is reversed or reduced. Impairment losses on goodwill are not subject to reversal.

PROFESSIONAL JUDGEMENT AND ESTIMATES

As at every balance sheet day the Group assesses whether objective indication of impairment occurs in relation to non-financial non-current assets. The analysis of indications covers both internal and external factors.

While performing an impairment test, the Group estimates the recoverable amount.

Estimation of the value in use of cash generating units is based on their future cash flows discounted to the current value with a discount rate. The value in use calculation is based on a series of assumptions as discussed below in more detail.

In the year ended 31 December 2021, the Group recognised impairment losses related to non-financial fixed assets as a result of impairment tests of assets performed as at 30 June 2021 and 31 December 2021.

(in PLN million)

The recoverable value of this group of assets corresponds to their useful value. The impairment losses charged mainly own cost of sales.

The impairment loss recognised as a result of the tests performed in the year ended 31 December 2021 is related to the following cash generating units:

CGU	Company	Discount rate (after tax) assumed in tests as at:			Recoverable amount	Impairment loss recognized
		31 December 2021	30 June 2021 *(unaudited)*	31 December 2020	As at 31 December 2021	Year ended 31 December 2021
Mining	TAURON Wydobycie S.A.	14.19%	13.98%	13,12%	-	(185)
Generation - Coal	TAURON Wytwarzanie S.A. / Nowe Jaworzno Grupa TAURON Sp. z o.o.	8.96%	8.23%	8.52%	4 996	(924)
Generation - Biomass					164	-
CGU ZW Katowice	TAURON Ciepło Sp. z o.o.	8.96%	8.23%	8.52%	561	-
CGU ZW Bielsko-Biała					182	-
CGU ZW Tychy					306	(15)
CGU ZW OCL					14	(14)
CGU Transmission		6.89%	6.49%	6.87%	735	-
Distribution	TAURON Dystrybucja S.A.	5.23%	5.03%	5.09%	22 251	-
Total						**(1 138)**

As at 31 December 2021, impairment tests were performed on property, plant and equipment, taking into account the following indications:

- the Group's capitalization remaining below the net asset carrying amount for a long period;
- changes in global prices of energy resources, energy and CO_2 emission allowances;
- publication and adoption by the European Commission of the "Fit for 55" package to guide the European Union towards ambitious levels of net emission reduction by 2030 and towards becoming the first climate-neutral continent by 2050;
- high volatility of energy prices on the forward market (including the persistent low liquidity) and persistently high prices on the spot market;
- results of the RES auctions to date and a very dynamic development of the prosumer and micro installation sub-sector in connection with the aid programmes launched;
- results of proceeding winter package provisions (including emission standards) adversely affecting the capability of coal-fired units to participate in the capacity market after 1 July 2025;
- tightening of emission standards and persisting unfavourable market conditions from the point of view of profitability for the conventional power industry;
- failure of the 910 MW unit in Jaworzno;
- persistent losses of the Mining segment and increased risks in the production of commercial coal;
- adoption by the Council of Ministers of the Polish Energy Policy until 2040, setting out the directions for the transformation of the energy sector;
- limited availability of fuels causing their price increases;
- an increase in inflation;
- a decrease in the risk-free rate.

The tests conducted as at 31 December 2021 required estimating the value in use of cash generating units, based on their future cash flows discounted subsequently to the present value using a discount rate.

The impairment tests for property, plant and equipment and intangible assets (non-current assets) were carried out at a level of individual companies, except for:

- TAURON Wytwarzanie S.A. and Nowe Jaworzno Grupa TAURON Sp. z o.o., where cash-generating units ("CGUs") were identified at a different level, identifying a cash-generating unit CGU Generation-Coal in the area of electricity generation from conventional sources (hard coal) of Nowe Jaworzno Grupa TAURON sp. z o.o. and partially in the area of operations of TAURON Wytwarzanie S.A. Within other areas of activity of TAURON Wytwarzanie S.A., the following cash generating unit was identified: CGU Wytwarzanie-Biomasa. The key premises justifying the inclusion of coal-fired generating units within CGU Generation-Coal included: the publication of provisions regarding the new Capacity Market mechanism in 2018, launching a new product - the capacity obligation; the strategy of joining the Capacity Market consisting in the portfolio approach, where maximising the total revenue from the Capacity Market is significant, as well as capacity allocation to suppliers, determining the level of capacity constituting reserve sources for the remaining capacity contracted at the capacity market and high dependence of cash proceeds among generators;

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- TAURON Ekoenergia Sp. z o.o., TEC 1 Sp. z o.o. Mogilno I Sp. Komandytowa, TEC 1 Sp. z o.o. Mogilno II Sp. Komandytowa, TEC 1 Sp. z o.o. Mogilno III Sp. Komandytowa, TEC1 Sp. z o.o. Mogilno IV Sp. Komandytowa, TEC 1 Sp. z o.o. Mogilno V Sp. Komandytowa, TEC 1 Sp. z o.o. Mogilno VI Sp. Komandytowa, TEC 1 Sp. z o.o. EW Śniatowo Sp. Komandytowa, TEC 1 Sp. z o.o. EW Dobrzyń Sp. Komandytowa, TEC 1 Sp. z o.o. EW Gołdap Sp. Komandytowa, TEC 1 Sp. z o.o. Ino 1 Sp. Komandytowa, where the test was carried out separately for activities related to electricity generation in hydroelectric power plants within TAURON Ekoenergia Sp. z o.o. - CGU Hydroelectric Power Plants and for the combined activity associated with electricity generation from wind farms within TAURON Ekoenergia Sp. z o.o. and other companies - CGU Farmy wiatrowe i CGU Fotowoltaika. Consolidation of wind farms in one CGU resulted mainly from the specific features and nature of the underlying service agreements and technical management of individual wind farms allowing for optimisation of the production process aimed at improving economic indicators of the operated wind farms. Moreover, from the point of view of management analysis, the notion of a group of assets producing power in wind technology is important, rather than a single operation of wind farms. It is also important for the purpose of integrated management of the portfolio of produced volume originating from wind farms and sales of electricity and property rights within the TAURON Group;
- TAURON Nowe Technologie S.A., where activities related to lighting and provision of solutions associated with modern technologies were separated.

Relevant tests were conducted based on the current value of projected cash flows from CGU operations by reference to detailed projections until 2031 and the estimated residual value, excluding power generating and mining units for which detailed projections cover the entire period of their operation.

The assumptions concerning the life of the generation and mining units are consistent with those adopted for the impairment tests carried out as at 31 December 2020, including in particular:

- the operation of TAURON Wytwarzanie S.A. generation units was assumed until 2035, including: the unit in Jaworzno III Branch until 2025; two units in Jaworzno III Branch until 2028; two units in Jaworzno II Branch until 2030; the unit in Łagisza Branch until 2035. The operation of the Nowe Jaworzno Grupa TAURON Sp. z o.o. generation unit was assumed until 2060.
- the forecast for hydroelectric power plants covers the period up to 2066 while for wind farms - up to 2040;
- the operation of the mining units was assumed until 2049, including ZG Sobieski and ZG Janina until 2049 and ZG Brzeszcze until 2040;
- the operation of TAURON Ciepło Sp. z o.o. generation units was assumed until 2049. In the case of Zakład Wytwórczy EC2 in Czechowice-Dziedzice, due to the depletion of the production assets and the climate policy, it was assumed that coal-fired units would be put out of service, and thus switch to gas fuel.

The reliance on projections covering a period longer than 5 years results mainly from the long-lasting investment processes in the power industry. The macroeconomic and sector-oriented assumptions underlying the projections are updated as frequently as any indications for their modification are observed on the market. The projections also take into account changes in the regulatory environment known as at the date of the test.

Key assumptions in the scope of tests performed as at 31 December 2021

Category	Description
Coal	The projected prices of hard coal in the next 3 years (in fixed prices) remain at higher levels than before, which results from the observed upward trends in the domestic mining cost and the current situation in the world coal market. However, in the long term (2025-2040), coal prices will continue to fall due to the accelerated implementation of the decarbonisation policy promoted by the European Union, aimed at reaching the climate neutrality in Europe by 2050. Its manifestation is the gradual reduction of the share of coal in the energy mix of individual countries (including Germany, the Czech Republic and Poland), which is associated with an increase in the share of energy from RES in the energy balance of the European Union Member States. After 2025, the prices of coal in Poland will begin to fall, as a result of decreased electricity generation with the use of this raw material as well as an expected increase in import volumes in view of high levels of mining cost in the country. A real decline in power coal prices by 16.1% was assumed in the years 2022-2040.
Electricity	The adopted forecast of wholesale electricity prices for the period 2022-2040 has been updated and adjusted in the first three years (2022-2024) to current levels recorded in the market, taking into consideration the contracting level. In 2023, a continued increase in energy prices of around 8% compared to 2022 has been assumed, which results, among others, from a sharp rise in the prices of CO_2 emission allowances in 2021. In 2024, the price is approximately 19.9% higher compared to 2022. In 2025-2040, the wholesale electricity price (in fixed prices) will decrease by approx. 6.2%. The forecast of wholesale electricity prices is affected by the current and expected balancing situation in the national power system, forecasts of fuel prices and the costs of purchasing CO_2 emission allowances. The observed change in the structure of electricity generation and increase in the share of renewable energy sources reduces the level of margins achieved when selling electricity from coal-fired sources - this effect is partially compensated by assuming the impact of the *Scarcity Pricing* mechanism after 2025 on wholesale electricity prices. The increase in prices from 2029 to 2032 results from the projected difficult balancing situation in Europe caused by the integration of conventional sources with a direct impact on the level of the interchange balance. The electricity retail price path has been adopted based on the wholesale price of black energy, taking into

(in PLN million)

Category	Description
	account the costs of excise duty, the obligation to redeem energy certificates of origin as well as the expected level of margin.
CO_2	CO_2 emission limits for heat generation have been adopted in line with the regulation of the Council of Ministers and adjusted by the level of operations, i.e. generation of heat. The CO_2 emission allowance price growth path has been adopted throughout the forecasting horizon. In 2023, a 18.6% higher price of CO_2 emission allowances was assumed compared to the average price in 2022. In 2024, compared to 2022, the price of CO_2 emission allowances is 37.7% higher. In the period 2024-2030, a price increase to the level of approx. 70 EUR/Mg in constant prices (approx. 90 EUR/Mg in current prices) has been assumed due to the assumption of an increase in the Linear Reduction Factor (LRF) to the level of 4.2% proposed by the European Commission (from the current 2.2%). The level of CO_2 emission allowances projected for 2030 is consistent with the assessment of the impact of the EU ETS revision on the CO_2 price level published with the “Fit for 55” package (SWD(2021) 601 final). A further increase in the price of CO_2 emission allowances is assumed in the years 2031-2040, compared to 2030, which results from the assumed increase in the decarbonisation rate of the economy and the target of achieving climate neutrality of Europe in 2050. The price of CO_2 projected for 2040 amounts to approx. 86 EUR/Mg (approx. 123 EUR/Mg in current prices).
Certificates of energy origin	The price path for certificates of energy origin and the obligatory redemption in the subsequent years have been adopted based on the provisions of the RES Act and the system balance forecast.
Capacity market	The Capacity Market mechanism implementation has been taken into account in accordance with the adopted and notified Act on the Capacity Market and the Capacity Market Regulations. It is assumed that payments for capacity will be launched from 2021 and maintained until 2025 for existing coal-fired units which do not meet the EPS 550 criterion (for which the unit emission performance exceeds 550 kg/MWh). For entities which received long-term contracts by 31 December 2019 and do not meet the EPS 550 criterion, maintaining of payments until the end of the contract effectiveness period has been assumed.
RES	As regards the RES Area, the existing support systems were taken into account (the system of certificates of origin, the auction system, the FIT/FIP guaranteed tariff system, the guarantee of origin system, the Capacity market), of which the most important is the system of certificates of origin. As part of this system, for green energy, limited support periods were included, in line with the provisions of the RES Act defining new mechanisms for granting the support for electricity generated from this type of sources. The support period was limited to 15 years counted from the moment of first injection to the grid of electricity eligible to receive the energy origin certificate.
Natural gas	Natural gas prices for the assumptions adopted as at 31 December 2021 were raised in relation to the previous assumptions as at 30 June 2021 over the entire forecast horizon. The main reason for the projected increases in gas prices are higher estimates concerning the forecast of the demand for natural gas presented by GAZ-SYSTEM S.A. in the horizon up to 2040. 2022 is the effect of a significant price increase on the annual contract that took place in the second half of 2021. The decline in prices in the years 2023-2025 results from the normalisation of the stock situation in Europe. On the other hand, in Poland, we assume the commissioning of the Baltic Pipe, the expansion of the LNG terminal in Świnoujście, the Poland-Lithuania Interconnector (GIPL) as well as the commissioning of the floating LNG terminal in the Gulf of Gdańsk and the gas units in the Dolna Odra Power Plant by 2028 at the latest. The key factor of the projected price increase is the decline in gas production in Europe, with a simultaneous increase in its consumption. After 2025, a decline in raw material extraction from the Norwegian Continental Shelf is assumed. In the years 2026-2030, further growth in the number of natural gas-fired sources in Poland is assumed, which is determined by the continued growth in demand. Beyond 2030, the demand for gas in Europe and Asia will grow significantly.
WACC	The weighted average cost of capital (WACC) during the projection period for individual CGUs has been adopted in the range of 5.23%-14.19% in nominal terms after tax, taking into account the risk-free rate corresponding to the yield on 10-year Treasury bonds (at a level of 1.78%) and the risk premium for operations relevant for the power industry (6.75%). The growth rate used for extrapolation of projected cash flows going beyond the detailed planning period has been adopted at a level of 2.5% and corresponds to the estimated long-term inflation rate. The WACC level as at 31 December 2021 compared to the level as at 31 December 2020 increased in individual segments, mainly due to an increase in the risk-free rate.
Regulated revenue	Regulated revenue of distribution companies has been assumed, ensuring the coverage of justified costs and a reasonable level of return on capital. The return on capital depends on the Regulatory Asset Value. In the years 2022-2031, an increase in electricity supply by 1.15% year-on-year has been assumed.
Sales volume and production capacity	The volume of sales to end customers was assumed taking into account the GDP growth, the competitive situation in the market, the significant increase in financial costs (trade credit costs) incurred by sales companies. This has caused a decrease in volume in the years 2022-2023. From 2024, a gradual recovery of the lost volume is planned. The economic useful lives of fixed assets and the maintenance of production capacity as a result of replacement investments were taken into account.

The mechanism of subsidies and the period of operation of production units of mining enterprises was presented in the Social Agreement document of 28 May 2021 in the Act of 17 December 2021 amending the Act on the Operation of Coal Mining and the regulation on subsidies for capacity reduction of mining enterprises of 3 February 2022 ("Regulation"). The tests as at 31 December 2021 assumed the acquisition of capacity reduction subsidies for mining units until 2049. The amount of the subsidies was set at a level which would cover the difference between the eligible costs and the eligible revenues in accordance with the Regulation associated with the operation of the enterprises subject to the support scheme.

In terms of the failure of the 910 MW unit in Jaworzno, it was assumed that the unit would be commissioned from 29 April 2022, that tests would be conducted and that the unit would operate at full capacity starting from November 2022.

On 14 March 2019, Tempus Energy Germany GmbH and T Energy Sweden AB companies filed a complaint with the Court of Justice of the European Union ("CJEU") against the aid decision of the European Commission concerning the Polish Capacity Market. The complaint aimed to revoke the decision on the waiver of objections concerning the Polish Capacity Market. The complainants' allegations refer to the European Commission's failure to initiate a formal investigation procedure and the allegedly discriminatory treatment of demand management units within the Polish Capacity Market. On 6 October 2021, the Court of the European Union, CJEU, dismissed the appeal of Tempus Energy Germany GmbH and T Energy Sweden AB against the decision of the European Commission approving the Polish capacity market mechanism.

The assumptions were also used to estimate the value in use of other intangible assets and rights to use assets.

The need to write down the assets of CGU Generation-Coal and CGU ZW Area of Local Heating Plants resulted in particular from the following factors:

- an increase in the prices of CO_2 emission allowances resulting from more stringent climate policy of the European Union strongly targeted at accelerating the pace of decarbonisation in pursuit of the climate neutrality of Europe,
- a change in the energy mix in Poland towards low- and zero-emission sources, resulting in lower electricity production volumes from conventional sources, in particular coal-fired power plants,
- a projected decline in market margins in the medium- and long-term perspective as a result of an increase in the variable costs of production from conventional sources, mainly due to the increase in the price of CO_2 emission allowances and the growth in the share of renewable energy sources and new natural gas-fired sources,
- downtime of the 910 MW unit in Jaworzno in the period from June 2021 to, in accordance with the assumptions adopted in the tests, 29 April 2022.

The need to write down the assets of the CGU Mining resulted in particular from the reduced projected demand for steam coal as a result of the proceeding decarbonisation in Europe and rising extraction costs..

The need to write down the assets of the ZW Tychy CGU results from the recognition of higher biomass prices, which is related to the provisions of Commission Implementing Regulation (EU) 2020/2085 of 14 December 2020 *amending and correcting Implementing Regulation (EU) 2018/2066 on the monitoring and reporting of greenhouse gas emissions pursuant to Directive 2003/87/EC of the European Parliament and of the Council,* pursuant to which biomass used for energy purposes should meet sustainability criteria for the purposes of the requirements of the EU ETS.

Sensitivity analysis for mining and generation assets

The estimated changes in impairment losses on mining and generation assets as at 31 December 2021 and the impact on the Group's assets as a result of changes in the key assumptions, are presented below.

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Parameter	Change	Impact on impairment loss				Assets of the Group Impact on impairment loss	
		Mining assets		Generation assets			
		Increase of impairment loss (net)	Decrease of impairment loss (net)	Increase of impairment loss (net)	Decrease of impairment loss (net)	Increase of impairment loss (net)	Decrease of impairment loss (net)
Change of electricity prices in the forecast period	+1%	9	-	-	381	-	372
	-1%	-	9	381	-	372	-
Change of heat prices in the forecast period	+1%	-	-	-	29	-	29
	-1%	-	-	29	-	29	-
Change of CO_2 emission allowances prices in the forecast period	+1%	-	-	236	-	236	-
	-1%	-	-	-	236	-	236
Change of WACC (net)	+0.1 p.p.	-	-	30	-	30	-
	-0.1 p.p.	-	-	-	30	-	30
Change of coal prices in the forecast period	+1%	-	49	95	-	46	-
	-1%	49	-	-	95	-	46
No subsidies for coal mining until 2032[1]	-100%	754	-	-	-	754	-
No scarcity pricing mechanism[2]	-	-	-	1 227	-	1 227	-

[1] *Write-down on non-current assets to the carrying amount of land and perpetual usufruct of land corresponding to fair value.*
[2] *In accordance with Article 16(e) of the Commission Decision "State aid No. SA.46100 (2017/N) – Poland – planned Polish capacity mechanism", by 1 January 2021, Poland should introduce an administrative scarcity pricing mechanism as referred to in Article 44(3) of the Electricity Balancing Guideline. In the first quarter of 2021, PSE S.A. presented a rescheduling plan to be included in the new Implementation Plan, in which the deadline for implementing the mechanism was postponed to 2023. The failure to include the scarcity pricing mechanism in the above analysis means lower revenues from sales of energy from own production throughout the period analysed by PLN 8.8 billion in nominal terms.*

Sensitivity analysis for the Distribution segment

The table below presents the estimated inflows to the impairment loss on assets of the Distribution segment as at 31 December 2021.

Parameter	Change	Value tested	Recoverable amount	Impact on recoverable amount	
				Increase	Decrease
Change of WACC (net)	+0.1 p.p.	19 894	22 251	-	959
	-0.1 p.p.			1 037	-
Change in the WACC adopted for the calculation of regulated income in 2023-2031 and in the residual period	+0,1 p.p.			663	-
	-0,1 p.p.			-	663

Impairment of the carrying amount of goodwill

The test was performed for the net assets increased by goodwill in each operating segment. The recoverable amount in each company was determined based on the value in use.

EXPLANATORY NOTES TO THE CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

12. Sales revenue

SELECTED ACCOUNTING PRINCIPLES

The Group has introduced a five-step model of revenue recognition comprising, successively: identifying the agreement with a customer; identifying the performance obligations contained in the agreement; determining the transaction price; allocating the transaction price to each performance obligation; and recognising the revenue upon satisfying a performance obligation arising from the agreement.

Revenue is recognised when (or as) the performance obligation is fulfilled in the form of transferring the promised goods, products, materials (i.e. assets) or providing a service to a client. The asset transfer takes place when a client acquires control over such an asset whereas in the case of sales of electricity, gaseous fuel and heat, the energy is deemed sold when delivered to a consumer.

Revenue is recognised in the amount expected by the Group, following reduction by VAT, excise duty and other sales taxes, charges and discounts.

The revenue comprises only the inflows of economic benefits received or receivable to the entity's own account. Amounts obtained on behalf of third parties, with the Group acting as an agent, such as taxes on sales or VAT do not constitute economic benefits of the Company and do not result in equity increases. Therefore, these amounts are not recognised in revenue. Where the Company acts as an agent, the amount recognised as revenue is the commission payable to it and does not include amounts received on behalf of the principal. Examples of this type of revenue include:

- the transitional fee, the RES fee, the capacity charge and the cogeneration fee collected from the end user of electricity and transferred to the System Operator;
- revenue from maintenance services under contracts for the sales of products and services combined with additional services.

For goods and materials, the revenue is recognised when the Group ceases to be permanently involved in the management of the goods and materials sold to the extent the function is usually performed in relation to owned goods, and when it ceases to effectively control these items.

Revenue of the financial year includes also accrued revenue which has not been measured and invoiced due to the settlement system used by customers.

The Group generates its most significant revenues from the sale of electricity, gaseous fuel and distribution services in the Sales segment, distribution services in the Distribution segment and electricity in the Generation segment.

Revenue from the sale of electricity, gas fuel and distribution services in the Sales segment

The Group companies operating in the Sales segment generate revenue from sales of electricity, gaseous fuel and distribution services to retail and wholesale customers. This segment also generates revenues from road lighting maintenance services.

As at each balance sheet day, subject to observance of the prudence principle, an estimate is made of the amount of revenue from the sale of electricity, gaseous fuel and distribution services relating to the financial year which, due to the settlement cycle established in agreements with customers and the fact that invoicing is performed for a significant number of customers in periods other than the reporting periods, will be invoiced in the subsequent year.

The types of estimates of the amounts of revenues from the sale of electricity, gaseous fuel and distribution services are presented below.

Additional assessment type	Description
Revenue from the sales of electricity	
Additional assessment of sales to buyers, unbilled as at the end of the reporting period	Measurement and billing systems showing the electricity volume sold to retail buyers are read and invoices are issued mainly in periods not corresponding to reporting periods. Therefore, the Group companies from the Sales segment make appropriate estimates of sales of electricity and distribution services at the end of each reporting period. For clients that are party to complex contracts and sales contracts, the additional assessment is made in the billing systems on the basis of the average daily consumption of electricity between the last actual reading date and the end of the reporting period.
Additional assessment regarding buyers with projection-based settlement	As at each reporting period end, buyers with six and 12-month periods of projection-based settlement are subject to additional assessment during periods between meter system readings. The additional assessment of sales of electricity and distribution services is based on data regarding sales of electricity obtained from the billing system and on the additional assessment ratio. The additional assessment ratio is based on the number of days passing between the reading date (for settlement invoices) or the payment date (for projection invoices) and the month end compared to the actual number of days in a given calendar month.
Additional assessment of revenue regarding buyers charged based on the prices on the Polish Power Exchange or the balancing market	The additional assessment includes buyers whose sales of the electricity are priced in line with the Polish Power Exchange or balancing market according to the concluded agrrements. As at each reporting period end, buyers with additional assessment charged on unbilled sales of power in the billing system are charged with amounts equal to the difference between prices adopted for additional assessment calculation purposes and those to be used for billing purposes.
Additional assessment of sales resulting from reconciliation of the energy balance	The Group companies from the Sales segment reconcile the energy balance by estimating the non-balancing sales or purchase volume at the end of each reporting period. Under the additional assessment, an amount increasing or reducing revenue from sales of electricity, determined as the product of the estimated non-balancing sales and the weighted average purchase price of electricity on the balancing market is also accounted for.
Revenue from the sale of gas	
Additional estimation for customers not invoiced at a given balance sheet date	Metering and billing system readings of the volume of gas sold in the retail trade and its invoicing are made to a large extent in periods different from the reporting periods. Accordingly, the Group companies in the Sales segment make appropriate estimates of gas fuel sales and distribution services at the balance sheet date. Additional estimation of the sales of gas fuel is calculated in the billing systems based on the average 24-hour consumption of gas fuel in the period from the date of the last actual reading to the balance sheet date. Additional estimation of distribution service sales is determined as the difference between the purchase cost of gas distribution services and the invoiced revenue from distribution service sales.
Additional estimation resulting from reconciliation of gas balances	As at each balance sheet date, the Group companies belonging to the Sales segment reconcile the gas balance by determining the estimated imbalance volume on the purchase or sales side. As part of this rebalancing, the amount increasing or decreasing gas sales revenue is recognised, calculated as the product of the estimated imbalance volume and the average monthly high-methane gas balancing settlement price published by the Gas Transmission Operator GAZ-SYSTEM S.A.

Revenue on sales of electricity distribution services in the Distribution Segment

The Group presents mainly revenue related to distribution operations in the revenue on sales of services. Electricity distribution services are deemed sold upon service provision to the customer, as registered by the electricity meter, including the projected energy consumption and estimated additional revenue which has not been measured and invoiced due to the consumer settlement system used.

Revenue on wholesale of electricity in the Generation segment

Wholesale of electricity from the centrally dispatched generation units and as part of trading operations takes place through the customer's and the supplier's notification of the volume of electricity declared per each hour to the Transmission System Operator (TSO), which the Generation segment company is obliged to deliver as the supplier or ensure its provision and the client is obliged to accept. Both the price and the volume per each hour result from transactions signed in advance or (in the case of the Polish Power Exchange - TGE) recorded electronically. The TSO as a sort of guarantor of quantitative settlements, secures the reliability of data in the scope of the volume of energy supplied. Billing is based on reports generated by the TSO.

Invoices for sales of electricity supplied to the Balancing Market shall be issued on the basis of reports from the centralised sales balancing system in the National Power System. These settlements are performed every decade.

Wholesale of electricity from generation units which are not centrally dispatched (generation units of less than 100 MW settled on the local market) takes place under similar rules, however, it is the Distribution System Operator (DSO) that is responsible for the settlements.

PROFESSIONAL JUDGEMENT AND ESTIMATES

The TAURON Group estimates revenue as described above whereas the most important estimate regards the additional assessment of revenue from sales of electricity, gaseous fuel and distribution services in the Sales segment.

(in PLN million)

As at 31 December 2021, additionally assessed revenue from sales of electricity and distribution services in the Sales segment amounted to PLN 959 million and, when reversed estimations from the previous year have been accounted for, the impact on the profit or loss for 2021 amounted to PLN 222 million.

As at 31 December 2021, the additional assessment of revenue from sales of gaseous fuel and distribution services in the Sales segment amounted to PLN 100 million and, when reversed estimations from the previous year have been accounted for, the impact on the profit or loss for 2021 amounted to PLN 57 million.

	Year ended 31 December 2021	Year ended 31 December 2020 *(restated figures)*
Sale of goods for resale, finished goods and materials without elimination of excise	**17 654**	**14 066**
Excise	(109)	(104)
Sale of goods for resale, finished goods and materials	**17 545**	**13 962**
Electricity	14 878	12 224
Heat energy	763	669
Gas	576	338
Coal	628	296
CO_2 emission allowances	204	6
Energy certificates and similar	245	232
Other goods for resale, finished goods and materials	251	197
Rendering of services	**7 695**	**6 818**
Distribution and trade services	6 672	6 502
Capacity Market	652	-
Maintenance of road lighting	123	121
Connection fees	83	83
Other services	165	112
Other revenue	**70**	**70**
Total revenue from contracts with customers	**25 310**	**20 850**
Restructuration in the portfolio of CO_2 emission allowances	304	-
Total sales revenue	**25 614**	**20 850**

Revenues in compliance with IFRS 15 Revenue from contracts with customers

In the year ended 31 December 2021, sales revenues increased in relation to the comparable period while the major changes were related to the revenue from sales of the following products, goods and services:

- Electricity – the increase results mainly from a higher retail electricity sales volume (both in the business and mass segment), a higher volume of electricity sold from own production, higher electricity prices obtained mainly in the balancing and exchange market and higher revenue obtained from trade fees,
- Heat – the increase results from sales of a higher volume (affected by lower temperatures in the current period compared to the corresponding period) and achieving higher heat sales prices,
- Gas – increase mainly due to sales of higher volumes at higher prices due to lower temperatures in relation to the comparable period and the acquisition of new customers,
- Coal – the increase in revenue from coal sales results from the sale of a higher volume simultaneously achieving higher sales prices,
- CO_2 emission allowances – the increase in revenues results mainly from the recognition of the effects of actions taken to manage the surplus of CO_2 emission allowances. In connection with the delayed commissioning of the 910 MW unit and the resulting lower production, a significant surplus of allowances contracted for the purpose of meeting the redemption obligation for 2020 over the actual demand was generated in the portfolio of the subsidiary, Nowe Jaworzno Grupa TAURON Sp. z o.o. Consequently, the Group has undertaken twofold measures to manage the resulting surplus. One of the measures taken was the resale of a volume of 691 000 CO_2 emission allowances held, with a carrying value of PLN 76 million, generating revenue amounting to PLN 135 million. As the second measure, the Group restructured its portfolio of CO_2 emission allowances in terms of forward contracts, as discussed below,
- Capacity Market – from 1 January 2021, pursuant to the *Act of 8 December 2017 on the Capacity Market*, introducing the service of capacity obligation, consisting in keeping the preparedness of the capacity market unit to supply electrical capacity to the system and the obligation to supply a certain capacity to the system during a period of emergency, the Capacity Market started operating. In connection with the foregoing, the Group recognises the revenue related to the fulfilment of the capacity obligation performed by the Capacity Market units of the Group by the

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Group companies operating as suppliers of capacity to PSE S.A. In the year ended 31 December 2021, the revenue on this account amounted to PLN 652 million.

Restructuring of the portfolio of CO_2 emission allowances

In March 2021, the Company restructured the portfolio of CO_2 emission allowances of its subsidiary, Nowe Jaworzno Grupa TAURON Sp. z o.o., with respect to the volume of 3 258 000 CO_2 emission allowances concluded under forward contracts with the acceptance date in March 2021. As a result of the analysis of new premises and circumstances, the Group changed its intention regarding the above-mentioned CO_2 emission allowances and decided to perform their rollover including the conclusion of new contracts with delivery dates in March 2022, 2023 and 2024. In connection with the fact that the original contracts were not settled by physical delivery, the Group recognised the contracts in accordance with IFRS 9 *Financial Instruments* at a fair value under the date of the change in the judgement, i.e. in March 2021 and subsequently recognised the result from the settlement of instruments, which resulted in an increase in the sales revenue and the operating profit in the amount of PLN 304 million (i.e. EUR 66 million). New contracted transactions with delivery dates between 2022 and 2024 were concluded and are held in accordance with the Group's expected redemption requirements and will be settled by physical delivery and are therefore excluded from the scope of IFRS 9 *Financial Instruments* and are not measured at a fair value. At the same time, these transactions were performed at prices higher than the purchase originally contracted and will therefore increase the cost of creating the provision for CO_2 emission liabilities for 2021 and for subsequent financial years. As a result of the foregoing, the Group estimates that the cumulative impact of the restructuring in terms of rollover of the forward contracts on its operating profit in 2021-2023 will not be significant.

Sales revenue by operating segment is shown in the tables below.

Year ended 31 December 2021

	Mining	Generation	Renewable Energy Sources	Distribution	Sales	Other	Total
Sale of goods for resale, finished goods and materials	**664**	**2 495**	**152**	**2**	**14 081**	**151**	**17 545**
Electricity	-	1 644	1	-	13 203	30	**14 878**
Heat energy	-	763	-	-	-	-	**763**
Gas	-	-	-	-	576	-	**576**
Coal	628	-	-	-	-	-	**628**
CO_2 emission allowances	-	-	-	-	204	-	**204**
Energy certificates and similar	-	83	151	-	1	10	**245**
Other goods for resale, finished goods and materials	36	5	-	2	97	111	**251**
Rendering of services	**24**	**691**	**6**	**3 406**	**3 554**	**14**	**7 695**
Distribution and trade services	-	241	-	3 233	3 198	-	**6 672**
Capacity Market	-	442	5	-	205	-	**652**
Maintenance of road lighting	-	-	-	-	123	-	**123**
Connection fees	-	-	-	83	-	-	**83**
Other services	24	8	1	90	28	14	**165**
Other revenue	**1**	**14**	**1**	**38**	**4**	**12**	**70**
Total revenues from contracts with customers	**689**	**3 200**	**159**	**3 446**	**17 639**	**177**	**25 310**
Restructuration in the portfolio of CO_2 emission allowances	-	304	-	-	-	-	**304**
Total sales revenue	**689**	**3 504**	**159**	**3 446**	**17 639**	**177**	**25 614**

Year ended 31 December 2020 *(restated data)*

	Mining	Generation	Renewable Energy Sources	Distribution	Sales	Other	Total
Sale of goods for resale, finished goods and materials	**312**	**2 626**	**145**	**3**	**10 754**	**122**	**13 962**
Electricity	-	1 871	5	-	10 332	16	**12 224**
Heat energy	-	669	-	-	-	-	**669**
Gas	-	-	-	-	338	-	**338**
Coal	296	-	-	-	-	-	**296**
CO_2 emission allowances	-	-	-	-	6	-	**6**
Energy certificates and similar	-	83	140	-	1	8	**232**
Other goods for resale, finished goods and materials	16	3	-	3	77	98	**197**
Rendering of services	**13**	**229**	**1**	**3 271**	**3 296**	**8**	**6 818**
Distribution and trade services	-	213	-	3 134	3 155	-	**6 502**
Maintenance of road lighting	-	-	-	-	121	-	**121**
Connection fees	-	2	-	81	-	-	**83**
Other services	13	14	1	56	20	8	**112**
Other revenue	**2**	**14**	**1**	**36**	**4**	**13**	**70**
Total sales revenue	**327**	**2 869**	**147**	**3 310**	**14 054**	**143**	**20 850**

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Revenue from sales of electricity by sales market is presented in the following table.

	Year ended 31 December 2021	Year ended 31 December 2020 *(restated figures)*
Revenue from sales of electricity	**14 878**	**12 224**
Retail sale	**9 294**	**8 399**
Strategic clients	1 031	993
Business clients	4 399	3 960
Mass clients - Group G	2 971	2 708
Mass clients - SME	912	785
Other	90	57
Excise duty	(109)	(104)
Wholesale	**4 941**	**3 022**
Operational capacity reserve	**-**	**195**
Other	**643**	**608**

13. Cost of goods, products, materials and services sold

SELECTED ACCOUNTING PRINCIPLES

The Group presents costs by function.

Costs by function include:

- cost of goods, products, materials and services sold (cost of sales), incurred during a given reporting period, including any impairment losses on property, plant and equipment, intangible assets, right-of-use assets, receivables and inventories, adjusted by cost of manufacturing products for own purposes;
- total costs of sales and administrative expenses incurred in the reporting period (recognised separately in the statement of comprehensive income).

Costs which can be directly attributed to revenues gained by the Group affect the financial result of the Group for such reporting period in which those revenues occurred.

Costs of manufacturing that can only be indirectly assigned to revenue or other benefits obtained by the Group affect the profit or loss in the portion pertaining to a given reporting period, and match the revenue or other economic benefits.

13.1. Costs by type

	Year ended 31 December 2021	Year ended 31 December 2020 *(restated figures)*
Depreciation and amortization	(2 101)	(2 017)
Impairment of non-financial assets	(1 129)	(3 746)
Materials and energy	(1 444)	(1 387)
Maitenance and repair services	(280)	(245)
Distribution services	(1 508)	(1 610)
Other external services	(876)	(794)
Cost of obligation to remit the CO_2 emission allowances	(2 147)	(986)
Other taxes and charges	(755)	(728)
Employee benefits expense	(3 123)	(2 760)
Allowance for trade receivables expected credit losses	(33)	(60)
Other	(147)	(96)
Total costs by type	**(13 543)**	**(14 429)**
Change in inventories, prepayments, accruals and deferred income	(179)	80
Cost of goods produced for internal purposes	801	936
Selling expenses	562	497
Administrative expenses	635	637
Cost of goods for resale and materials sold	(11 899)	(9 429)
Cost of sales	**(23 623)**	**(21 708)**

In the year ended 31 December 2021 compared to the comparative period, the main changes in the cost of goods, products, materials and services sold involved:

- a lower cost of impairment losses on non-financial non-current assets, which in the current period results mainly from the recognition of impairment losses as a consequence of impairment tests performed as at 31 December 2021 and 30 June 2021 in the amount of PLN 1 138 million, as described more broadly in Note 11 to these consolidated financial statements;

Consolidated financial statements for the year ended 31 December 2021 compliant with the IFRS, approved by the European Union (in PLN million)

- an increase in the cost of the obligation to redeem CO_2 emission allowances, which mainly results from the increase in the price of CO_2 emission allowances included in the calculation of the provision and the increase in emission due to higher electricity production from conventional sources;
- an increase in the cost of employee benefits, resulting mainly from the recognition in the comparative period of the effects of the partial release of provisions for the employee tariff on current employees as future retired persons, which reduced operating expenses by PLN 299 million;
- a change in the value of sold goods and materials related to the cost of electricity sold, mainly as a result of an increase in the purchase price of electricity in relation to the comparable period. In addition, in the comparable period, the value of goods and materials sold in the Group was charged with the amount of PLN 124 million as a result of a change in the strategy for securing the depreciation needs related to CO_2 mission allowances of the Generation area. In addition, the cost of electricity sold in 2021 includes the cost of the provision for an onerous contract recognized as at the balance sheet day in the amount of PLN 416 million (Note 41.2).

13.2. Employee benefit expenses

	Year ended 31 December 2021	Year ended 31 December 2020 *(restated figures)*
Wages and salaries	(2 383)	(2 285)
Social security costs	(471)	(453)
Post-employment benefit expenses, *of which:*	(106)	194
Provision for retirement, disability and similar benefits	(28)	(28)
Coal allowances and special electricity rates and charges	-	293
Social Benefits Fund	(7)	(5)
Contributions to employee retirement plans	(71)	(66)
Social Fund	(66)	(68)
Jubilee bonuses	12	(47)
Voluntary termination scheme	-	(6)
Other employee benefit expenses	(109)	(95)
Total	**(3 123)**	**(2 760)**
Items included in cost of sales	(2 057)	(1 811)
Items included in selling expenses	(255)	(196)
Items included in administrative expenses	(412)	(372)
Items included in cost of goods produced for internal purposes	(399)	(381)

13.3. Depreciation and amortisation charges and impairment losses

	Year ended 31 December 2021	Year ended 31 December 2020 *(restated figures)*
Amortization, *included in item:*	**(2 101)**	**(2 017)**
Cost of sales	(1 981)	(1 906)
Selling expenses	(51)	(44)
Administrative expenses	(42)	(43)
Cost of goods produced for internal purposes	(27)	(24)
Impairment allowance, *included in item:*	**(1 129)**	**(3 746)**
Cost of sales	(1 133)	(3 700)
Selling expenses	1	-
Administrative expenses	(6)	(46)
Cost of goods produced for internal purposes	9	-
Total	**(3 230)**	**(5 763)**

In the year ended 31 December 2021, as a result of impairment tests performed as at 31 December 2021 and as at 30 June 2021, the Group recognised impairment losses in the Generation and Mining segments in the total amount of PLN 1 138 million. The tests and their results are further described in detail in Note 11 to these consolidated financial statements.

In addition, in the year ended 31 December 2021, the Group companies created and released write-downs on individual assets, customer contract assets and non-current assets classified as held for sale, which charged the Group's operating expenses with the total amount of PLN 9 million.

(in PLN million)

The total impairment loss on property, plant and equipment, intangible assets and rights-of-use assets in the year ended 31 December 2021 amounted to PLN 1 129 million.

14. Other operating revenues and costs

	Year ended 31 December 2021	Year ended 31 December 2020 *(restated figures)*
Penalties, fines, compensations received or receivable	35	59
Surplus of other provisions (recognized)/derecognized	34	13
Subsidies/grants and revenue representing the equivalent of amortization/depreciation charges from subsidies to or free of charge received fixed assets	36	38
Result on the disposal of non-financial fixed assets and costs of damages to non-current assets	22	(17)
Write-off for abandoned investments and production	(15)	(2)
Costs of court proceedings, fines and damages	(8)	(12)
Surplus of reversal of actuarial provisions for the employee tariff for the pensioners	-	234
Income from co-financing the costs of compensation benefits under the crisis shield	-	65
Other operating income	45	51
Other operating expenses	(50)	(56)
Total	**99**	**373**

15. Financial revenues and costs

SELECTED ACCOUNTING PRINCIPLES

Financial revenues and costs comprise, in particular, revenues and costs related to:

- interest and unwinding of discounts and revenues due to participating in the profits of other entities,
- revaluation of financial instruments, except financial assets measured where the effects are recognised in other comprehensive income and charged to revaluation reserve and derivative commodity instruments falling within the scope of IFRS 9 *Financial Instruments* in the case of which gains/losses on change in measurement and on exercising are presented within operating activities where gains/losses on the related trading in goods are also recognised;
- foreign exchange differences, except for differences recognized in the initial value of a fixed asset, to the extent they are classified as adjustment to interest expenses;
- other items related to financing activities.

Transactions expressed in a foreign currency are converted to functional currency at initial recognition according to the average exchange rate determined for a given currency by the National Bank of Poland as at the day preceding such a day. As at the balance sheet day, monetary items expressed in foreign currency are converted applying the closing exchange rate (the average exchange rate determined for a given currency by the National Bank of Poland on that day is deemed the closing exchange rate for entities whose functional currency is PLN).

For the purpose of balance sheet valuation, the following exchange rates were applied:

Currency	31 December 2021	31 December 2020
EUR	4.5994	4.6148
USD	4.0600	3.7584
CZK	0.1850	0.1753

Exchange differences arising on settlement and translation as at the balance sheet day are recognised, respectively, in the income statement under financial revenues (costs), except when capitalised in the value of assets.

(in PLN million)

	Year ended 31 December 2021	Year ended 31 December 2020 *(restated figures)*
Income and costs from financial instruments	**(222)**	**(635)**
Interest costs	(368)	(286)
Commission relating to borrowings and debt securities	(25)	(18)
Gain/loss on derivative instruments	116	125
Interest income	25	27
Exchange differences	15	(246)
Dividend income	10	6
Remeasurement of loans granted	1	(221)
Other	4	(22)
Other finance income and costs	**(19)**	**(7)**
Interest on employee benefits	(11)	(21)
Interest on discount of other provisions	(7)	(10)
Other finance income	8	36
Other finance costs	(9)	(12)
Total, *including recognized in the statement of comprehensive income:*	**(241)**	**(642)**
Interest expense on debt	(368)	(286)
Finance income and other finance costs	127	(356)

An increase in interest expenses in the amount of PLN 82 million results mainly from the decline in the amount of interest capitalised in the value of investment tasks. In the year ended 31 December 2021, interest expenses were capitalised in the amount of PLN 14 million and in the comparative period - in the amount of PLN 169 million. The decline mainly results from the commissioning of the 910 MW unit in Jaworzno in November 2020. At the same time, a decline in interest expenses occurred due to changes in the use of financing instruments and changes in interest rates.

16. Costs arising from leases

The table below presents the total charge to profit or loss due to lease agreements where Group companies are the lessee.

	Year ended 31 December 2021	Year ended 31 December 2020
Cost arising from leases recognized in accordance with MSSF 16 *Leases, including:*	(159)	(154)
Depreciation of right-of-use assets	(106)	(104)
Cost of interest on lease liabilities	(53)	(50)
Cost arising from leases for which practical exclusion from MSSF 16 *Leases* has been applied, *including:*	(14)	(17)
Cost of short-term leases	(11)	(15)
Variable lease charges not included in the measurement of lease liabilities	(3)	(2)
Total	**(173)**	**(171)**

17. Income Tax

SELECTED ACCOUNTING PRINCIPLES

Current Tax

Income tax recognised in profit or loss for the period includes actual tax charge for the given reporting period of individual companies constituting the Tax Capital Group ("TCG") as well as other non-TCG companies, determined in line with the binding provisions of the Act on corporate income tax and potential adjustments of tax settlements for previous years.

Deferred Tax

The Group recognises a deferred tax assets and liabilities arising from temporary differences between the book value of assets and liabilities and their tax value, as well as a tax loss deductible in the future.

The deferred tax asset is recognised only if its realization is probable, i.e. if it is expected that a taxable profit sufficient to use the asset will be generated in the future.

Income tax relating to items recognised in other comprehensive income or directly in equity, is recognised in other comprehensive income or equity, respectively.

The deferred tax assets and deferred tax liabilities of the companies forming the Tax Capital Group are set off due to the fact that these companies file a joint tax return.

PROFESSIONAL JUDGEMENT AND ESTIMATES

The Group assesses the realisability and verifies unrecognised deferred tax assets at each balance sheet day.

The Group recognizes an allowance for a deferred tax asset of the company from the Mining segment, due to the lack of forecasts justifying the possibility of its realization. As at the balance sheet day, the Group assessed that there is no risk of non-realization of the deferred tax asset of the companies forming the TCG.

(in PLN million)

17.1. Tax expense in the statement of comprehensive income

	Year ended 31 December 2021	Year ended 31 December 2020 *(restated figures)*
Current income tax	**(82)**	**(229)**
Current income tax expense	(48)	(218)
Adjustments to current income tax from previous years	(34)	(11)
Deferred tax	**(208)**	**235**
Income tax expense in profit/(loss)	**(290)**	**6**
Income tax expense relating to other comprehensive income, *including:*	**(109)**	**46**
reclassified to profit or loss	(88)	19
not reclassified to profit or loss	(21)	27

17.2. Reconciliation of the effective tax rate

	Year ended 31 December 2021	Year ended 31 December 2020 *(restated figures)*
Profit/(loss) before taxation	**675**	**(2 179)**
Tax at Poland's statutory tax rate of 19%	**(128)**	**414**
Adjustments to income tax from previous years	(34)	(11)
Non-tax revenue and fixed costs	(7)	(45)
Changes in deferred tax estimates	(151)	(293)
Other	30	(59)
Tax at the effective rate of 43.0% (2020: 0.3%)	**(290)**	**6**
Income tax (expense) in the financial result	(290)	6

The changes in the estimate in deferred tax relate mainly to the companies of the Mining segment and are related to the increase in the write-down of the value of deferred tax assets and the failure to recognize the deferred tax asset on the company's tax loss for 2021.

18. Earnings/(loss) per share

SELECTED ACCOUNTING PRINCIPLES

Net profit (loss) per share for each period is calculated by dividing the net profit (loss) attributable to equity holders of the parent company for a given reporting period by the weighted average number of shares existing in that period.

	Year ended 31 December 2021	Year ended 31 December 2020 *(restated figures)*
Net profit (loss) for the year attributable to equity holders of the Parent	338	(2 170)
Number of ordinary shares	1 752 549 394	1 752 549 394
Basic and diluted earnings per share (in PLN):	**0.19**	**(1.24)**

EXPLANATORY NOTES TO THE STATEMENT OF FINANCIAL POSITION

19. Property, plant and equipment

SELECTED ACCOUNTING PRINCIPLES

The Group's key fixed assets by segment include:

- in the Mining Segment:

- mechanised enclosures, pit shafts and dip-headings and fixed assets located in the mine walls and the coal processing plant;
- costs of work related to the cutting of production drifts and reinforcement of longwalls;

- in the Generation Segment:

- boilers with accessories, turbines with generators, transformers and thermal stations as well as equipment used for purposes of fuel unloading, storage and transportation, pumping stations and desulphurisation installations, steam generators, switching stations, landfills, warehouses and other buildings, switchgears for the highest voltages;
- heating stations, fuel unloading and transportation facilities, as well as pumping stations and water treatment plants.

- in the area of Renewable Energy Sources:

- wind turbines, photovoltaic farms, hydroelectric power stations, hydroelectric power station buildings and weirs, dams and hydroelectric equipment.

- in the Distribution Segment:

- power lines located in an area of 57 thousand square kilometres, with the total length of approximately 247 thousand kilometres;
- electrical substations (approximately 62 thousand units);
- transformers (approximately 59 thousand units).

Items of property, plant and equipment are measured at cost less accumulated depreciation and impairment losses. The cost includes:

- acquisition price or manufacturing cost,
- costs directly attributable to the purchase and bringing the asset to a usable condition,
- the expected cost of disassembly and removal of items of property, plant and equipment and restoration of their current location to its original condition (the accounting policy in the scope of creating provisions for these costs are presented in Note 39 to these consolidated financial statements),
- external financing costs.

All material elements included in an asset but having various useful lives (components) are identified and separated as at the date of acquisition of an item of property, plant and equipment. Components also include costs of overhauls, periodic inspections and costs of replacing the main components. The Group recognises specialised spare parts and servicing equipment as separate items of property, plant and equipment, if their useful life period exceeds one year.

Depreciation is calculated by reference to the acquisition price or manufacturing cost of the fixed asset less its residual value. Depreciation of property, plant and equipment takes place based on the depreciation plan determining the estimated useful life of each fixed asset. Items of property, plant and equipment (including components) are depreciated on a straight-line basis over the period of their expected useful lives, except for land and fixed assets under construction, which are not subject depreciation. Specialised spare parts and service equipment are depreciated over the useful life of the fixed asset to which they relate.

External financing costs

Borrowing costs are capitalised as part of the manufacturing cost or acquisition price of the qualifying non-current assets. Borrowing costs consist primarily of interest on specific and general financing calculated using the effective interest rate method and foreign exchange differences arising on foreign currency financing to the extent that they are recognised as an adjustment to interest costs. The effective portion of the hedge for contracts that satisfy the hedge accounting criteria and are concluded in connection with financing the development of non-current assets is also capitalised.

The amount of general borrowing costs subject to activation is defined through the application of the capitalisation rate to the expenditure incurred for the adjustment of the component of assets. The rate of capitalisation is the average weighted rate of all borrowing costs related to external financing constituting liabilities in a given period, other than specific financing.

Fixed assets received free of charge and connection charges and subsidies to assets

Fixed assets received free of charge and connection fees are initially recognised at acquisition cost corresponding to the estimated fair value or value of cash received as a subsidy to assets. Revenues from fixed assets received free of charge, funded with subsidies, are disclosed in the statement of financial position as deferred income and are recognised as other operating revenues in the manner proportionate to the corresponding depreciation costs of received or purchased components of property, plant and equipment.

PROFESSIONAL JUDGEMENT AND ESTIMATES

Impairment

As at every balance sheet day the Group assesses whether objective indication of impairment occurs in relation to property, plant and equipment. Impairment tests for property, plant and equipment are carried out in line with the accounting policy presented in Note 11 hereto.

Consolidated financial statements for the year ended 31 December 2021 compliant with the IFRS, approved by the European Union (in PLN million)

Average remaining useful lives of individual groups of fixed assets

Asset group	Average remaining depreciation period (number of years)
Buildings, premises, civil and water engineering structures	20 years
Plant and machinery	12 years
Mining excavations	2 years
Other tangible fixed assets	4 years

The depreciation method, the depreciation rate and the residual value of fixed assets are reviewed at least at each financial year-end and any adjustments to depreciation charges are applied with effect from the beginning of the reporting period in which the review is completed. The review of the economic useful lives of fixed and intangible assets carried out in 2021 had the most significant impact on depreciation and amortisation expense in the Distribution segment - a decline in depreciation and amortisation expenses of PLN 28 million and in the Generation segment - an increase in depreciation and amortisation expenses of PLN 11 million.

Year ended 31 December 2021

	Land	Buildings, premises and civil engineering structures	Plant and machinery	Mine workings	Other	Assets under construction	Property, plant and equipment, total
COST							
Opening balance	**143**	**29 748**	**25 206**	**258**	**976**	**1 888**	**58 219**
Direct purchase	-	-	-	2	-	2 487	**2 489**
Borrowing costs	-	-	-	-	-	14	**14**
Transfer of assets under construction	2	1 702	994	-	38	(2 736)	**-**
Sale	(1)	(38)	(137)	-	(6)	(4)	**(186)**
Liquidation	-	(46)	(140)	(149)	(17)	-	**(352)**
Received free of charge	-	43	-	-	-	-	**43**
Overhaul expenses	-	-	-	-	-	94	**94**
Items generated internally	-	-	-	169	-	48	**217**
Cost of disassembly of wind farms and decommissioning of mines	-	(159)	(14)	-	-	-	**(173)**
Other movements	-	(29)	39	-	(13)	(18)	**(21)**
Closing balance	**144**	**31 221**	**25 948**	**280**	**978**	**1 773**	**60 344**
ACCUMULATED DEPRECIATION							
Opening balance	**-**	**(13 010)**	**(14 570)**	**(138)**	**(704)**	**(292)**	**(28 714)**
Depreciation for the period	-	(887)	(850)	(83)	(59)	-	**(1 879)**
Impairment	-	(484)	(674)	(33)	(1)	71	**(1 121)**
Sale	-	36	135	-	6	3	**180**
Liquidation	-	41	136	149	17	-	**343**
Other movements	-	28	(17)	-	13	(3)	**21**
Closing balance	**-**	**(14 276)**	**(15 840)**	**(105)**	**(728)**	**(221)**	**(31 170)**
NET CARRYING AMOUNT AT THE BEGINNING OF THE PERIOD	**143**	**16 738**	**10 636**	**120**	**272**	**1 596**	**29 505**
NET CARRYING AMOUNT AT THE END OF THE PERIOD	**144**	**16 945**	**10 108**	**175**	**250**	**1 552**	**29 174**
of which operating segments:							
Mining	**3**	**201**	**176**	**169**	**3**	**117**	**669**
Generation	**42**	**2 513**	**3 651**	**-**	**24**	**114**	**6 344**
Renewable Energy Sources	**-**	**791**	**1 172**	**-**	**3**	**93**	**2 059**
Distribution	**81**	**12 851**	**4 939**	**-**	**196**	**1 065**	**19 132**
Other segments and other operations	**18**	**589**	**170**	**6**	**24**	**163**	**970**

(in PLN million)

Year ended 31 December 2020 *(restated data)*

	Land	Buildings, premises and civil engineering structures	Plant and machinery	Mine workings	Other	Assets under construction	Property, plant and equipment, total
COST							
Opening balance	**141**	**25 481**	**20 297**	**265**	**958**	**7 777**	**54 919**
Direct purchase	-	-	-	1	-	3 247	**3 248**
Borrowing costs	-	-	-	-	-	227	**227**
Transfer of assets under construction	1	4 284	5 301	-	44	(9 630)	**-**
Sale	-	(14)	(108)	-	(8)	-	**(130)**
Liquidation	-	(76)	(310)	(147)	(15)	-	**(548)**
Overhaul expenses	-	-	-	-	-	216	**216**
Items generated internally	-	-	-	139	-	193	**332**
Cost of disassembly of wind farms and decommissioning of mines	-	72	8	-	-	-	**80**
Revenue from start-up	-	-	-	-	-	(162)	**(162)**
Other movements	1	1	18	-	(3)	20	**37**
Closing balance	**143**	**29 748**	**25 206**	**258**	**976**	**1 888**	**58 219**
ACCUMULATED DEPRECIATION							
Opening balance	**-**	**(10 757)**	**(12 008)**	**(116)**	**(655)**	**(283)**	**(23 819)**
Depreciation for the period	-	(857)	(804)	(93)	(68)	-	**(1 822)**
Impairment	-	(1 481)	(2 160)	(76)	(6)	(10)	**(3 733)**
Sale	-	13	105	-	8	-	**126**
Liquidation	-	68	303	147	15	-	**533**
Other movements	-	4	(6)	-	2	1	**1**
Closing balance	**-**	**(13 010)**	**(14 570)**	**(138)**	**(704)**	**(292)**	**(28 714)**
NET CARRYING AMOUNT AT THE BEGINNING OF THE PERIOD	**141**	**14 724**	**8 289**	**149**	**303**	**7 494**	**31 100**
NET CARRYING AMOUNT AT THE END OF THE PERIOD	**143**	**16 738**	**10 636**	**120**	**272**	**1 596**	**29 505**
of which operating segments:							
Mining	**3**	**311**	**188**	**115**	**4**	**187**	**808**
Generation	**42**	**2 896**	**4 290**	**-**	**22**	**203**	**7 453**
Renewable Energy Sources	**1**	**885**	**1 259**	**-**	**1**	**30**	**2 176**
Distribution	**80**	**12 127**	**4 773**	**-**	**222**	**1 028**	**18 230**
Other segments and other operations	**17**	**519**	**126**	**5**	**23**	**148**	**838**

In the year ended 31 December 2021, the Group purchased property, plant and equipment (including capitalised borrowing costs) in the amount of PLN 2 503 million. The major purchases were made in connection with investments in the following operating segments:

Operating segment	Year ended 31 December 2021	Year ended 31 December 2020 *(restated figures)*
Distribution	1 988	1 845
Generation	116	1 187
Mining	95	191

The average capitalisation rate of borrowing costs was 2.8% for the year ended 31 December 2021 and 4.14% for the year ended 31 December 2020.

The main investment tasks implemented by the Group in the financial year 2021 are described in section 1.5. of the Management Board report on the activities of TAURON Polska Energia S.A. and TAURON Capital Group for the financial year 2021.

The impairment losses on property, plant and equipment had an impact on the results of the following operating segments:

Year ended 31 December 2021

	Generation	Mining	Distribution	Other	Total
Increase of impairment	(942)	(181)	(1)	(1)	**(1 125)**
Decrease of impairrment	1	-	3	-	**4**
Total impact on the profit (loss) for the period	**(941)**	**(181)**	**2**	**(1)**	**(1 121)**

Year ended 31 December 2020 *(restated data)*

	Generation	Mining	Distribution	Other	Total
Increase of impairment	(3 191)	(545)	(4)	-	**(3 740)**
Decrease of impairrment	4	-	3	-	**7**
Total impact on the profit (loss) for the period	**(3 187)**	**(545)**	**(1)**	**-**	**(3 733)**

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20. Right-of-use assets

SELECTED ACCOUNTING PRINCIPLES

An agreement or part of a rental, lease or other agreement or part of an agreement of a similar nature under which the right to control the use of an assets for a given period is transferred in exchange for remuneration is classified as a lease. Lease classification is made at the date of commencement of the lease, based on the economic content of the agreement, not on its legal form.

The Company classifies as leases rights of perpetual usufruct of land and easements for the use of energy and heat transmission facilities (transmission easement).

At the date of commencement of the lease, a right-of-use assets is recognised for use and a liability for the lease.

A right-of-use asset is measured at cost including:
- the amount of the initial measurement of the lease liability,
- all lease payments made at or before the inception of the lease, less any amounts received in respect of the lease or costs paid by the lessor (lease incentives),
- any initial direct costs incurred by the lessee,
- an estimate of the costs of dismantling and removing the underlying asset, restoring the site on which it was located, or restoring it to the condition required by the lease terms.

After the initial recognition, a right-of-use asset is measured at cost less accumulated depreciation and/or amortization and impairment write-down and adjusted for the revaluation of the lease liability. Depreciation and/or amortisation principles applied to assets used under leases are consistent with those applied to depreciation and/or amortisation of assets owned by the Group. If there is no reasonable certainty that the Group will obtain ownership by the end of the lease term the asset item is fully depreciated over the shorter of the lease term and its useful life.

The Company does not apply the requirements of IFRS 16 *Leases* to the asset class to short-term leases that have a lease term of 12 months or less at inception. The Group applies the exemption from the application of IFRS 16 *Leases* to leases where the underlying asset has a value not exceeding PLN 20 thousand. The Group may select the exemption for leases where the underlying asset is of low value on a lease by lease basis, in particular the Group does not apply the exemption for low value assets in the case of perpetual usufruct of land.

PROFESSIONAL JUDGEMENT AND ESTIMATES

At the date of commencement of the lease, the Group measures an right-of-use assets including in the current value of the lease payments remaining to be paid on that date. Lease payments are discounted using the interest rate of the lease if that rate can be easily determined. Otherwise, the Group applies the incremental borrowing rate, in accordance with the adopted methodology depending on the rating.

The Group applies the portfolio approach to similar leases regarding unified assets with similar use. When accounting for leases under the portfolio approach, the Group applies estimates and assumptions corresponding to the size and composition of the portfolio, including estimates of the weighted average lease term. The Company applies the portfolio approach in particular to leases, tenancies and other contracts that meet the criteria for recognition as leases relating to premises and land for the purpose of installation of thermal and electrical infrastructure.

In order to determine the lease period, e.g. for contracts for an indefinite period, the Group makes an estimate.

Year ended 31 December 2021

	Land	Perpetual usufruct right	Buildings, premises and civil engineering structures	Plant and machinery	Motor vehicles	Transmission easements	Right-of-use assets in progress	Right-of-use assets total
COST								
Opening balance	**548**	**1 162**	**196**	**89**	**8**	**133**	**6**	**2 142**
Increase due to a new lease contract	66	1	13	34	5	-	-	**119**
Increase(decrease) due to lease changes	4	27	4	9	-	-	-	**44**
Liquidation	(5)	(1)	(1)	(20)	(2)	-	-	**(29)**
Other movements	5	11	-	-	-	17	-	**33**
Closing balance	**618**	**1 200**	**212**	**112**	**11**	**150**	**6**	**2 309**
ACCUMULATED DEPRECIATION								
Opening balance	**(45)**	**(92)**	**(32)**	**(62)**	**(5)**	**(30)**	**-**	**(266)**
Depreciation for the period	(27)	(33)	(19)	(20)	(1)	(6)	-	**(106)**
Impairment	-	(1)	-	(4)	-	(1)	-	**(6)**
Liquidation	1	-	-	20	2	-	-	**23**
Other movements	-	(8)	-	-	-	-	-	**(8)**
Closing balance	**(71)**	**(134)**	**(51)**	**(66)**	**(4)**	**(37)**	**-**	**(363)**
NET CARRYING AMOUNT AT THE BEGINNING OF THE PERIOD	**503**	**1 070**	**164**	**27**	**3**	**103**	**6**	**1 876**
NET CARRYING AMOUNT AT THE END OF THE PERIOD	**547**	**1 066**	**161**	**46**	**7**	**113**	**6**	**1 946**

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Year ended 31 December 2020 *(restated data)*

	Land	Perpetual usufruct right	Buildings, premises and civil engineering structures	Plant and machinery	Motor vehicles	Transmission easements	Right-of-use assets in progress	Right-of-use assets, total
COST								
Opening balance	**476**	**1 076**	**176**	**65**	**7**	**121**	**6**	**1 927**
Increase due to a new lease contract	55	-	12	31	-	-	-	**98**
Increase/(decrease) due to lease changes	3	78	9	(1)	-	-	-	**89**
Other movements	14	8	(1)	(6)	1	12	-	**28**
Closing balance	**548**	**1 162**	**196**	**89**	**8**	**133**	**6**	**2 142**
ACCUMULATED DEPRECIATION								
Opening balance	**(20)**	**(60)**	**(15)**	**(35)**	**(2)**	**(21)**	**-**	**(153)**
Depreciation for the period	(25)	(34)	(17)	(19)	(3)	(6)	-	**(104)**
Impairment	-	10	-	(14)	-	(3)	-	**(7)**
Other movements	-	(8)	-	6	-	-	-	**(2)**
Closing balance	**(45)**	**(92)**	**(32)**	**(62)**	**(5)**	**(30)**	**-**	**(266)**
NET CARRYING AMOUNT AT THE BEGINNING OF THE PERIOD	**456**	**1 016**	**161**	**30**	**5**	**100**	**6**	**1 774**
NET CARRYING AMOUNT AT THE END OF THE PERIOD	**503**	**1 070**	**164**	**27**	**3**	**103**	**6**	**1 876**

21. Goodwill

SELECTED ACCOUNTING PRINCIPLES

Goodwill is measured at initial value (determined in accordance with the accounting policy presented in Note 6) less accumulated impairment losses. Goodwill is not amortised but is tested for impairment.

As at the acquisition date, the acquired goodwill is allocated to each of the cash-generating units that may benefit from the synergies of the merger. Each cash-generating unit or group of cash-generating units to which goodwill has been assigned corresponds to the lowest level in the TAURON Group, at which the goodwill is monitored for internal management needs and is not larger than one operating segment of the TAURON Group.

PROFESSIONAL JUDGEMENT AND ESTIMATES

Goodwill is tested for impairment annually and as at each balance sheet day for which relevant indications occur. The impairment test in respect of goodwill is carried out in accordance with the accounting policies presented in Note 11.

Operating segment	As at 31 December 2021	As at 31 December 2020
Distribution	26	26
Total	**26**	**26**

22. Energy certificates and CO_2 emission rights

SELECTED ACCOUNTING PRINCIPLES

Energy certificates of origin and gas emission allowances classified as intangible assets include:

- certificates of origin for energy produced from renewable energy sources (RES) as well as property rights arising from energy efficiency certificates, received or acquired with a view to their redemption in connection with the sale of electricity to final customers;
- CO_2 emission allowances received or acquired for the purpose of meeting an obligation resulting from CO_2 emission.

The Group classifies energy certificates of origin and CO_2 emission allowances on the basis of the intention as to their intended use specified on the date of purchase (with a possibility of subsequent reclassification) as:

- current intangible assets – energy certificates of origin and gas emission rights designated for own use, where the Group intends to redeem them in order to meet its obligation for the current year;
- non-current intangible assets – energy certificates of origin and gas emission rights designated for own use, the purpose of which is to fulfil the obligation to present them for redemption in subsequent years.

The measurement principles for these assets at initial recognition are as follows:

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	Acquired	Granted/Received free of charge	Release
Energy certificates	Acquisition cost	Fair value on the last day of the month in which qualified energy was produced or in which energy efficiency certificates were granted	FIFO "First In First Out"
CO_2 emission allowances	Acquisition cost	Nominal value (i.e. zero)	Obtained free of charge in the first place, subsequently acquired ones (FIFO "First In First Out")

The energy certificates and the CO_2 emission allowances are surrendered (in correspondence with settlement of the provision amount) at the date of their redemption. The principles applicable to the recognition of provisions relating to the energy certificate surrendering obligation and for liabilities arising from CO_2 emissions are presented in Note 40.

22.1. Long-term energy certificates and CO_2 emission rights

	Year ended 31 December 2021			Year ended 31 December 2020		
	Energy certificates	CO_2 emission allowances	Total	Energy certificates	CO_2 emission allowances	Total
Opening balance	**234**	**267**	**501**	**306**	**162**	**468**
Direct purchase	113	-	**113**	217	141	**358**
Reclassification	(147)	(23)	**(170)**	(289)	(36)	**(325)**
Closing balance	**200**	**244**	**444**	**234**	**267**	**501**

22.2. Short-term energy certificates and CO_2 emission rights

	Year ended 31 December 2021			Year ended 31 December 2020 *(restated figures)*		
	Energy certificates	CO_2 emission allowances	Total	Energy certificates	CO_2 emission allowances	Total
Opening balance	**705**	**334**	**1 039**	**595**	**690**	**1 285**
Direct purchase	281	1 360	**1 641**	190	385	**575**
Generated internally	239	-	**239**	227	-	**227**
Surrendered	(1 221)	(1 635)	**(2 856)**	(596)	(777)	**(1 373)**
Reclassification	147	(53)	**94**	289	36	**325**
Closing balance	**151**	**6**	**157**	**705**	**334**	**1 039**

Reclassification of CO_2 emission rights includes:

- reclassification of allowances worth PLN 222 million acquired in previous years and intended for redemption of 2021 from long-term to short-term CO_2 emission allowances,
- reclassification of allowances worth PLN 76 million held by the subsidiary Nowe Jaworzno Grupa TAURON Sp. z o.o. and constituting a surplus over the redemption needs for 2020, from short-term CO_2 emission allowances to inventories, due to the change of intention regarding the use of these allowances and their resale, which is described in more detail in Note 12 to these consolidated financial statements. Revenues on this account amounted to PLN 135 million,
- reclassification of allowances worth PLN 199 million, originally acquired by the Group in December 2021 for Nowe Jaworzno Grupa TAURON Sp. z o.o., from short-term to long-term CO_2 emission allowances, in connection with the surplus of allowances for 2021 in the portfolio of Nowe Jaworzno Grupa TAURON Sp. z o.o., as a result of the failure of the unit and the shutdown of the 910 MW unit in Jaworzno in the second half of 2021 and the allocation of this surplus for the installation of TAURON Wytwarzanie S.A. for the redemption year 2022.

(in PLN million)

22.3. Balance of CO_2 emission allowances in the European Union Registry

Balance of emission allowances	Year ended 31 December 2021	Year ended 31 December 2020
Allowances recorded at the beginning of the financial year	**6 732 596**	**13 784 891**
Allowances surrendered:		
previous year's emissions	(10 047 653)	(12 161 904)
current year's emissions	(5 871 051)	-
Allocation of free-of-charge allowances	131 815	223 609
Allowances purchased on the secondary market	17 673 672	12 555 500
Allowances sold on the secondary market	(6 431 379)	(7 669 500)
Allowances recorded at the end of the financial year	**2 188 000**	**6 732 596**

In 2021, TAURON Group companies were allocated free emission allowances in the amount of 131,815 EUA for heat production. The remaining allowances, necessary to balance the 2021 emissions needs, have been purchased and contracted for purchase on the secondary market.

23. Other intangible assets

SELECTED ACCOUNTING PRINCIPLES

Key items of other intangible assets include software, concessions, patents, licenses and similar items.

Other intangible assets are measured at acquisition cost or manufacturing cost less accumulated amortisation and impairment losses.

Other intangible assets, except those which have not been made available for use, are amortised over their estimated useful lives. Amortisation is calculated by reference to the initial value less the residual value. Residual value is included in determining the basis for calculation of amortisation charges, if for a given asset, an active market exists or a third party has committed to buy the asset upon completion of its useful life.

PROFESSIONAL JUDGEMENT AND ESTIMATES

Impairment

As at each balance sheet day the Group assesses whether objective indication of impairment occurs in relation to intangible assets. Impairment tests for intangible assets are carried out in line with the accounting policy presented in Note 11.

The period and method of amortisation and the residual value are subject to verification, at least at the end of each financial year. Any changes arising from the conducted verification are captured as the change in estimates, while the potential adjustment of amortisation charges is performed with the effectiveness as of the beginning of the reporting period, not shorter than the year in which the verification was completed.

Useful life periods

The following average residual useful life periods were adopted for individual groups of other intangible assets:

Asset group	Average remaining amortization period (number of years)
Software, concessions, patents, licenses and similar items	4 years
Other	9 years

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Year ended 31 December 2021

	Development expenses	Software, concessions, patents, licenses and similar items	Other intangible assets	Intangible assets not made available for use	Intangible assets total
COST					
Opening balance	**12**	**945**	**219**	**120**	**1 296**
Direct purchase	-	-	-	106	**106**
Transfer of intangible assets not made available for use	5	143	7	(155)	**-**
Sale/Liquidation	-	(43)	(3)	-	**(46)**
Closing balance	**17**	**1 045**	**223**	**71**	**1 356**
ACCUMULATED AMORTIZATION					
Opening balance	**(7)**	**(624)**	**(113)**	**-**	**(744)**
Amortization for the period	(1)	(105)	(10)	-	**(116)**
Impairment	-	-	(2)	-	**(2)**
Sale/Liquidation	-	43	3	-	**46**
Closing balance	**(8)**	**(686)**	**(122)**	**-**	**(816)**
NET CARRYING AMOUNT AT THE BEGINNING OF THE PERIOD	**5**	**321**	**106**	**120**	**552**
NET CARRYING AMOUNT AT THE END OF THE PERIOD	**9**	**359**	**101**	**71**	**540**

Year ended 31 December 2020 *(restated data)*

	Development expenses	Software, concessions, patents, licenses and similar items	Other intangible assets	Intangible assets not made available for use	Intangible assets total
COST					
Opening balance	**9**	**822**	**200**	**114**	**1 145**
Direct purchase	-	-	-	168	**168**
Transfer of intangible assets not made available for use	5	144	19	(168)	**-**
Sale/Liquidation	(2)	(21)	-	-	**(23)**
Other movements	-	-	-	6	**6**
Closing balance	**12**	**945**	**219**	**120**	**1 296**
ACCUMULATED AMORTIZATION					
Opening balance	**(6)**	**(563)**	**(98)**	**-**	**(667)**
Amortization for the period	(1)	(80)	(10)	-	**(91)**
Impairment	-	(2)	(5)	-	**(7)**
Sale/Liquidation	-	21	-	-	**21**
Closing balance	**(7)**	**(624)**	**(113)**	**-**	**(744)**
NET CARRYING AMOUNT AT THE BEGINNING OF THE PERIOD	**3**	**259**	**102**	**114**	**478**
NET CARRYING AMOUNT AT THE END OF THE PERIOD	**5**	**321**	**106**	**120**	**552**

24. Shares and stocks in joint ventures

SELECTED ACCOUNTING PRINCIPLES

The Group's joint contractual arrangements classified as joint ventures are accounted for using the equity method.

Using the equity method the initial value of the investment carried at cost is increased or reduced by a share in profits/losses and in other comprehensive income of the joint venture as from the acquisition date (recognised in profit or loss or in other comprehensive income of the Group, as appropriate). Payments due to sharing of profit generated by the joint venture reduce the carrying amount of the investment. When the Group's share of losses of a joint venture equals or exceeds its interest in the joint venture, the Group ceases to recognise its share in further losses.

If the Group contributes or sells assets to the joint venture which retains such assets, the Group recognises only such part of the profit or loss which is attributable to shares of other investors in the joint venture, unless the contribution or sales of assets indicates a decline in the achievable net value of current assets or occurrence of the impairment. If the Group acquires assets from the joint venture, it does not recognise the part of profits attributable to it due to this transaction, until such assets are resold to an independent third party.

PROFESSIONAL JUDGEMENT AND ESTIMATES

The Group defines the type of the joint arrangement it is a party to, depending on the rights and obligations of parties to such arrangement. Following an analysis of such rights and obligations, the Group assesses its joint control over joint arrangements and rights to their net assets. Consequently, shares in the TAMEH Holding Sp. z o.o. Capital Group and in Elektrociepłownia Stalowa Wola S.A. are classified as joint ventures.

Impairment

Interests in joint ventures are tested for impairment whenever there is an indication that an impairment may occur or a previously recognised impairment loss is reversed.

Consolidated financial statements for the year ended 31 December 2021 compliant with the IFRS, approved by the European Union (in PLN million)

	Elektrociepłownia Stalowa Wola S.A.	TAMEH HOLDING Sp. z o.o.	As at 31 December 2021 or for the year ended 31 December 2021	Elektrociepłownia Stalowa Wola S.A.[1]	TAMEH HOLDING Sp. z o.o. [2]	As at 31 December 2020 or for the year ended 31 December 2020
Non-current assets	980	2 033	**3 013**	941	2 118	**3 059**
Current assets, *including:*	554	1 428	**1 982**	165	652	**817**
cash and cash equivalents	*24*	*251*	***275***	*2*	*159*	***161***
Non-current liabilities (-), *including:*	(1 813)	(672)	**(2 485)**	(1 897)	(840)	**(2 737)**
debt	*(1 792)*	*(577)*	***(2 369)***	*(1 844)*	*(743)*	***(2 587)***
Current liabilities (-), *including:*	(1 282)	(1 514)	**(2 796)**	(731)	(675)	**(1 406)**
debt	*(108)*	*(185)*	***(293)***	*(6)*	*(184)*	***(190)***
Total net assets	(1 561)	1 275	**(286)**	(1 522)	1 255	**(267)**
Share in net assets (50%)	(781)	638	**(143)**	(761)	628	**(133)**
Investment in joint ventures	**-**	**597**	**597**	**-**	**587**	**587**
Sales revenue	1 004	2 779	**3 783**	125	1 690	**1 815**
Net profit (loss), *including:*	(41)	64	**23**	(1 039)	32	**(1 007)**
Depreciation	*(32)*	*(194)*	***(226)***	*(21)*	*(186)*	***(207)***
Interest income	-	*3*	***3***	-	-	**-**
Interest expenses	*(109)*	*(21)*	***(130)***	*(38)*	*(23)*	***(61)***
Income tax	-	*(14)*	***(14)***	-	*(8)*	***(8)***
Share in profit/(loss) of joint ventures	-	32	**32**	-	16	**16**

[1] The consolidated financial statements for the year ended 31 December 2020 include unapproved data of Elektrociepłownia Stalowa Wola S.A., available as at the date of approval of the consolidated financial statements for publication.
[2] The information presented relate to the TAMEH HOLDING Sp. z o.o. Capital Group. The value of the interest held in TAMEH HOLDING Sp. z o.o. differs from the value of net assets attributable to the Group, because the cost of shares in TAMEH HOLDING Sp. z o.o. was calculated taking into account the fair value of the share contributed to the joint venture by companies from the ArcelorMittal Group.

Elektrociepłownia Stalowa Wola S.A.

Elektrociepłownia Stalowa Wola S.A. is a special purpose vehicle established in 2010 at the initiative of TAURON Polska Energia S.A. and PGNiG S.A., through which the partners implemented an investment consisting in the construction of CCGT unit in Stalowa Wola with the gross electrical capacity of 450 MWe and the net heat capacity of 240 MWt. On 30 September 2020, Elektrociepłownia Stalowa Wola was commissioned.

TAURON Polska Energia S.A. has an indirect shareholding of 50% in the capital of the company and in the governing body, exercised through TAURON Wytwarzanie S.A. Due to the fact that in 2015 the accumulated share of losses of the joint venture and the adjustment to “top-down” transactions between the Group companies and the joint venture exceeded the value of the interest in the joint venture, the Company discontinued to recognise its share of any further losses of the joint venture.

In addition, the Company has receivables on account of loans granted to Elektrociepłownia Stalowa Wola S.A. in the carrying amount of PLN 99 million, as further discussed in Note 25 to these consolidated financial statements.

Judgement of the Court of Arbitration at the Polish Chamber of Commerce concerning the claims of Abener Energia S.A. against Elektrociepłownia Stalowa Wola S.A. and the proceedings between Abener Energia S.A. and Elektrociepłownia Stalowa Wola S.A.

On 25 April 2019, a judgement of the Court of Arbitration at the Polish Chamber of Commerce in Warsaw (“Judgement”) was issued in the case filed by Abener Energia S.A. (“Abener”) against Elektrociepłownia Stalowa Wola S.A. ("ECSW"), which is a joint venture of TAURON Group.

The case pending before the Court of Arbitration referred to the claim for payment, for establishing the legal relationship and for the obligation to submit a declaration of intent in connection with the terminated contract concluded between Abener (general contractor) and ECSW (contracting authority) for the construction of a CCGT unit in Stalowa Wola (the “Contract”) which has been rescinded. Pursuant to the Judgement, ECSW was obligated to pay to Abener the amount of PLN 334 million including the statutory interest for delay and costs of the arbitration proceedings. On 22 September 2020, the Court of Appeals in Rzeszów dismissed the appeal of ECSW to repeal the Judgement, while on 20 November 2020 it issued a decision suspending the execution of the Judgement until the completion of the cassation proceedings or the expiry of the time limit for filing the cassation appeal. As a consequence, on 21 December 2020, ECSW filed a complaint in cassation. Elektrociepłownia Stalowa Wola S.A. recognised the liability for the effects of the above Judgement in the last financial statements for 2020.

On 20 December 2019, ECSW received another statement of claim lodged by Abener with the Arbitration Court. The subject of the lawsuit is the payment by ECSW to Abener of the total amount of PLN 156 million and EUR 0.5 million including the statutory interest for the delay as compensation for damages resulting from ECSW requesting and obtaining payment from the performance bond at Abener's expense or, alternatively, reimbursement of illegitimate enrichment obtained by ECSW at Abener's expense in connection with obtaining the payment from the performance bond.

On 19 October 2020, ECSW lodged a statement of claim with the Court of Arbitration at the Polish Chamber of Commerce in Warsaw against Abener for payment by Abener to ECSW of compensation for damages corresponding to the costs of rectifying the defects, faults and deficiencies in the works, deliveries and services performed by Abener during the performance of the aforementioned contract. The current value of the subject of the dispute amounts to PLN 188 million and EUR 0.5 million.

The Contract concluded between ECSW and Abener does not contain any provisions obliging the Company to pay any form of the remuneration to Abener for ECSW.

On 31 December 2021, ECSW and Abener (the "Parties") signed a settlement agreement to set out the terms on which ECSW and Abener will perform mutual settlements arising out of any litigation or arbitration pending between the Parties and arising out of the Contract. Pursuant to the settlement, ECSW agrees to pay the amount of EUR 93 million to Abener in accordance with the Judgement and other settlements, of which the amount of EUR 32 million was settled in the form of the release of funds previously deposited in the escrow account in connection with the trial won by ECSW in 2017 with the guarantee of the proper performance of the contract with Abener. Upon the entry into force of the terms provided for in the settlement agreement, the Parties agree to discontinue all pending litigation and arbitration proceedings between them and acknowledge the absence of any further or future claims under the Contract. The entry into force of the settlement agreement was subject to termination prerequisites, i.e. Abener was obliged to present documents enabling the execution of the settlement agreement by 28 February 2022 and ECSW was obliged to present a resolution of the Supervisory Board approving the conclusion of the settlement agreement.

After the balance sheet day, on 28 February 2022, ECSW and Abener signed an annex to the settlement agreement extending the deadline for the fulfilment of Abener's obligations, which failure to perform would constitute a termination condition of the settlement agreement, to 7 March 2022. As at the date of approval of these consolidated financial statements for publication, the terms of the settlement agreement were met and the parties began to implement it.

After the balance sheet day, in connection with the settlement agreement concluded on 31 December 2021, all court proceedings and arbitration proceedings between ECSW and Abener were suspended at the joint request of the Parties. On 9 and 10 March 2022, the Parties filed motions to resume suspended proceedings, to withdraw claims and a cassation appeal, and to discontinue all proceedings. The Parties are awaiting decisions of the Supreme Court and the Court of Arbitration at the Polish Chamber of Commerce in the above cases.

Signing the Letter of Intent concerning Elektrociepłownia Stalowa Wola S.A.

On 2 August 2021, the Company, a subsidiary of TAURON Wytwarzanie S.A., Polskie Górnictwo Naftowe i Gazownictwo S.A. ("PGNiG") and PGNiG TERMIKA S.A. signed a letter of intent concerning the potential transaction of sale by TAURON Wytwarzanie S.A. to PGNiG Group of its equity interest in Elektrociepłownia Stalowa Wola S.A. and receivables on account of loans granted to Elektrociepłownia Stalowa Wola S.A. by TAURON Polska Energia S.A. Signing of the letter of intent does not imply a commitment by the parties to conclude the above-mentioned potential transaction. The decision to proceed with the transaction will depend on the outcome of negotiations in this regard and the fulfilment of other conditions stipulated by law or in corporate documents.

As at 31 December 2021, in the Group's opinion, the criteria of IFRS 5 *Non-current assets held for sale and discontinued operations* in the classification of the above assets as held for sale have not been met.

TAMEH HOLDING Sp. z o.o. and subsidiaries

In 2014, a shareholders' agreement was concluded by and between the TAURON Group and the ArcelorMittal Group regarding TAMEH HOLDING Sp. z o.o., which is responsible for investment and operational projects in the area of industrial energy. The agreement was concluded for a period of 15 years, with a possibility of its extension. The two capital groups hold a 50% interest in TAMEH HOLDING Sp. z o.o. each.

TAMEH HOLDING Sp. z o.o. is the owner of 100% of the shares in TAMEH POLSKA Sp. z o.o., formed by a contribution in kind by the TAURON Group: Zakład Wytwarzania Nowa and Elektrownia Blachownia, as well as Elektrociepłownia in Kraków contributed by the ArcelorMittal Group. In addition, TAMEH HOLDING Sp. z o.o. holds 100% of TAMEH Czech s.r.o. shares, which consists of the Ostrava Combined Heat and Power Plant.

On 7 July 2021, the Shareholders' Meeting of TAMEH Holding Sp. z o.o. decided to allocate the amount of PLN 74 million for the payment of dividends to shareholders. The Group's share in the TAMEH Holding Sp. z o.o. joint venture was reduced by the value of the dividend attributable to the Group in the amount of PLN 37 million.

25. Loans to joint ventures

SELECTED ACCOUNTING PRINCIPLES

(in PLN million)

Loans granted to a joint venture do not satisfy the criteria to be recognised as a net investment in a joint venture.

PROFESSIONAL JUDGEMENT AND ESTIMATES

In accordance with the requirements of IFRS 9 *Financial Instruments*, the Group appropriately classifies and measures its loans and estimates the allowance for expected credit losses for loans classified as assets measured at amortised cost.

As at the balance sheet day, the loan granted under the debt consolidation agreement, due to the fact that the cash flows do not correspond solely to the payment of principal and interest, was classified as a financial asset measures at a fair value through profit or loss. The Group has estimated the fair value accordingly. The methodology for calculating fair value is presented in Note 51 to these consolidated financial statements.

Other loans are measured at amortised cost and at each balance sheet day the Group estimates expected credit losses. The methodology and expected credit loss amounts are presented below and in Note 52.1.4 to these consolidated financial statements.

	As at 31 December 2021				As at 31 December 2020					
	Repayable principal amount and interest contractually accrued	Gross value	Impairment loss	Carrying amount	Repayable principal amount and interest contractually accrued	Gross value	Impairment loss	Carrying amount	Maturity date	Interest rate
Loans measured at fair value	409	74	n.a.	74	385	73	n.a.	73	30.06.2033	fixed
Loans measured at amortized cost	116	28	(3)	25	111	27	(1)	26		
Total	**525**	**102**	**(3)**	**99**	**496**	**100**	**(1)**	**99**		
Non-current		102	(3)	**99**		98	(1)	**97**		
Current		-	-	**-**		2	-	**2**		

After the balance sheet day, on 2 March 2022, the Company entered into a loan agreement with Elektrociepłownia Stalowa Wola S.A. up to PLN 120 million, in order to settle the liability of Elektrociepłownia Stalowa Wola S.A. resulting from the settlement agreement with Abener Energia S.A. concluded on 31 December 2021, as further described in Note 24 to these consolidated financial statements. In accordance with the agreement, the loan including the interest accrued will be repaid by 30 June 2033 and, if the subordinated nature of the loan is waived, by 31 December 2022. The loan bears interest at a fixed rate and the repayment, accrued interest and costs and other amounts due to the Company under the agreement are secured by a blank promissory note of the borrower together with a promissory note declaration. On 8 March 2022, the Company paid out the full amount of the loan to the borrower.

26. Derivatives and hedge accounting

SELECTED ACCOUNTING PRINCIPLES

Derivative financial instruments within the scope of IFRS 9 *Financial Instruments* are classified as financial assets/liabilities measured at a fair value through profit or loss, except for derivatives designated as hedging instruments and covered by hedge accounting. Derivative instruments acquired and held for internal purposes as excluded from the scope of IFRS 9 *Financial Instruments* are not measured at the balance sheet day.

Derivatives classified as “financial assets/financial liabilities measured at fair value through profit or loss” are measured at a fair value, taking into account their market value as at the balance sheet day. Changes in the fair value of these instruments are recognised in the result of the period (commodity derivatives in operating income/expenses, other derivatives in financial income/expenses). Derivatives are disclosed as assets if their value is positive or as liabilities if their value is negative.

As at the end of the reporting period, Interest Rate Swaps (IRS) acquired and held to hedge the interest rate risk relating to indebtedness are subject to hedge accounting. Other derivative instruments held by the Company as at the balance sheet day are not subject to hedge accounting.

Hedge accounting

In order to hedge the interest rate risk, the Group uses IRS (Interest Rate Swap) contracts. These instruments hedge cash flows related to the debt. Such transactions are subject to hedge accounting.

At the inception of the hedge the Group formally designates and documents the hedging relationship as well as the risk management objective and the strategy underlying establishing of the hedge.

Cash flow hedges are accounted for as follows:

- the portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognised directly in other comprehensive income; and
- the ineffective portion of the gain or loss on the hedging instrument shall be recognised in profit or loss for the current period.

The gains/losses on the measurement of a hedging instrument recognised in other comprehensive income are recognised directly in the profit or loss of the current period when the hedged item affects profit or loss of the current period or is included in the initial cost of the assets (capitalisation of external financing costs). For IRS, interest costs arising from debt are adjusted accordingly.

PROFESSIONAL JUDGEMENT AND ESTIMATES

The Group measures fair value at each balance sheet day. The methodology is presented in the table below. The Group tests the effectiveness of the hedge at each balance sheet day.

(in PLN million)

As a result of the delayed commissioning of the Jaworzno power unit, as at 31 December 2020, the Company held a significant surplus of CO_2 emission allowances contracted to be purchased on account of redemption by the subsidiary in connection with the emission for 2020. In the first quarter of 2021, as a result of the analysis of new premises and circumstances which emerged after 31 December 2020, the Company changed its intention regarding the above-mentioned CO_2 emission allowances and decided to perform their rollover including the conclusion of new contracts with delivery dates in March 2022, 2023 and 2024 (as further discussed in Note 12).

Instrument	Methodology of determining fair value	As at 31 December 2021
Derivative instruments subject to hedge accounting		
IRS	The difference between discounted floating-rate interest cash flows and those based on fixed interest rates. Refinitiv interest rate curve is the input data.	IRS (Interest Rate Swap) instruments are used to hedge a portion of the interest rate risk on the cash flows associated with the exposure to WIBOR 6M designated under the dynamic risk management strategy, i.e: • interest on a loan with a nominal value of PLN 750 milion, for periods commencing respectively from July 2020 and expiring in December 2024; • interest on bonds with a total nominal value of PLN 3 090 milion, for periods beginning in December 2019 and expiring successively from 2023 to 2029. Under the terms of the transaction, the Company pays interest based on a fixed interest rate in PLN, while receiving payments at a floating interest rate in PLN.
Derivative instruments measured at a fair value through the profit and loss other than subject to hedge accounting		
CCIRS	The difference between discounted interest cash flows relating to payments and receipts, in two different currencies, expressed in the valuation currency. Interest rate curves, basis spreads and NBP fixing for the relevant currencies from Refinitiv are the input data.	CCIRS (Coupon Only Cross Currency Swap fixed-fixed) derivatives involve an exchange of interest payments on a total nominal amount of EUR 500 milion. The transaction matures in July 2027. Under the terms of the transaction, the Company pays interest based on a fixed interest rate in PLN, while receiving payments at a fixed interest rate in EUR. CCIRS derivatives aimed at securing the currency flows generated by interest payments on Eurobonds issued.
Commodity forward/future	The fair value of forwards for the purchase and sale of CO_2 emission allowances, electricity and other commodities is based on prices quoted on an active market or based on cash flows being the difference between the price reference index (forward curve) and the contract price.	Derivative instruments (future, forward) comprise forward transactions for the purchase and sale of CO_2 emission allowances and other commodities.
FX forward	The difference between discounted future cash flows: the forward price at the valuation date and the transaction price, multiplied by the nominal value of the contract in a foreign currency. NBP fixing and the implied interest rate curve from FX swap transactions for the relevant currency from Refinitiv are the input data.	FX forward derivative instruments aimed at hedging currency flows generated due to the activities conducted.

The measurement of derivatives as at the respective balance sheet days is presented in the table below:

	As at 31 December 2021				As at 31 December 2020			
	Charged to profit or loss	Charged to other comprehensive income	Total		Charged to profit or loss	Charged to other comprehensive income	Total	
			Assets	Liabilities			Assets	Liabilities
Derivatives subject to hedge accounting								
IRS	-	371	**371**	**-**	(6)	(84)	**-**	**(90)**
Derivatives measured at fair value through profit or loss								
CCIRS	25	-	**26**	**(1)**	3	-	**5**	**(2)**
Commodity forwards/futures	(9)	-	**485**	**(494)**	2	-	**86**	**(84)**
Currency forwards	115	-	**115**	**-**	68	-	**68**	**-**
Total			**997**	**(495)**			**159**	**(176)**
Non-current			532	(116)			36	(74)
Current			465	(379)			123	(102)

Due to changes in prices of the underlying instruments, i.e. interest rates, currencies and commodities, mainly CO_2 emission allowances, a significant increase in the valuation of derivative assets and liabilities was recorded.

(in PLN million)

27. Other financial assets

SELECTED ACCOUNTING PRINCIPLES

Other financial assets of the Group include, inter alia, shares and stocks, deposits, bid bonds, security deposits and collaterals provided, loans granted to unrelated entities.

Upon initial recognition, financial assets are classified to the appropriate category of financial assets and measured accordingly. The principles of classification and measurement of financial assets in accordance with IFRS 9 *Financial Instruments* are described in Note 51 to these consolidated financial statements.

PROFESSIONAL JUDGEMENT AND ESTIMATES

The measurement of financial assets at a fair value requires the Group to estimate the fair value at each balance sheet day. The methodology for calculating fair value is presented in Note 51 to these consolidated financial statements.

The measurement of financial assets measured at amortised cost requires the Group to estimate expected credit losses at each balance sheet day. The methodology for estimating expected credit losses for loans granted is presented in Note 52.1.4 to these consolidated financial statements.

	As at 31 December 2021	As at 31 December 2020 *(restated figures)*
Shares	141	122
Deposits and term deposits for Mining Decommissioning Fund	56	53
Other financial receivables, *including:*	107	177
Bid bonds, deposits and collateral transferred	65	56
Initial and variation margin deposits arising from stock exchange transactions	32	49
Receivables due to financial compensation for traiding companies	-	61
Other	10	11
Total	**304**	**352**
Non-current	215	209
Current	89	143

28. Other non-financial assets

SELECTED ACCOUNTING PRINCIPLES

Other non-financial assets of the Group include prepayments as well as advance payments for fixed assets under construction, intangible assets, inventories which as non-monetary items are not discounted and costs of acquiring new contracts and costs of rebates. Contract acquisition costs are capitalised if the Group expects to recover them. On the other hand, costs of contract acquisition can be immediately charged to expenses if the period of depreciation of the related asset is up to one year. The asset is depreciated over the period of the transfer of goods or provision of services. If the costs are related to more than one contract, depreciation should include both current and projected contracts.

28.1. Other non-current non-financial assets

	As at 31 December 2021	As at 31 December 2020 *(restated figures)*
Prepayments for assets under construction and intangible assets, *including:*	115	14
related to the construction of wind farms	*102*	-
Contract acquisition costs and costs of discounts	8	7
Prepayments for debt charges	5	8
Property and tort insurance	3	3
Other prepayments	28	31
Total	**159**	**63**

(in PLN million)

28.2. Other current non-financial assets

	As at 31 December 2021	As at 31 December 2020 *(restated figures)*
Costs settled over time	**101**	**73**
Property and tort insurance	54	27
IT and telecom services	22	24
Contract acquisition costs and costs of discounts	15	13
Prepayments for debt charges	8	6
Other prepayments	2	3
Other current non-financial assets	**11**	**10**
Total	**112**	**83**

29. Deferred income tax

	As at 31 December 2021	As at 31 December 2020 *(restated figures)*
Deferred tax liabilities		
difference between tax base and carrying amount of property, plant and equipment, intangible assets and right-of-use assets	1 858	1 828
different timing of recognition of sales revenue for tax purposes	399	327
difference between tax base and carrying amount of financial assets	297	42
difference between tax base and carrying amount of energy certificates	25	22
other	80	74
Total	**2 659**	**2 293**
Deferred tax assets		
difference between tax base and carrying amount of property, plant and equipment, intangible assets and right-of-use assets	892	852
difference between tax base and carrying amount of financial assets and financial liabilities	547	389
provisions and accruals	537	731
different timing of recognition of sales revenue and cost of sales for tax purposes	367	270
tax losses	16	9
power infrastructure received free of charge and received connection fees	6	7
other	28	27
Total	**2 393**	**2 285**
Impairment of deferred tax assets	(352)	(293)
Deferred tax assets after impairment	**2 041**	**1 992**
After setting off balances at the level of individual Group companies, deferred tax for the Group is presented as:		
Deferred tax asset	**123**	**133**
Deferred tax liability	**(741)**	**(434)**

The deferred tax assets and deferred tax liabilities of the companies forming the Tax Capital Group in 2021 have been offset as at 31 December 2021. The applied allowance for deferred tax asset refers to the company from the Mining segment.

Change in deferred tax liability and assets

	Year ended 31 December 2021		Year ended 31 December 2020 *(restated figures)*	
	Deferred tax liabilities	Deferred tax assets	Deferred tax liabilities	Deferred tax assets
Opening balance	**2 293**	**1 992**	**2 341**	**1 758**
Change in the balance:				
corresponding to profit/(loss)	295	87	(44)	191
corresponding to other comprehensive income	71	(38)	(4)	42
other changes	-	-	-	1
Closing balance	**2 659**	**2 041**	**2 293**	**1 992**

(in PLN million)

30. Inventories

SELECTED ACCOUNTING PRINCIPLES

Inventory is measured at a lower of two values: purchase price or manufacturing cost and net achievable sales price. Greenhouse gas emission allowances which are purchased for sale and generation of profit in the short term due to volatility of market prices are measured at a fair value as at each balance sheet day.

Inventory releases are measured using the weighted average method, except for energy certificates of origin and CO_2 emission allowances whose releases are measured using the FIFO method.

The Group's inventories comprise mainly fuel stocks.

PROFESSIONAL JUDGEMENT AND ESTIMATES

Measurement of inventories requires an estimate of the net achievable sales price. It is the estimated price of sales performed in the course of ordinary business, less costs of finishing and estimated costs required to make the sales effective. Valuation of the stock of CO_2 emission allowances described above at a fair value is based on prices quoted in an active market.

	As at 31 December 2021	As at 31 December 2020 *(restated figures)*
Gross value		
Coal, *of which:*	338	658
Raw materials	*166*	*278*
Semi-finished goods and work-in-progress	*171*	*377*
CO_2 emission allowances	-	18
Other inventories	216	209
Total	**554**	**885**
Measurement to net realisable value		
Other inventories	(11)	(11)
Total	**(11)**	**(11)**
Net realisable value		
Coal, *of which:*	338	658
Raw materials	*166*	*278*
Semi-finished goods and work-in-progress	*171*	*377*
CO_2 emission allowances	-	18
Other inventories	205	198
Total	**543**	**874**

31. Receivables from customers

SELECTED ACCOUNTING PRINCIPLES

Receivables from customers include amounts invoiced and receivables accrued to revenue, including estimated revenues, which have not been measured and invoiced due to the customer settlement system used. The accounting policy in the scope of accrued revenue is described in Note 12.

Receivables from customers are measured at the amounts originally invoiced or estimated, including in accordance with the methodology described in Note 51 to these consolidated financial statements (taking into account the effect of discounting, if material), taking into account the revaluation allowance.

Impairment allowances are recognised for both overdue and current receivables based on probability-weighted credit loss to be incurred should any of the following events occur:

- a material delay in payment,
- a debtor is put in liquidation, declared bankrupt or undergoes restructuring procedures,
- the receivables are claimed at administrative or common court, or undergo enforcement.

If a given counterparty's receivables are overdue by more than 90 days, they are classified as bad debt, i.e. the 100% probability of insolvency is assigned to that counterparty.

For receivables from customers, the Group separated a portfolio of strategic counterparties (a counterparty with credit exposure exceeding PLN 1 million) and a portfolio of the remaining counterparties.

For the portfolio of strategic counterparties, the risk of insolvency of strategic counterparties is assessed based on ratings assigned to the counterparties using an internal scoring model and appropriately restated to account for the probability of default. The expected credit loss, in line with *IFRS 9 Financial Instruments*, is calculated based on the estimated potential recoveries from security interests.

It is expected that the historical performance information concerning receivables from other counterparties may reflect the credit risk that will be faced in future periods. The expected credit losses for this group of counterparties were estimated using the receivables ageing matrix and the percentage ratios assigned to the various ranges and groups (including receivables claimed at court, receivables from counterparties in bankruptcy) allowing to estimate the value of receivables from customers expected to be outstanding.

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In order to take into account the impact of future factors (in relation to strategic and other counterparties), the Group adjusts the parameters related to the probability of default using the quotations of Credit Default Swap instruments for individual ratings.

Revaluation allowances of receivables are recognised in such cost categories which correspond to the function of the assets component, i.e. in costs of operating activity or financial costs - depending on the type of receivables the allowance refers to.

PROFESSIONAL JUDGEMENT AND ESTIMATES

In accordance with the requirements of IFRS 9 *Financial Instruments*, the Group estimates impairment losses on receivables from customers attributable to expected credit losses. The allowance calculation methodology is described above.

	As at 31 December 2021	As at 31 December 2020 *(restated figures)*
Value of items before allowance/write-down		
Receivables from buyers, *of which:*	3 363	2 512
Additional assessment of revenue from sales of electricity and distribution services	*1 094*	*814*
Receivables claimed at court	217	222
Total	**3 580**	**2 734**
Allowance/write-down		
Receivables from buyers	(65)	(63)
Receivables claimed at court	(193)	(198)
Total	**(258)**	**(261)**
Value of item net of allowance (carrying amount)		
Receivables from buyers	3 298	2 449
Receivables claimed at court	24	24
Total, *of which:*	**3 322**	**2 473**
Current	3 322	2 473

Ageing of receivables from customers as at 31 December 2021

	Not past due	Past due					Total
		< 30 days	30-90 days	90-180 days	180-360 days	> 360 days	
Value of item before allowance/write-down	3 012	286	38	20	32	192	**3 580**
Allowance/write-down	(28)	(4)	(6)	(20)	(32)	(168)	**(258)**
Net Value	**2 984**	**282**	**32**	**-**	**-**	**24**	**3 322**

Ageing of receivables from customers as at 31 December 2020 *(restated data)*

	Not past due	Past due					Total
		< 30 days	30-90 days	90-180 days	180-360 days	> 360 days	
Value of item before allowance/write-down	2 216	222	53	33	36	174	**2 734**
Allowance/write-down	(14)	(9)	(20)	(32)	(36)	(150)	**(261)**
Net Value	**2 202**	**213**	**33**	**1**	**-**	**24**	**2 473**

Change in allowances on receivables from customers

	Year ended 31 December 2021	Year ended 31 December 2020 *(restated figures)*
Opening balance	**(261)**	**(229)**
Recognised	(6)	(39)
Utilized	7	6
Reversed	2	1
Closing balance	**(258)**	**(261)**

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32. Receivables arising from other taxes and charges

SELECTED ACCOUNTING PRINCIPLES

Settlements due to other taxes and charges presented in the statement of financial position include:
- Settlements due to VAT and excise duty;
- Personal income tax and social security settlements;
- Environmental fees and other public law settlements.

	As at 31 December 2021	As at 31 December 2020 *(restated figures)*
VAT receivables	285	271
Excise duty receivables	1	12
Other	6	12
Total	**292**	**295**

33. Cash and equivalents

SELECTED ACCOUNTING PRINCIPLES

Cash and cash equivalents comprise, in particular, cash in hand and at bank and short-term deposits with the original maturity period of up to three months.

Cash is recognised at a face value. In case of funds deposited in bank accounts, the face value as at the balance sheet day comprises interest calculated by the bank or accrued by the entity on its own.

Unpaid overdraft facilities that constitute an integral part of cash management are classified as "Cash and cash equivalents" for the purposes of statement of cash flows. In the statement of financial position, such facilities are presented, respectively, in debt liabilities.

	As at 31 December 2021	As at 31 December 2020 *(restated figures)*
Cash at bank and in hand	811	668
Short-term deposits (up to 3 months)	-	250
Other	4	3
Total cash and cash equivalents presented in the statement of financial position, *of which*:	**815**	**921**
restricted cash, *including:*	314	214
collateral of settlements with Izba Rozliczeniowa Giełd Towarowych S.A.	*168*	*121*
cash on VAT bank accounts (split payment)	*102*	*52*
bank accounts related to subsidies received	*43*	*32*
Bank overdraft	-	(2)
Cash pool	(24)	(21)
Foreign exchange	-	(3)
Total cash and cash equivalents presented in the statement of cash flows	**791**	**895**

The difference between the balance of cash presented in the statement of financial position and in the statement of cash flows results from overdrafts, cash pool loans granted by entities not subject to consolidation due to the overall immateriality and exchange gains and losses on measurement of cash on accounts in foreign currency.

34. Fixed assets classified as held for sale

SELECTED ACCOUNTING PRINCIPLES

The Group classifies a non-current asset (or disposable group) as held for sale when the following criteria are met:
- representatives of the competent governing body of the Company are committed to implement the plan to sell,
- the assets are available for immediate sale in their present condition subject only to terms that are usual and customary for sales,
- an active programme to locate a potential buyer has been initiated,
- the sale is highly probable and may be performed within 12 months of the decision,
- the sales price is reasonable in relation to the current fair value,
- it is unlikely that the plan to dispose of such assets will be significantly changed.

Fixed assets (or disposable group) classified as held for sale are measured at the lower of the carrying amount and the fair value less costs of sales, except for deferred tax assets, assets arising from employee benefits and financial assets within the scope of IFRS 9

Financial Instruments.

PROFESSIONAL JUDGEMENT AND ESTIMATES

The Group recognises the impairment loss upon initial or subsequent revaluation of an assets (or a disposable group) to the fair value less disposal costs.

The decline in the value of assets classified as held for sale results mainly from the sale by the Company to the State Treasury on 26 March 2021, under the concluded agreement, of all its shares held in PGE EJ 1 Sp. z o.o., classified as assets held for sale. Pursuant to the agreement, the Company sold 532 523 shares in PGE EJ 1 Sp. z o.o. constituting 10% of the share capital and representing 10% of votes at the Meeting of Shareholders of PGE EJ 1 Sp. z o.o. for the price of PLN 53 million. The agreement was concluded by the State Treasury with all entities holding shares in PGE EJ 1 Sp. z o.o., i.e. PGE Polska Grupa Energetyczna S.A., Enea S.A. and KGHM Polska Miedź S.A., while the total sales price for 100% of shares amounted to PLN 526 million.

Moreover, on 26 March 2021, the Shareholders concluded with PGE EJ 1 Sp. z o.o. the annex to the agreement of 15 April 2015 concerning the case of WorleyParsons with PGE EJ 1 Sp. z o.o., regulating the principles of Shareholders' liability for potentially arising liabilities or benefits due as a result of the settlement of the dispute between PGE EJ 1 Sp. z o.o. and WorleyParsons, which is described in more detail in Note 54 to these consolidated financial statements.

On 15 June 2021 an amendment to the articles of association of PGE EJ 1 Sp. z o.o. was registered which, inter alia, changed the the company enterprise name (following the conclusion of the shares sales agreement described above) to Polskie Elektrownie Jądrowe Sp. z o.o.

35. Equity

SELECTED ACCOUNTING PRINCIPLES

Issued capital

Equity is recognised at a level specified in the articles of association of the parent entity and entered in the Court Register.

Supplementary capital

Suplementary capital is created, to which at least 8% of profit for each financial year is appropriated in order to offset the loss of the Company, which is joint stock company, until its amount equals at least one-third of the issued capital.

Hedging instruments revaluation reserve

Revaluation reserve arising from hedging instruments is related to the measurement of Interest Rate Swaps hedging interest rate risk of issued bonds. Its amount is determined as the fair value of the effective portion of cash flow hedging instruments, including deferred tax.

Foreign Exchange differences due to translation of foreign entities

Items in the financial statements of foreign entities (TAURON Czech Energy s.r.o.) are translated into the presentation currency as follows:

- assets and liabilities have been translated to the presentation currency at the average exchange rate published by the National Bank of Poland as at the end of the balance sheet day,
- revenue and expenses have been translated at the average exchange rate of the National Bank of Poland published at the transaction date or the average exchange rate for a given period, if no significant exchange rate fluctuations occurred in the period.

The resulting translation differences were recognised in other comprehensive income.

Retained profits/(accumulated losses)

Retained profits/(accumulated losses) comprise:

- previous years' retained earnings/uncovered losses,
- reserve and supplementary capital of subsidiaries that occurred after the control acquisition date,
- settlement of acquisition/business combination of entities under common control, using the pooling of interests method,
- actuarial gains and losses regarding provisions for post-employment benefits recognised through other comprehensive income,
- impact of adjustments related to the application of IFRS, such as, among others, differences from revaluation of fixed assets to fair value as the assumed cost as at the date of adoption of IFRS or application of exemptions from IFRS 1 *First-time Adoption of International Financial Reporting Standards*.

Non-controlling shares

Non-controlling interests represent a separate equity item. Its initial value is determined as the corresponding fair value of net assets or as fair value of non-controlling interests as at the control commencement date and increased/decreased by respective changes in net assets of the subsidiaries. Decisions regarding initial measurement of non-controlling interests are made on a case-by-case basis.

(in PLN million)

35.1. Issued capital

Issued capital as at 31 December 2021

Class/ issue	Type of shares	Number of shares	Nominal value of one share (in PLN)	Value of class/issue at nominal value	Method of payment
AA	bearer shares	1 589 438 762	5	7 947	cash/in-kind contribution
BB	registered shares	163 110 632	5	816	in-kind contribution
	Total	**1 752 549 394**		**8 763**	

Shareholding structure as at 31 December 2021 and as at 31 December 2020 *(to the best of the Company's knowledge)*

Shareholder	Number of shares	Nominal value of shares	Percentage of share capital	Percentage of total vote
State Treasury	526 848 384	2 634	30.06%	30.06%
KGHM Polska Miedź S.A.	182 110 566	911	10.39%	10.39%
Nationale - Nederlanden Otwarty Fundusz Emerytalny	88 742 929	444	5.06%	5.06%
Other shareholders	954 847 515	4 774	54.49%	54.49%
Total	**1 752 549 394**	**8 763**	**100%**	**100%**

As at 31 December 2021, to the best of the Company's knowledge, the value of issued capital, the number of shares, the nominal value of shares and the shareholding structure, have not changed as compared to the status as at 31 December 2020.

35.2. Shareholder rights

The voting rights of the shareholders holding more than 10% of the total votes in the Company have been limited in such a manner that none of them is entitled to exercise the right to more than 10% of votes at the General Meeting of the Company. The limitation does not apply to the State Treasury and State Treasury owned companies in the period when the State Treasury and State Treasury owned companies hold shares in the Company authorising to at least 25% of the total votes in the Company.

For further details on restrictions on the exercise of voting rights, see Section 9.6. of the Management Board's report on the activities of TAURON Polska Energia S.A. and TAURON Capital Group for the financial year 2021.

35.3. Supplementary capital

	As at 31 December 2021	As at 31 December 2020
Amounts from distribution of prior years profits	2 749	4 887
Decrease in the value of issued capital	-	1 217
Settlement of mergers with subsidiaries	-	235
Total suplementary capital	**2 749**	**6 339**

The decrease in the value of supplementary capital in the period ended 31 December 2021 results from the coverage of the net loss of the Company for the financial year 2020 in the amount of PLN 3 590 million. On 29 March 2021, the Management Board of TAURON Polska Energia S.A. adopted the resolution concerning the submission of the motion to the Ordinary General Meeting of TAURON Polska Energia S.A. requesting covering the net loss of the Company for the financial year 2020 in the amount of PLN 3 590 million from the supplementary capital of the Company. On 24 May 2021 the Ordinary General Meeting of Shareholders of the Company adopted the resolution in compliance with the recommendation of the Management Board.

The supplementary capital of the Company does not exceed the level of one-third of the Company share capital, i.e. PLN 2 921 million, therefore, it may be used to cover losses only.

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35.4. Revaluation reserve from the measurement of hedging instruments

	Year ended 31 December 2021	Year ended 31 December 2020
Opening balance	**(68)**	**16**
Remeasurement of hedging instruments	449	(97)
Remeasurement of hedging instruments charged to profit or loss	6	(6)
Deferred income tax	(88)	19
Closing balance	**299**	**(68)**

The revaluation reserve from valuation of hedging instruments results from valuation of Interest Rate Swaps (IRS) hedging the interest rate risk arising from bonds issued, which has been discussed in more detail in Note 26 to these consolidated financial statements. For concluded hedging transactions the Group applies hedge accounting.

As at 31 December 2021, the Group recognised the amount of PLN 299 million of the revaluation reserve from the measurement of hedging instruments. This amount represents an asset on account of the measurement of IRS instruments as at the balance sheet day in the amount of PLN 371 million, adjusted by the portion of the measurement relating to debt interest accrued at the balance sheet day, including the deferred tax.

The increase in the revaluation reserve from the measurement of hedging instruments during the year ended 31 December 2021 results from the increase in the positive valuation of IRS instruments, which is mainly related to the increase in the level of market interest rates.

35.5. Retained earnings and restrictions on dividends

The amounts of retained earnings arising from the settlement of mergers with subsidiaries as well as actuarial gains and losses on post-employment benefit provisions recognised through other comprehensive income are not distributed.

Due to the fact that the supplementary capital of the Company does not exceed one-third of the share capital, the Company is obliged to transfer at least 8% of the net profit for a given financial year to the supplementary capital until this capital reaches at least one-third of the share capital.

As at 31 December 2021 and as at the date these consolidated financial statements were authorised for issue, there are no other restrictions on the payment of dividends.

35.6. Non-controlling shares

	Year ended 31 December 2021	Year ended 31 December 2020
Opening balance	**893**	**900**
Acquisition of non-controlling interests by the Group	(903)	-
Share in subsidiaries' net profit or loss	47	(3)
Dividends for non-controlling interests	(3)	(2)
Other transactions with non-controlling shareholders	(1)	(2)
Closing balance	**33**	**893**

The acquisition of non-controlling interests results from the purchase by the Company on 22 December 2021 from Fundusz Inwestycji Infrastrukturalnych - Kapitałowy FIZAN of 176 000 shares in the subsidiary, Nowe Jaworzno Grupa TAURON Sp. z o.o. representing 13.71% of the total number of votes at the general meeting of shareholders of Nowe Jaworzno Grupa TAURON Sp. z o.o. for the amount of PLN 1 061 million, as described in more detail in Note 44 to these consolidated financial statements. Following the transaction, the Company holds 100% of the votes at the general meeting of shareholders of Nowe Jaworzno Grupa TAURON Sp. z o.o. As at the acquisition date, the Company derecognised the value of non-controlling interests in Nowe Jaworzno Grupa TAURON Sp. z o.o. in the amount of PLN 903 million.

The non-controlling interests remaining as at the balance sheet day refer mainly to the TAURON Dystrybucja S.A. company.

36. Dividends paid and proposed for disbursement

	Year ended 31 December 2021	Year ended 31 December 2020
Dividends paid by subsidiaries	(3)	(2)

(in PLN million)

In the year ended 31 December 2021 and the comparative period, the Company did not propose to pay or paid any dividends to the shareholders of the Company.

37. Debt liabilities

SELECTED ACCOUNTING PRINCIPLES

Debt liabilities include: bank loans, borrowings, bonds issued and lease obligations.

- bank loans, borrowings, bonds issued

Upon initial recognition loans, borrowings and bonds issued are measured at a fair value less transaction costs and discounts or premiums. After initial recognition, these liabilities are measured at amortised cost, using the effective interest rate method.

- lease

An agreement or part of a rental, lease or other agreement or part of an agreement of a similar nature under which the right to control the use of an asset (underlying asset) for a given period is transferred in exchange for remuneration is classified as a lease. The lease liability is measured at the present value of the outstanding lease payments, discounted using either the contractual interest rate (if determinable) or the incremental borrowing rate. Lease payments included in the measurement of the lease liability include:

- fixed lease payments less any lease incentives payable,
- variable lease payments that depend on an index or a rate, measured initially using that index or rate according to their value at the starting date,
- amounts expected to be paid by the lessee under the residual value guarantee of the underlying asset,
- the strike price of the call option if it can be assumed that the lessee will exercise it,
- financial penalties for lease termination.

PROFESSIONAL JUDGEMENT AND ESTIMATES

When measuring liabilities at amortised cost using the effective interest rate method, the Group estimates future cash flows considering all contractual terms of a given financial instrument, including the early repayment option. As at the reporting period end, early buy-back of bonds was included in the measurement of liabilities arising from issue of hybrid bonds under agreements concluded with the European Investment Bank and Bank Gospodarstwa Krajowego, in relation to the intention to buy back the bonds after the end of the first financing period.

In the case of a loan agreement defining a repayment date at the end of the interest period, when the financing available under the agreement is revolving and the term of availability exceeds 1 year, the Group classifies the tranches according to the intention and possibility of maintaining financing under the agreement, i.e. as long-term or short-term liabilities.

The lease incremental borrowing rate is estimated as a weighted average cost of TAURON Group's debt adjusted for the individual rating of the companies, taking into account a breakdown by lease term.

	As at 31 December 2021	As at 31 December 2020 *(restated figures)*
Unsubordinated bonds	5 348	5 524
Subordinated bonds	1 972	1 998
Loans and borrowings	4 535	5 992
Lease liabilities	1 235	1 138
Total	**13 090**	**14 652**
Non-current	10 947	13 171
Current	2 143	1 481

(in PLN million)

37.1. Bonds issued

Issuer	Investor	Interest rate	Currency	As at 31 December 2021			As at 31 December 2020		
				Bonds issued at nominal value in currency	Maturity date	Carrying amount	Bonds issued at nominal value in currency	Maturity date	Carrying amount
TAURON Polska Energia S.A.	Bank Gospodarstwa Krajowego	floating, based on WIBOR 6M	PLN	700	2022-2028	700	800	2021-2028	800
				560	2022-2029	560	630	2021-2029	630
	A series bonds (TPE 1025)	floating, based on WIBOR 6M	PLN	1 000	30.10.2025	1 002	1 000	30.10.2025	1 000
	Eurobonds	fixed	EUR	500	5.07.2027	2 316	500	5.07.2027	2 322
Finanse Grupa TAURON Sp. z o.o.	International investors	fixed	EUR	168	3.12.2029	770	168	3.12.2029	772
Unsubordinated bonds						**5 348**			**5 524**
TAURON Polska Energia S.A.	Bank Gospodarstwa Krajowego	floating, based on WIBOR 6M	PLN	400	29.03.2031[2]	401	400	29.03.2031[2]	400
	European Investment Bank	fixed[1]	EUR	190	16.12.2034[2]	847	190	16.12.2034[2]	865
			PLN	400	17.12.2030[2]	386	400	17.12.2030[2]	391
			PLN	350	19.12.2030[2]	338	350	19.12.2030[2]	342
Subordinated bonds						**1 972**			**1 998**
Total bonds						**7 320**			**7 522**

[1] In the case of bonds covered by the European Investment Bank (hybrid subordinated financing), two periods are distinguished. In the first period, the interest rate is fixed, while in the second period the interest rate is variable based on the base rate (EURIBOR/WIBOR) plus a fixed margin.
[2] In the case of subordinated bonds, the maturity date shall take into account two financing periods, as referred to below. The maturity dates presented in the table above are the final terms of redemption according to agreement, after two period of financing. Measurement of bonds as at the reporting period, includes earlier redemption in connection with intention of bonds redemption is after end of first period of financing.

The Eurobonds have been admitted to trading on the regulated market of the London Stock Exchange, while the TPE1025 bonds are listed in the Catalyst alternative trading system operated by the Warsaw Stock Exchange (Giełda Papierów Wartościowych w Warszawie S.A.).

Subordinated hybrid bonds

The bonds subscribed by the European Investment Bank ("EIB") with a nominal value of EUR 190 million and PLN 750 million and by Bank Gospodarstwa Krajowego ("BGK") with a nominal value of PLN 400 million are subordinated, which means that in the event of bankruptcy or liquidation of the issuer, the liabilities arising from the bonds will have priority of repayment only over the receivables of the Company shareholders. This, in turn positively affects the financial stability of the Company, since the bonds are excluded from the net debt / EBITDA ratio calculation, a covenant in national financing agreements concluded by the Company. Additionally, 50% of the subordinated bond amount has been classified by the rating agency as equity in the rating model, which has had a beneficial effect on the rating of the TAURON Group.

In the case of hybrid bonds, two financing periods are distinguished:

- EIB subscribed bonds in PLN - maturity of 12 years from the issue date (17 and 19 December 2030) with two financing periods: 7 and 5 years.
  EIB subscribed bonds in EUR - maturity of 18 years from the issue date (16 December 2034) with two financing periods: 8 and 10 years.

  In the first period, the interest rate is fixed, while in the second period, it is floating and based on the base rate (WIBOR for bonds issued in PLN and EURIBOR for bonds issued in EUR) increased by an agreed margin.
- Bonds with a nominal value of PLN 400 million subscribed by BGK - maturity of 12 years from the issue date (29 March 2031). In the first 7-year period, the interest rate is variable, based on WIBOR 6M increased by a fixed margin, whereas the margin is further increased in the second 5-year financing period.

In the case of hybrid bonds during the first financing period, early redemption of the bonds by the Company is also not possible and early sale of the bonds by the bank to third parties is not possible either (subject to exceptions specified in the documentation).

On 11 March 2021, TAURON Polska Energia S.A. concluded the agreement with Bank Gospodarstwa Krajowego on the subordinated bond issue scheme up to the amount of PLN 450 million. The scheme provides for a possibility to conduct the issue within a period of two years from the moment of signing the documentation. The financing period is 12 years from the date of issue. In the period of the first 7 years following the issue, the interest rate is floating, based on WIBOR 6M increased by a fixed margin, whereas the margin is further increased after the 7-year financing period. Until the date of approval of these consolidated financial statements for publication, no bonds have been issued.

(in PLN million)

37.2. Loans and borrowings

Loans and borrowings as at 31 December 2021

Currency	Interest rate	Value of loans and borrowings as at the balance sheet date		of which maturing within *(after the balance sheet date):*					
		currency	PLN	less than 3 months	3-12 months	1-2 years	2-3 years	3-5 years	over 5 years
PLN	floating	3 646	3 646	1 726	5	3	850	363	699
	fixed	880	880	35	75	109	89	557	15
Total PLN		**4 526**	**4 526**	**1 761**	**80**	**112**	**939**	**920**	**714**
Total			**4 526**	**1 761**	**80**	**112**	**939**	**920**	**714**
Interest increasing carrying amount			9						
Total			**4 535**						

Loans and borrowings as at 31 December 2020

Currency	Interest rate	Value of loans and borrowings as at the balance sheet date		of which maturing within *(after the balance sheet date):*					
		currency	PLN	less than 3 months	3-12 months	1-2 years	2-3 years	3-5 years	over 5 years
PLN	floating	4 942	4 942	1 022	3	2 008	2	1 109	798
	fixed	1 036	1 036	35	123	109	109	616	44
Total PLN		**5 978**	**5 978**	**1 057**	**126**	**2 117**	**111**	**1 725**	**842**
EUR	floating	-	2	2	-	-	-	-	-
Total EUR		**-**	**2**	**2**	**-**	**-**	**-**	**-**	**-**
Total			**5 980**	**1 059**	**126**	**2 117**	**111**	**1 725**	**842**
Interest increasing carrying amount			12						
Total			**5 992**						

(in PLN million)

Specification of loans and borrowings drawn as at 31 December 2021 and 31 December 2020

Borrowing institution	Purpose	Interest rate	Currency	Maturity date	As at 31 December 2021	As at 31 December 2020
Consortium of banks I [1]	Redemption of bonds, investment expenditures and general expenses of the Group	Floating	PLN	14.04.2021 [3]	-	602
				30.04.2021 [3]	-	200
				29.06.2021 [3]	-	1 100
				10.09.2021 [3]	-	100
				25.01.2021	-	300
				28.01.2021	-	600
				29.01.2021	-	100
				17.01.2022	300	-
				20.01.2022	400	-
				24.01.2022	350	-
				31.01.2022	650	-
Bank Gospodarstwa Krajowego	Group's capital expenditures and refinancing of a portion of debt	Floating	PLN	20.12.2033	999	998
European Investment Bank	Construction of a boiler fired with biomass at Jaworzno III Power Plant and renovation of a steam turbine	Fixed	PLN	15.12.2021	-	20
	Construction and start-up of a co-generation unit at EC Bielsko - Biała			15.12.2021	-	29
	Modernization and extension of power grid			15.06.2024	100	138
				15.09.2024	54	72
				15.09.2024	68	90
	Modernization and extension of power grid and improvement of hydropower plants			15.03.2027	162	191
Intesa Sanpaolo S.p.A.	Group's investment expenditure, except for financing or refinancing projects related to coal assets	Floating	PLN	19.12.2024	752	752
SMBC BANK EU AG	Group's general corporate expenses, excluding financing and refinancing of coal-fired power plants	Fixed	PLN	23.03.2025	499	499
Consortium of banks II [2]	Group's general corporate expenses, excluding financing of any new coal assets-related projects	Floating	PLN	10.03.2022 [3]	161	161
Regional Fund for Environmental Protection and Water Management	Construction of renewable power unit at Jaworzno III Power Plant	Floating	PLN	15.12.2022	4	8
Regional Fund for Environmental Protection and Water Management	Construction of the photovoltaic farm	Floating	PLN	30.11.2025	12	9
Other loans and borrowings					24	23
Total					**4 535**	**5 992**

[1] The consortium of banks I consists of: Bank Handlowy w Warszawie S.A., Santander Bank Polska S.A., CaixaBank S.A. (Joint-Stock Company) Branch in Poland, Industrial and Commercial Bank of China (Europe) S.A. Branch in Poland, ING Bank Śląski S.A., mBank S.A., MUFG Bank (Europe) N.V., MUFG Bank (Europe) N.V. S.A. Branch in Poland and Powszechna Kasa Oszczędności Bank Polski S.A.
[2] The consortium of banks II consists of: Intesa Sanpaolo S.p.A. acting through Intesa Sanpaolo S.p.A. S.A. Branch in Poland and China Construction Bank (Europe) S.A. acting through China Construction Bank (Europe) S.A. (Joint Stock Company) Branch in Poland,
[3] Tranche classified as non-current liability.

The syndicated loan taken out under the agreement of 25 March 2020 (Consortium of Banks II) is of revolving nature. The Company may raise financing against available financing with a selected interest period. Under the agreement, the repayment occurs at the end of the interest period, whereas the Company has the option to re-borrow. Due to the intention and possibility to maintain financing under the aforementioned agreement for a period exceeding 12 months from the balance sheet day, the drawdown used in the amount of PLN 160 million is classified as a non-current liability as at the balance sheet day.

Loan tranches drawn under the agreement of 19 June 2019 concluded with the consortium of banks (Consortium of Banks I) are classified in a similar way. Pursuant to the provisions of the loan agreement of 19 June 2019 concluded with the consortium of banks (Consortium of Banks I), the maximum period for drawing individual loan tranches is 12 months. However, the financing available under the agreement is renewable and the deadline for its availability falls as of 31 December 2022. Consequently, as at 31 December 2020, part of the tranches was classified as a long-term liability in line with the Company's intention and the possibility to maintain the financing. In connection with the agreement termination date in 2022, as at 31 December 2021, all tranches with the aggregate nominal value of PLN 1 700 million are classified as short-term.

(in PLN million)

In the year ended 31 December 2021, the Group carried out the following transactions relating to loans and borrowings (at a nominal value), excluding overdraft facilities:

Lender	Description	Year ended 31 December 2021	
		Drawdown	Repayment
Consortium of banks I	Drawdown of new tranches and repayment of tranches according to agreement deadline	8 150	(9 450)
Consortium of banks II	Drawdown of new tranches and repayment of tranches according to agreement deadline	320	(320)
European Investment Bank	Repayment of capital instalments according to schedule	-	(162)
Other borrowings		3	(4)
Total, *including:*		**8 473**	**(9 936)**
Cash flows		2 003	(3 466)
Net settlement (without cash flow)		6 470	(6 470)

After the balance sheet day, under the agreement:

- of 19 June 2019 (Consortium of Banks I), the Company has drawn tranches with an aggregate total nominal value of PLN 6 800 million and repaid tranches in accordance with the repayment term in the aggregate amount of PLN 5 050 million,
- of 25 March 2020 (Consortium of Banks II), the Company has drawn a tranche (renewal) under the facility in the amount of PLN 160 million by 10 September 2022.

Loan agreements concluded by the Company in 2021:

- ***Facility agreement with the European Investment Bank***

On 29 October 2021, the Company concluded the facility agreement with the European Investment Bank for the amount of PLN 2 800 million, to be used to cover the capital expenditure of TAURON Group related to the modernisation and expansion of the electricity distribution network scheduled for 2022-2026. In accordance with the agreement, the Company may use the funds within three years from the date of its conclusion. The loan repayment will take place within eighteen years from the date of disbursement of funds. Depending on the decision of the Company, the interest rate will be based on a fixed interest rate or a floating interest rate (plus the bank's margin) and will be determined at the date of drawdown.

After the balance sheet day, on 24 February 2022, the Company drew down PLN 800 million with a repayment term of 18 years.

- ***Facility Agreements with Erste Group Bank AG***

On 15 December 2021, the Company concluded a PLN 500 million facility agreement with Erste Group Bank AG, the proceeds of which will be used to cover the Group's expenses related to financing or refinancing the development in the area of renewable energy sources, energy efficiency improvements and the development of e-mobility-related infrastructure.

In accordance with the agreement, the Company may use the funds within 18 months from the date of conclusion of the agreement. The loan will be repaid within 5 years from the date of conclusion of the agreement while the interest rate will be based on a floating interest rate plus the Bank's margin.

After the balance sheet day, on 16 February 2022, the Company drew down PLN 96 million with a repayment term in December 2026.

37.3. Debt agreement covenants

The agreements signed with banks impose the legal and financial covenants on the Company, standard for this type of transactions. The key covenant is *the net debt/EBITDA* ratio (for long-term loans agreements and domestic bond issue schemes) which determines the debt less cash in relation to generated EBITDA. The net debt/EBITDA covenant for banks is examined on the basis of consolidated data as at 30 June and 31 December while its permissible limit value is 3.5.

As at 31 December 2021, the net debt/EBITDA ratio amounted to 2.44, therefore the covenant was not exceeded.

37.4. Lease liability

The lease liability primarily relates to the perpetual usufruct of land, contracts for occupation of the road lane, land lease and rental agreements, transmission easements, rental agreements of mining machinery and the lease of office and warehouse premises.

(in PLN million)

Ageing of the lease liability

	As at 31 December 2021	As at 31 December 2020 *(restated figures)*
Within 1 year	136	125
Within 1 to 5 years	355	330
Within 5 to 10 years	367	337
Within 10 to 20 years	650	578
More than 20 years	907	863
Gross lease liabilities	**2 415**	**2 233**
Discount	(1 180)	(1 095)
Present value of lease payments	**1 235**	**1 138**
Lease agreements that do not meet the conditions for recognition as a finance lease as defined in the financing agreements	1 235	1 138

38. Provisions for employee benefits

SELECTED ACCOUNTING PRINCIPLES

In accordance with the company compensation policies, employees of the Group companies are entitled to the following post-employment benefits:

- retirement and disability benefits - paid on a one-off basis, when an employee retires or is vested with the right to receive disability benefits,
- death benefits,
- benefits from the Company Social Benefit Fund.

The above provisions are included in the post-employment defined benefit plans.

Jubilee bonuses are paid to employees of Group companies after a specified number of years of service.

The current value of provisions for post-employment benefits and provisions for jubilee bonuses as at each balance sheet day is calculated by an independent actuary using actuarial methods. Provisions are calculated using the individual method for each employee separately. The accrued liabilities are equal to discounted future payments, including employee turnover, and pertain to the time remaining until the end of the reporting period. Demographic information and employee turnover data are based on historical data.

Actuarial gains and losses on measurement of liabilities arising from post-employment benefits are fully recognised in other comprehensive income (with the accumulated amount recognised in retained earnings), while actuarial gains and losses on jubilee bonuses are recognised in profit or loss.

Other increases and decreases in provisions are charged to operating expenses in the case of employees, to other operating expenses/revenue in the case of pensioners and individuals entitled to disability allowances and to finance costs in the portion pertaining to interest that constitutes the unwinding of discount.

In accordance with IAS 19 *Employee Benefits*, the Group also recognises provisions for termination benefits under the voluntary redundancy schemes. The benefits are measured based on the expected number of employees willing to accept the employment termination offer and the estimated benefit amount.

PROFESSIONAL JUDGEMENT AND ESTIMATES

Provisions for post-employment benefits and for jubilee awards have been estimated using actuarial methods. Key actuarial assumptions made as at the end of the reporting period for provision calculation purposes:

	31 December 2021	31 December 2020
Discount rate (%)	3.60%	1.20%
Estimated long-term inflation rate (%)	2.50%	2.50%
Employee rotation rate (%)	0.99% - 8.60%	0.95% - 8.79%
Estimated salary increase rate (%)	5.8% in 2022, 3.6% in 2023, 2.5% in the following years	2.50%
Estimated increase rate for contribution to the Social Fund (%)	3.50%	3.50%
Remaining average employment period	11.93 - 20.92	12.06 – 21.62

(in PLN million)

	As at 31 December 2021	As at 31 December 2020 *(restated figures)*
Provision for post-employment benefits and jubilee bonuses	874	1 034
Provision for employment termination benefits and other provisions for employee benefits	19	22
Total	**893**	**1 056**
Non-current	789	952
Current	104	104

Provisions for post-employment benefits and jubilee bonuses

Year ended 31 December 2021

	Provision for retirement, disability and similar benefits	Social Fund	Jubilee bonuses	Provisions total
Opening balance	**403**	**172**	**459**	**1 034**
Current service costs	28	7	34	**69**
Actuarial gains and losses, *of which:*	(59)	(59)	(47)	**(165)**
arising from changes in financial assumptions	(67)	(55)	(59)	**(181)**
arising from changes in demographic assumptions	-	1	4	**5**
arising from other changes	8	(5)	8	**11**
Benefits paid	(24)	(4)	(47)	**(75)**
Interest expense	4	2	5	**11**
Closing balance	**352**	**118**	**404**	**874**
Non-current	309	114	358	**781**
Current	43	4	46	**93**

Year ended 31 December 2019 *(restated data)*

	Provision for retirement, disability and similar benefits	Employee electricity rates	Social Fund	Jubilee bonuses	Provisions total
Opening balance	**378**	**450**	**119**	**450**	**1 397**
Current service costs	28	6	5	39	**78**
Actuarial gains and losses, *of which:*	15	79	50	8	**152**
arising from changes in financial assumptions	34	76	24	29	**163**
arising from changes in demographic assumptions	-	-	1	1	**2**
arising from other changes	(19)	3	25	(22)	**(13)**
Benefits paid	(25)	(6)	(4)	(46)	**(81)**
Past-service costs	-	(533)	-	-	**(533)**
Interest expense	7	4	2	8	**21**
Closing balance	**403**	**-**	**172**	**459**	**1 034**
Non-current	361	-	168	413	**942**
Current	42	-	4	46	**92**

Sensitivity analysis

As at 31 December 2021, a sensitivity analysis of the measurement results to a change in the financial discount rate and to changes in planned base amount increases in the range -0.5 p.p./+0.5 p.p. was carried out. The table below shows the carrying amount of individual provisions and provisions calculated based on the changed assumptions and how these carrying amounts would change with different assumptions applied (deviation):

Provision title	Carrying amount as at 31 December 2021	Financial discount rate				Planned base increases			
		-0.5 p.p.		+0.5 p.p.		-0.5 p.p.		+0.5 p.p.	
		balance	deviation	balance	deviation	balance	deviation	balance	deviation
Provision for retirement, disability and post-death benefits	352	368	16	339	(13)	340	(12)	367	15
Costs of appropriation to Social Benefits Fund	118	126	8	110	(8)	109	(9)	126	8
Jubilee bonuses	404	418	14	392	(12)	395	(9)	416	12
Total	**874**	**912**	**38**	**841**	**(33)**	**844**	**(30)**	**909**	**35**
effect on profit/loss			14		(12)		(9)		12
effect on other comprehensive income			24		(21)		(21)		23

(in PLN million)

The Group classifies provisions as current and non-current based on estimates regarding distribution of payments over time, prepared with the use of actuarial methods.

Provisions for employee benefits by maturity

Year	Retirement, disability and similar benefits	Social Fund	Jubilee bonuses	Provisions, total
2022	43	4	46	**93**
2023	24	5	41	**70**
2024	27	5	38	**70**
2025	21	5	33	**59**
2026	21	5	32	**58**
Other years	216	94	214	**524**
Total	**352**	**118**	**404**	**874**

39. Provisions for dismantling fixed assets, restoration of land and other provisions

SELECTED ACCOUNTING PRINCIPLES

Provision for mine decommissioning costs

The provision for costs of dismantling fixed assets and restoration of land includes mainly the provision for costs of decommissioning of mines for which it is required that the assets be liquidated and the land restored to its original condition after the exploitation.

The provision is determined based on future decommissioning costs and costs of land restoration estimated by independent experts taking into account the discounting effect and the amount determined in line with separate regulations of the Mine Decommissioning Fund. The provision is estimated based on an analysis prepared using deposit exploitation projections (for mines) and a technical and business analysis.

For coal mines a corresponding entry is made in line with IAS 16 *Property, Plant and Equipment* as a fixed asset of a mine and changes in estimates are disclosed in line with IFRIC 1 *Changes in Existing Decommissioning, Restoration and Similar Liabilities*, i.e. as adjustments to the provision and capitalised future mine decommissioning costs. The unwinding of discount is recognised in the profit or loss.

Provision for restoration of land and dismantling and removal of fixed assets

Based on estimates of future costs of dismantling prepared by independent experts, taking into account the discounting effect, the Group establishes a provision for estimated costs of dismantling, to include those related to wind farms, but also for removing fixed assets and restoring the land where the fixed assets were located if it has an obligation arising from the acquisition or use of property, plant and equipment items.

PROFESSIONAL JUDGEMENT AND ESTIMATES

The Group estimates the amount of provisions created based on the assumptions, methodology and calculations appropriate for a given type of provisions, evaluating the probability of spending funds that incorporate economic benefits and determining the reliable level of funds necessary to perform the obligation. Provisions are created by the Group if the probability of spending funds that incorporate economic benefits is higher than 50%.

In estimating the level of provisions as at 31 December 2021, the Group adopted an estimate of the discount rate at a level of 3.6% and the expected long-term inflation rate of 2.5%.

	Year ended 31 December 2021			Year ended 31 December 2020		
	Provision for mine decommissioning costs	Provision for land restoration and dismantling and removal of fixed assets	Provisions total	Provision for mine decommissioning costs	Provision for land restoration and dismantling and removal of fixed assets	Provisions total
Opening balance	**375**	**208**	**583**	**306**	**194**	**500**
Unwinding of the discount	5	2	**7**	6	4	**10**
Discount rate adjustment	(123)	(42)	**(165)**	63	24	**87**
Recognition/(reversal), net	-	(17)	**(17)**	-	(12)	**(12)**
Utilisation	-	(6)	**(6)**	-	(2)	**(2)**
Closing balance	**257**	**145**	**402**	**375**	**208**	**583**
Non-current	257	129	**386**	375	196	**571**
Current	-	16	**16**	-	12	**12**
Other provisions, long-term portion			**50**			**98**
Total			**436**			**669**

39.1. Provision for mine decommissioning costs

The provision is created for mines included in the Group based on estimated costs of liquidating facilities and reclaiming land to the original condition after the completion of the exploitation process. The provision for mine decommissioning costs includes the balance of the Mine Decommissioning Fund ("MDF"), which is created under the Geological and Mining Law and the related implementing provisions, by the Group's mining companies as a pre-determined ratio of the tax depreciation charge on fixed assets or, for the exploitation fee, the equivalent of the charge transferred to a separate bank account. The financial assets of the MDF are presented in the statement of financial position under non-current financial assets, while the balance of the MDF is recognised under the provision for future costs of mine decommissioning.

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As at 31 December 2021, the balance of the provision amounted to PLN 257 million and the change in the balance is mainly related to the revaluation of the provision due to a change in the discount rate adopted to calculate the provision - an increase in the discount rate from 1.2% to 3.6%.

The following tables present the amount of appropriation to the MDF, the assets of the MDF and the balance of liabilities arising from future costs of mine decommissioning.

Financial assets of the Mine Decommissioning Fund

	Year ended 31 December 2021	Year ended 31 December 2020
Assets as at 1 January	**53**	**50**
Contributions made	6	4
Use	(3)	(1)
Assets as at 31 December	**56**	**53**
Transfers made to the MDF in the period	(5)	(5)

Provision for mine decommissioning costs

	As at 31 December 2021	As at 31 December 2020
Mine Decommissioning Fund	60	57
Surplus of discounted estimated decommissioning costs	197	318
Total	**257**	**375**

39.2. Provision for restoration of land and dismantling and removal of fixed assets

	Year ended 31 December 2021				Year ended 31 December 2020			
	Provision for restoration of ash landfill	Provisions for dismantling of wind farm assets	Provisions for removal of fixed assets	Total provision for restoration, disassembly and removal of fixed assets	Provision for restoration of ash landfill	Provisions for dismantling of wind farm assets	Provisions for removal of fixed assets	Total provision for restoration, disassembly and removal of fixed assets
Opening balance	**20**	**158**	**30**	**208**	**31**	**133**	**30**	**194**
Interest cost (discounting)	-	2	-	**2**	1	2	1	**4**
Discount rate adjustment	(3)	(38)	(1)	**(42)**	1	22	1	**24**
Recognition/(reversal), net	1	(17)	(1)	**(17)**	(12)	1	(1)	**(12)**
Utilisation	-	-	(6)	**(6)**	(1)	-	(1)	**(2)**
Closing balance	**18**	**105**	**22**	**145**	**20**	**158**	**30**	**208**
Non-current	14	105	10	**129**	20	158	18	**196**
Current	4	-	12	**16**	-	-	12	**12**

40. Provisions for liabilities due to energy certificates of origin and CO_2 emission allowances

SELECTED ACCOUNTING PRINCIPLES

Provision for CO_2 emission liabilities

The Group creates a provision for the cost of redemption of CO_2 emission allowances. The provision for liabilities arising from emission of gases covered by the emission allowance scheme is created only when the actual emission level for a given financial year indicates the expected deficit of emission allowances awarded free of charge, including allocation of free emission allowances to facilities belonging to individual Generation companies. The Group companies covered by the EU ETS are required to redeem an allowance for each tonne of carbon dioxide emitted in a given year by 30 April of the following year.

The provision is charged to operating expenses (taxes and fees) in the following amount:

- in the portion covered by allowances held at the end of the balance sheet day:
  - at a zero value, in the case of allowances received free of charge,
  - at the purchase price in the case of purchased allowances;
- in the portion not covered by allowances held as at the balance sheet day:
  - in the first instance, in values resulting from forward and futures transactions concluded for the purchase of allowances intended

(in PLN million)

to meet the obligation for the current year,
- subsequently, in the market value of the allowances failing to meet the obligation as at the balance sheet day, or in the value of potential penalty - in accordance with the intention regarding the manner of meeting the obligation.

At the date of redemption of the allowances, the emission allowances classified as current intangible assets are derecognised in correspondence with

the provision for gas emission liabilities.

Provision for the obligation to present energy certificates of origin

Energy enterprises trading in electricity and reselling it to the final consumer shall be obliged to purchase and present for redemption certificates of origin for electricity and energy efficiency certificates or to pay a substitution fee. In order to meet the obligation to present the rights for redemption or to pay a substitution fee, the Group creates a provision at the end of the reporting periods for the costs of meeting this obligation.

The provision due to the obligation to present certificates of origin of electricity generated in renewable sources for redemption and certificates of energy efficiency is recognised:

- in the part covered by certificates of origin and certificates of energy efficiency held as at the balance sheet day - at the value of the certificates held,
- in the part not covered by certificates of origin and certificates of energy efficiency held as at the balance sheet day – in the first instance, at values arising from concluded forward transactions, for the purchase of certificates allocated for the fulfilment of the obligation for the current year, and subsequently - at a market value of certificates required to fulfil the obligation as at the balance sheet day, or at a level of the substitution fee – in accordance with the intention of the entity concerning the method of fulfilment of the obligation,

taking into account the Group's intention to allocate certificates of origin and energy efficiency certificates for redemption purposes for a given financial year at the time of their production or purchase.

The provision is charged to operating costs.

The settlement of the amount of the provision and the redemption of the property rights shall take place on the basis of the decision issued by the President of the Energy Regulatory Office on redemption of certificates of origin of electricity submitted by the company or in connection with the payment of the substitute fee.

	Year ended 31 December 2021			Year ended 31 December 2020 *(restated figures)*		
	Provisions for liabilities due to CO_2 emission allowances	Provision for obligation to submit energy certificates	Provisions total	Provisions for liabilities due to CO_2 emission allowances	Provision for obligation to submit energy certificates	Provisions total
Opening balance	**981**	**769**	**1 750**	**772**	**606**	**1 378**
Recognition	2 148	859	**3 007**	986	762	**1 748**
Reversal	(1)	(10)	**(11)**	-	(3)	**(3)**
Utilisation	(1 635)	(1 221)	**(2 856)**	(777)	(596)	**(1 373)**
Closing balance	**1 493**	**397**	**1 890**	**981**	**769**	**1 750**

The increase in the cost of creating the provision for CO_2 emission liabilities in the year ended 31 December 2021 compared to the comparative period is described in Note 13 to these consolidated financial statements.

In the year ended 31 December 2021, the Group has already made partial redemptions resulting from the obligation for 2021.

41. Other provisions

SELECTED ACCOUNTING PRINCIPLES

Other provisions comprise:

- The provision for use of real estate without a contract
  The Group creates provisions for all claims filed by owners of real estate on which power or technology facilities, distribution systems and heat installations are located in amounts of probable cost of claims due to land owners until the end of the reporting period (including accrued interest, if it can be reliably estimated). The Group does not create provisions for potential claims of land owners with unregulated status which have not been lodged, including for transmission and land easement. Creation and reversal of the provision is charged to other operating revenue or other operating expenses and interest accrued is charged to financial income or financial expenses.

- Provision for onerous contracts
  If the Group is a party to the contract pursuant to which unavoidable costs of fulfilling the contractual obligations exceed the expected contractual benefits, that will be obtained under the agreement, the present contractual obligation arising from the contract is recognised and measured by the Group as a provision. The unavoidable costs arising from the contract comprise, at least, net costs of contract termination, corresponding to the costs of fulfilment of the contract or costs of any damages or penalties arising for the failure to fulfil it, whichever is lower. The unavoidable costs of meeting the obligation shall be increased by the value of the interest due if it can be estimated reliably.

- Other provisions relate to court cases, counterparty claims or other claims, potential penalties resulting from administrative proceedings carried out by the Energy Regulatory Office and the Office of Competition and Consumer Protection and tax settlements.

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PROFESSIONAL JUDGEMENT AND ESTIMATES

The Group estimates the amount of provisions created based on the assumptions, methodology and calculations appropriate for a given type of provisions, evaluating the probability of spending funds that incorporate economic benefits and determining the reliable level of funds necessary to perform the obligation. Provisions are created by the Group if the probability of spending funds that incorporate economic benefits is higher than 50%.

	Year ended 31 December 2021				Year ended 31 December 2020 *(restated figures)*			
	Provision for use of real estate without contract	Provision for onerous contracts	Provision for counterparty claims, court dispute and other provisions	Provisions total	Provision for use of real estate without contract	Provision for onerous contracts	Provision for counterparty claims, court dispute and other provisions	Provisions total
Opening balance	**77**	**85**	**228**	**390**	**88**	**242**	**397**	**727**
Recognition/(reversal), net	-	385	(33)	**352**	(15)	38	(80)	**(57)**
Utilisation	(3)	(54)	(32)	**(89)**	-	(195)	(63)	**(258)**
Other movements	-	-	-	**-**	4	-	(26)	**(22)**
Closing balance	**74**	**416**	**163**	**653**	**77**	**85**	**228**	**390**
Non-current	-	8	42	**50**	-	28	70	**98**
Current	74	408	121	**603**	77	57	158	**292**
Current portion of provisions for the costs of disassembly of fixed assets and land restoration and other provisions				**16**				**12**
Total				**619**				**304**

41.1. Provision for the non-contractual use of real estate

The Group companies create provisions for all claims filed by owners of properties on which distribution networks and heat installations are located. As at 31 December 2021, the provision on this account amounted to PLN 74 million and was related to the segments:

- Generation – PLN 36 million;
- Distribution – PLN 34 million;
- Renewable energy sources – PLN 4 million.

In 2012, the third party applied to TAURON Ciepło S.A. (currently TAURON Ciepło Sp. z o.o.) demanding the settlement of the legal status of the transmission equipment located on its property. The company has questioned both the legitimacy of the claims and of the grounds for offsetting their amounts against the current liabilities to the company arising from heat supplies. Consequently, the company took legal action to enforce its current claims against the debtor. The amount of the potential claims of the aforementioned entity in respect of clarification of the legal status of the company transmission equipment will be reviewed in the course of the proceedings. With regard to the pending dispute, in light of the adopted accounting policy, a provision has been recognised for the estimated cost of the above claim. Bearing in mind the pending litigation, having regard to the provisions of IAS 37.92, the Group does not disclose all information regarding the above issue as required by IAS 37 *Provisions, Contingent Liabilities and Contingent Assets.*

41.2. Provisions for onerous contracts

As at 31 December 2021, the Group has identified contracts for the sale of electricity in future reporting periods where the sales revenue generated will not fully cover the costs to be incurred in connection with the necessity to either purchase electricity or produce electricity required to implement the sales contracts. In connection with the foregoing, the Group recognised provisions for onerous contracts in the total amount of PLN 416 million.

Within the Sales segment, the Group recognised a part of the provisions related to electricity sales contracts in the amount of PLN 127 million, relating in particular to:

- customers using the ERO G tariff in connection with the adoption, for the calculation of the sales price for these customers for 2022, of the parameters set out in the call of the ERO President approved in December 2021 resulting in the impossibility of generating revenues from the sales of electricity in a value that would cover the justified costs of conducting activities in this field,
- customers who use the product price lists offered by the companies, including in the area of individual customers (“GD price lists”). The need to create provisions for GD price lists is significantly affected by the ERO G tariff due to the fact that some product contracts in the household segment link electricity rates with the ERO G tariff price,
- business customers with individually negotiated contracts who benefited in 2022 from the option to be billed at prices resulting from the companies' tariffs, in connection with an increase in the cost of purchasing electricity to secure the volume of sales to these customers under the guarantee of fixed electricity sales prices to these customers throughout 2022.

(in PLN million)

Within the Generation segment, the Group recognised a part of provisions in the amount of PLN 289 million, created in connection with the shutdown of the 910 MW unit in Jaworzno planned until 29 April 2022, which is described in more detail in note 59 to these consolidated financial statements. The provision created in accordance with IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* was calculated based on the assumption that the Group will purchase the volume of 1.7 TWh of electricity which will not be produced within own production due to the shutdown of the 910 MW unit in Jaworzno. Due to the shutdown of the 910 MW unit and the need to fulfil contracted supplies to customers, the Group purchases electricity on the wholesale market at current prices and then resells it through the companies of the Sales segment to the end customer. The calculation of the provision was based on the price difference between the estimated purchase price of electricity by the Group on the wholesale market and the estimated achievable price of electricity sales by the companies of the Sales segment to the end customer taking into account the unit cost of certificates of origin and excise tax per 1 MWh of energy sold. The key assumptions underlying the calculation of the provision, i.e. the purchase price of electricity on the wholesale market, the sales price of electricity to the end customer and the cost of redemption of energy certificates of origin, are consistent with those used for the asset impairment tests and are described in Note 11 to these consolidated financial statements.

As at 31 December 2020, companies in the Sales segment of the electricity trading business recognised the provision for onerous contracts in the amount of PLN 76 million relating to customers who use the product price lists offered by the companies, including within GD price lists in the amount of PLN 69 million. The need to create the provision resulted from the lack of possibility of generating revenues from the sale of electricity in the value covering the costs of operations in this area, mainly as a result of the increase in the cost of purchasing electricity or production of electricity by the Group for price lists with a fixed sales price. Throughout 2021, as a result of the application of the aforementioned price lists, the companies generated a loss on the sales of electricity to customers and therefore utilised the provision in the amount of PLN 53 million.

41.3. Provisions for counterparty claims, court disputes and other provisions

Material provisions recognised within other provisions are described below:

Operating segment	Description	Status as at 31 December 2021	Status as at 31 December 2020
Provision for the increase in remuneration for transmission easements			
Distribution	The provision relates to the risk of increased periodic charges for transmission easements for energy infrastructure located in the territory of forest districts subordinated to the Regional Directorate of State Forests in Wrocław, Katowice and Cracow in connection with a change in the nature of land from forest land to land associated with business activities. In the year ended 31 December 2021, the company from the Distribution segment created the provision in the amount of PLN 7 million, released the provision of PLN 22 million and used the provision of PLN 11 million.	33	59
Provision for real estate tax			
Distribution	Provision for the economic risk in the scope of real estate tax relating to power grid assets.	39	39
Renewable Energy Sources	The provision relates to the risk of the effects of the Constitutional Court judgement of 22 July 2020 on imposing the real estate tax on wind power plants in 2018.	17	17

(in PLN million)

42. Accruals and governmental subsidies

SELECTED ACCOUNTING PRINCIPLES

Deferred income and government grants

As part of deferred income and government grants, the Group mainly recognises grants and subsidies received for the acquisition of property, plant and equipment and subsidies for development work.

Grants and subsidies received for the acquisition of property, plant and equipment are presented at the value of the cash received and recognised as other operating revenue commensurate with the corresponding depreciation expenses of the property, plant and equipment. This applies in particular to partially redeemed loans and borrowings and the settlement of the valuation of preferential loans.

Accrued expenses

Accruals are liabilities regarding goods / services received / performed but not paid for, billed and amounts payable to employees, in particular for bonuses and unused holidays. Although it is sometimes required to estimate the amount or the date of payment of accruals, the level of uncertainty is usually much lower than in case of provisions.

42.1. Deferred income and government grants

	As at 31 December 2021	As at 31 December 2020 *(restated figures)*
Deferred income	**41**	**45**
Donations, subsidies received for the purchase or fixed assets received free-of-charge	36	40
Other	5	5
Government grants	**561**	**479**
Subsidies obtained from EU funds	485	394
Measurement of preferential loans	29	31
Forgiven loans from environmental funds	24	29
Other	23	25
Total	**602**	**524**
Non-current	567	494
Current	35	30

42.2. Accrued expenses

	As at 31 December 2021	As at 31 December 2020 *(restated figures)*
Bonuses	60	63
Unused holidays	35	50
Environmental protection charges	26	22
Other accrued expenses	22	17
Total	**143**	**152**
Non-current	1	1
Current	142	151

43. Liabilities to suppliers

SELECTED ACCOUNTING PRINCIPLES

The Group uses simplified methods of measurement of other financial liabilities which are usually measured at amortised cost, if it does not result in the deformation of information contained in the financial statements, in particular, in case if the period from the moment of settlement of the liability is not long. The liabilities in relation to which simplifications are applied, are measured upon initial recognition and later, including, at the end of the reporting period, in the amount requiring payment. Liabilities to suppliers, investment liabilities (Note 45) and selected other financial liabilities (Note 48) are therefore measured at the amount payable, due to the immaterial impact of discounting.

Short-term liabilities to suppliers as at 31 December 2021 and as at 31 December 2020 are presented in the table below:

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Operating segment	As at 31 December 2021	As at 31 December 2020 *(restated figures)*
Mining	164	138
Generation	168	163
Renewable Energy Sources	14	13
Distribution, *including:*	409	242
liability to Polskie Sieci Elektroenergetyczne S.A.	*331*	*183*
Sales	389	372
Other	98	93
Total	**1 242**	**1 021**

44. Liabilities due to acquisition of non-controlling shares

On 22 December 2021, the agreement ("Agreement") was concluded between the Company and Fundusz Inwestycji Infrastrukturalnych – Kapitałowy FIZAN (hereinafter: "PFR Fund") under which the Company acquired 176 000 shares in the subsidiary, Nowe Jaworzno Grupa TAURON Sp. z o.o. representing 13.71% of the total number of votes at the shareholders' meeting of Nowe Jaworzno Grupa TAURON Sp. z o.o. for the amount of PLN 1 061 million. The transfer of title to the shares took place upon the conclusion of the Agreement. Following the transaction, the Company holds 100% of the votes at the general meeting of shareholders of Nowe Jaworzno Grupa TAURON Sp. z o.o. In accordance with the agreement, the deadline for payment of the sales price is 90 days from the date of conclusion of the agreement, i.e. 22 March 2022. On 22 March 2022, the Company repaid the liabilities arising from this Agreement.

The parties agreed that, upon payment of the sales price, the shareholders' agreement and the investment agreement concluded in 2018 between the Company, Nowe Jaworzno Grupa TAURON Sp. z o.o. and the PFR Fund, determining the terms and conditions of the PFR Fund capital investment in Nowe Jaworzno Grupa TAURON Sp. z o.o., would be terminated. At the same time, the parties agreed that from the moment of conclusion of the Agreement until the full payment of the sales price (whichever occurs first), withdrawal from the Agreement by the PFR Fund (which is possible only in the cases specified in the Agreement, related to the lack of timely payment of the sale price by TAURON) or its expiry for any other reason, the shareholders' agreement and the investment agreement, to the extent to which they relate to the corporate rights of the PFR Fund as a partner of Nowe Jaworzno Grupa TAURON Sp. z o.o. specified in the Agreement, shall not apply, i.e. they shall be suspended in accordance with the rules set forth in the Agreement.

In order to secure the Fund's claims under the Agreement, the Company established a registered and ordinary pledge on the acquired shares and provided a security in the form of a declaration of submission to enforcement, which is described in more detail in Note 55 to these consolidated financial statements.

As at the balance sheet day, the Group recognised a contractual liability in the amount of PLN 1 061 million and derecognised the value of non-controlling interests in Nowe Jaworzno Grupa TAURON Sp. z o.o. for the acquisition in the amount of PLN 903 million. The difference of PLN 158 million was charged to the Group's retained earnings.

The conclusion of the Agreement and reducing of the period of the PFR Fund's capital commitment is related to the change of circumstances resulting from the governmental programme involving the separation of assets related to energy generation in conventional coal units from companies with the State Treasury share and their ultimate integration within the National Energy Security Agency.

45. Investment liabilities

Short-term investment liabilities as at 31 December 2021 and as at 31 December 2020 are presented in the table below:

Operating segment	As at 31 December 2021	As at 31 December 2020 *(restated figures)*
Mining	30	102
Generation	110	372
Renewable Energy Sources	19	4
Distribution	345	254
Sales and Other	112	125
Total	**616**	**857**

(in PLN million)

Long-term investment liabilities are presented in the consolidated statement of financial position under other financial liabilities. As at 31 December 2021, the related liability did not occur, while as at 31 December 2020 , it amounted to PLN 23 million.

Commitments to incur capital expenditure

As at 31 December 2021 and as at 31 December 2020, the Group committed to incur expenditure of PLN 2 844 million and PLN 3 309 million, respectively, on property, plant and equipment and intangible assets, the key items of which are shown in the table below.

Operating segment	Agreement/investment project	As at 31 December 2021	As at 31 December 2020 *(restated figures)*
Distribution	Construction of new electrical connections	1 342	1 426
	Modernization and reconstruction of existing networks	556	709
Generation	Construction of 910 MW Power Unit in Jaworzno	166	232
	Expansion of heat sources in new capacities	141	2
Mining	Construction of the "Grzegorz" shaft with the accompanying infrastructure and excavations	96	126
Renewable Energy Sources	Construction of wind farms	82	202
Other	Construction of a broadband Internet network under the Operational Programme Digital Poland	62	154

46. Settlements due to income tax

Income tax receivables in the amount of PLN 415 million relate to:

- The Tax Capital Group ("TCG") which, as at 31 December 2021 had income tax receivables of PLN 373 million, representing the surplus of advances paid in the amount of PLN 401 million over the tax burden of the TCG in the amount of PLN 28 million.
- the company TAURON Ciepło Sp. z o.o., which is not part of the current TCG, in the amount of PLN 42 million.

Income tax liabilities of PLN 4 million relate to companies outside the TCG.

The Tax Capital Group Agreement for 2021-2023 was registered on 14 December 2020. Main companies forming the TCG since 1 January 2021 include: TAURON Polska Energia S.A., TAURON Wytwarzanie S.A., Nowe Jaworzno Grupa TAURON Sp. z o.o., TAURON Dystrybucja S.A., TAURON Sprzedaż Sp. z o.o., TAURON Sprzedaż GZE Sp. z o.o., TAURON Obsługa Klienta Sp. z o.o., TAURON Ekoenergia Sp. z o.o., TEC1 Sp. z o.o., TAURON Zielona Energia Sp. z o.o. (formerly: TEC3 Sp. z o.o.) and Kopalnia Wapienia Czatkowice Sp. z o.o.

On 24 March 2022, the tax declaration of the TCG for 2021 was submitted. In accordance with the submitted declaration, the condition required by law to maintain the TCG in subsequent years, regarding the minimum profitability of the TCG for 2021 at the level of 2%, was not met. In the Group's opinion, failure to meet the minimum profitability ratio of the Tax Capital Group for 2021 results in the loss of the taxpayer status of the Tax Capital Group with effect from 1 January 2022 and is an event after the balance sheet day that does not require correction of financial data in the consolidated financial statements for the year ended 31 December 2021 and does not affect the tax settlement of the tax group for 2021.

47. Liabilities arising from other taxes and charges

	As at 31 December 2021	As at 31 December 2020 *(restated figures)*
VAT	263	97
Social security	231	230
Personal Income Tax	69	62
Excise	15	13
Tax on civil law transactions	11	-
Other	40	8
Total	**629**	**410**

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Tax settlements and other areas of activity may be subject to inspection by authorities entitled to impose high penalties and any additional tax liabilities resulting from final decisions of tax inspection authorities must be paid including interest. Consequently, the amounts presented and disclosed in these interim condensed consolidated financial statements may change in the future.

48. Other financial liabilities

SELECTED ACCOUNTING PRINCIPLES

Other financial liabilities classified as liabilities measured at amortised cost are recognised initially at the fair value, adjusted by transaction costs. Following the initial recognition other financial liabilities are measured at a level of amortised cost, applying the effective interest rate. If the discount effect is insignificant, they are measured at the amount due.

PROFESSIONAL JUDGEMENT AND ESTIMATES

As at each balance sheet day, the Group estimates the fair value of liabilities measured at a fair value. The fair value calculation methodology is presented in Note 51 hereto.

	As at 31 December 2021	As at 31 December 2020 *(restated figures)*
Wages, salaries	220	232
Margin deposits arising from stock exchange transactions	102	73
Bid bonds, deposits and collateral received	64	86
Other	130	131
Total	**516**	**522**
Non-current	33	64
Current	483	458

49. Other current non-financial liabilities

SELECTED ACCOUNTING PRINCIPLES

Other non-financial liabilities include, in particular, overpayments received from customers and liabilities in respect of advance payments received which will be settled by the delivery of goods, services or fixed assets. Other non-financial liabilities are recognised in the amount requiring payment.

	As at 31 December 2021	As at 31 December 2020 *(restated figures)*
Payments from customers relating to future periods	**568**	**421**
Amounts overpaid by customers	392	337
Prepayments for connection fees	107	44
Other	69	40
Other current non-financial liabilities	**2**	**2**
Total	**570**	**423**

EXPLANATORY NOTE TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

50. Significant items of the consolidated statement of cash flows

SELECTED ACCOUNTING PRINCIPLES

The statement on cash flows is prepared according to the indirect method.

(in PLN million)

50.1. Cash flows from operating activities

Changes in working capital

	Year ended 31 December 2021	Year ended 31 December 2020 *(restated figures)*
Change in receivables	**(786)**	**146**
Change in receivables from buyers in statement of financial position	(849)	(182)
Change in other financial receivables	71	319
Adjustment due to change in receivables due to disposal of property, plant and equipment and financial assets	(8)	-
Other adjustments	-	9
Change in inventories	**313**	**(196)**
Change in inventories in statement of financial position	331	(190)
Adjustment related to transfer of invetories to/from property, plant and equipment	(18)	(6)
Change in payables excluding loans and borrowings	**543**	**24**
Change in liabilities to suppliers in statement of financial position	221	171
Change in payroll, social security and other financial liabilities	17	(6)
Change in non-financial liabilities in statement of financial position	143	55
Change in liabilities arising from taxes excluding income tax	219	(179)
Adjustment of VAT change related to capital commitments	(45)	14
Adjustment of other financial liabilities for guarantee valuation	12	(13)
Other adjustments	(24)	(18)
Change in other non-current and current assets	**915**	**347**
Change in other current and non-current non-financial assets in statement of financial position	(125)	106
Change in receivables arising from taxes excluding income tax	3	90
Change in non-current and current CO_2 emission allowances	351	251
Change in non-current and current energy certificates	588	(38)
Change in advance payments for property, plant and equipment and intangible assets	99	(64)
Other adjustments	(1)	2
Change in deferred income, government grants and accruals	**(87)**	**(47)**
Change in deferred income, government grants and accruals in statement of financial position	69	30
Adjustmet related to property, plant and equipment, intangible assets and right-of-use assets received free of charge	(47)	(13)
Adjustment related to subsidies received and refunded	(111)	(60)
Other adjustments	2	(4)
Change in provisions	**358**	**(403)**
Change of short term and long term provisions in statement of financial position	59	(258)
Adjustment related to actuarial gains/losses from provisions for post-employment benefits charged to other comprehensive income	118	(144)
Adjustement related to provisions recognized in correspondence with property, plant and equipment and other non-financial assets	170	(9)
Other adjustments	11	8
Total	**1 256**	**(129)**

Income tax paid

In the year ended 31 December 2021, income tax paid amounted to PLN 392 million, of which the amount of PLN 329 million related to the Tax Capital Group. The Tax Capital Group paid income tax in the amount of PLN 433 million on account of advance income tax payments for the first three quarters of 2021 and for December 2020 and received a refund of the surplus of income tax for 2020 in the amount of PLN 104 million.

In the year ended 31 December 2020, income tax paid amounted to PLN 60 million, of which the amount of PLN 43 million related to the Tax Capital Group. The Tax Capital Group paid advance income tax payments for 2020 in the amount of PLN 287 million and received a net inflow from income tax settlements for previous years in the amount of PLN 244 million.

In 2021, the Tax Capital Group makes quarterly advance payments for income tax, whereas in 2020 the Tax Capital Group made fixed monthly advance payments established in a simplified manner assessed on the basis of the tax return for 2018.

(in PLN million)

50.2. Cash flows from investment activities

Purchase of tangible fixed assets and intangible assets

	Year ended 31 December 2021	Year ended 31 December 2020
Purchase of property, plant and equipment	(2 514)	(3 371)
Purchase of intangible assets	(106)	(167)
Change in the balance of capital commitments (VAT-adjusted)	(221)	82
Change in the balance of advance payments	(99)	64
Costs of overhaul and internal manufacturing	(305)	(514)
Other	(10)	(2)
Total	**(3 255)**	**(3 908)**

Sale of shares

	Year ended 31 December 2021	Year ended 31 December 2020
Sale of shares in PGE EJ1 Sp. z o.o. (currently: Polskie Elektrownie Jądowe Sp.z o.o.)	53	-

50.3. Cash flows from financial activities

Repayment of credits/loans

	Year ended 31 December 2021	Year ended 31 December 2020
Repayment by the Company of tranches of loans to the Consortium of banks I	(3 300)	(4 240)
The repayment of the loan installments by the Company to the European Investment Bank	(162)	(162)
Other	(4)	(5)
Total	**(3 466)**	**(4 407)**

Interest paid

	Year ended 31 December 2021	Year ended 31 December 2020
Interest paid in relation to debt securities	(249)	(200)
Interest paid in relation to loans	(101)	(178)
Interest paid in relation to the lease and other	(7)	(7)
Total	**(357)**	**(385)**
investment expenditure	(14)	(169)
financial expenditure	(343)	(216)

The Group presents costs of external financing incurred activated in the current period on assets as expenditures for acquisition of property, plant and equipment and intangible assets in cash flows from investment activities. In the year ended 31 December 2021, paid interest representing external financing costs subject to capitalisation in the value of fixed assets and intangible assets amounted to PLN 14 million, whereas in the comparable period, it amounted to PLN 138 million. The decline in capitalised external financing costs results mainly from the commissioning of the 910 MW unit in Jaworzno in November 2020.

Loans taken

	Year ended 31 December 2021	Year ended 31 December 2020
The launch of financing by the Company under loan agreements		
Banks Consortium I (launch of loan tranches)	2 000	1 950
Intesa Sanpaolo S.p.A. (activation of all available financing)	-	750
SMBC BANK EU AG (launch of all available funding)	-	500
Banks Consortium II (launch of loan tranches)	-	160
Other	3	9
Total	**2 003**	**3 369**

Subsidies received

Subsidies received in the year ended 31 December 2021 in the amount of PLN 114 million result mainly from the receipt by TAURON Obsługa Klienta Sp. z o.o. of instalments of the grant awarded by the European Regional Development Fund in the framework of the "Digital Poland" competition in the amount of PLN 76 million.

FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT

51. Financial instruments

SELECTED ACCOUNTING PRINCIPLES

Financial assets held by the Group in accordance with IFRS 9 *Financial Instruments* are classified into the following classes of financial instruments:

- financial assets measured at amortised cost;
- financial assets measured at a fair value through profit or loss.

As at the balance sheet day, the Group had no financial assets measured at a fair value through other comprehensive income.

Financial assets in accordance with IFRS 9 *Financial Instruments* are classified upon initial recognition based on the cash flow characteristics (SPPI test) and the business model underlying the management of a given financial asset.

The Group measures equity instruments at a fair value through profit or loss in line with IFRS 9 *Financial Instruments*.

The TAURON Group divides the financial liabilities into the following classes:

- financial liabilities measured at a fair value through profit or loss,
- other financial liabilities, measured at amortised cost at each subsequent balance sheet day.

PROFESSIONAL JUDGEMENT AND ESTIMATES

The Group makes judgements regarding classification of financial instruments.

As at each balance sheet day, the Group measures the fair value of assets and liabilities classified as measured at a fair value and discloses the fair value of other financial instruments. The methodology of fair value measurement is presented below.

The Group recognises an impairment loss upon initial recognition of a financial asset and then remeasures the loss amount as at each reporting day. The Group recognises the allowance for expected credit losses on financial assets measured at amortised cost includes mostly receivables from customers and loans granted. The measurement methodology is presented in Notes 31 and 52.1.4. hereto.

(in PLN million)

51.1. Carrying amount and fair value of financial instrument classes and categories

Categories and classes of financial assets	As at 31 December 2021		As at 31 December 2020 *(restated figures)*	
	Carrying amount	Fair value	Carrying amount	Fair value
1 Financial assets measured at amortized cost	**3 440**		**2 661**	
Receivables from buyers	3 322	3 322	2 473	2 473
Deposits	56	56	53	53
Loans granted	26	26	26	26
Other financial receivables	36	36	109	109
2 Financial assets measured at fair value through profit or loss (FVTPL)	**1 726**		**1 396**	
Derivative instruments	626	626	159	159
Shares	141	141	122	122
Shares classified as fixed sasets held for sale	-	-	53	53
Loans granted	74	74	73	73
Other financial receivables	70	70	68	68
Cash and cash equivalents	815	815	921	921
3 Derivative hedging instruments	**371**	**371**	**-**	**-**
4 Financial assets excluded from the scope of IFRS 9 *Financial Instruments*	**597**		**587**	
Investments in joint ventures	597		587	
Total financial assets, *of which in the statement of financial position:*	**6 134**		**4 644**	
Non-current assets	**1 443**		**929**	
Investments in joint ventures	597		587	
Loans granted to joint ventures	99		97	
Derivative instruments	532		36	
Other financial assets	215		209	
Current assets	**4 691**		**3 715**	
Receivables from buyers	3 322		2 473	
Loans granted to joint ventures	-		2	
Derivative instruments	465		123	
Other financial assets	89		143	
Cash and cash equivalents	815		921	
Assets classified as held for sale	-		53	

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Categories and classes of financial liabilities	As at 31 December 2021		As at 31 December 2020 *(restated figures)*	
	Carrying amount	Fair value	Carrying amount	Fair value
1 Financial liabilities measured at amortized cost	**15 290**		**15 914**	
Preferential loans and borrowings	15	15	17	17
Arm's length loans and borrowings	4 520	4 471	5 973	6 005
Bank overdrafts	-	-	2	2
Bonds issued	7 320	7 500	7 522	7 939
Liabilities to suppliers	1 242	1 242	1 021	1 021
Other financial liabilities	250	250	247	247
Liabilities due to the acquisition of non-controlling interests	1 061	1 061	-	-
Capital commitments	616	616	880	880
Salaries and wages	220	220	232	232
Insurance contracts	46	46	20	20
2 Financial liabilities measured at fair value through profit or loss (FVTPL)	**495**		**86**	
Derivative instruments	495	495	86	86
3 Derivative hedging instruments	**-**	**-**	**90**	**90**
4 Financial liabilities excluded from the scope of IFRS 9 *Finanical Instruments*	**1 235**		**1 146**	
Liabilities under leases	1 235		1 146	
Total financial liabilities, *of which in the statement of financial position:*	**17 020**		**17 236**	
Non-current liabilities	**11 096**		**13 309**	
Debt	10 947		13 171	
Derivative instruments	116		74	
Other financial liabilities	33		64	
Current liabilities	**5 924**		**3 927**	
Debt	2 143		1 481	
Liabilities to suppliers	1 242		1 021	
Liabilities due to the acquisition of non-controlling interests	1 061		-	
Capital commitments	616		857	
Derivative instruments	379		102	
Other financial liabilities	483		458	
Liabilities associated with assets classified as held for sale	-		8	

The fair value measurement methodology applied to financial instruments and fair value hierarchy levels assigned to these instruments are presented in the following tables.

Financial asset/liability classes	Fair value hierarchy level	Fair value measurement methodology
Financial assets/liabilities measured at fair value		
Derivatives, *including:*		Derivatives have been measured in line with the methodology presented in Note 26 hereto.
IRS and CCIRS	2	
Currency forwards	2	
Commodity forwards and futures	1	
Shares	3	The Group estimated the fair value of shares held in not listed companies using the adjusted net assets method, considering its share in the net assets and adjusting the value by relevant factors affecting the measurement, such as the non-controlling interest discount and the discount for the limited liquidity of the above instruments or using a mixed approach. As the key factors affecting the value of the assumed shares had not changed at a given end of the reporting period compared to the initial recognition, in the case of other instruments the Group assumes that the historical cost is an acceptable approximation of the fair value.
Loans granted	3	Fair value measurement of the loan had the form of the current value of future cash flows, including borrower's credit risk.
Financial liabilities whose fair value is disclosed		
Loans, borrowings and bonds issued	2	Liabilities arising from fixed interest debt are measured at fair value. The fair value measurement was carried out based on the present value of future cash flows discounted using an interest rate applicable to given bonds or loans, i.e. applying market interest rates.

(in PLN million)

The fair value of other financial instruments as at 31 December 2021 and 31 December 2020 (except from those excluded from the scope of IFRS 9 *Financial Instruments*) did not differ considerably from the amounts presented in the financial statements for the following reasons:

- the potential discounting effect relating to short-term instruments is not significant;
- the instruments are related to arm's length transactions.

Shares in jointly controlled entities excluded from the scope of IFRS 9 *Financial Instruments* are measured using the equity method.

Change in the balance of financial assets whose measurement is classified at the 3rd level of the fair value hierarchy

	Year ended 31 December 2021		Year ended 31 December 2020	
	Not quoted shares	Loans granted	Not quoted shares	Loans granted
Opening balance	**175**	**73**	**141**	**216**
Gains/(losses) for the period recognized in financial revenue/expenses	(4)	1	(1)	(143)
Purchased	20	-	47	-
Sold (liquidation)/repaid	(53)	-	-	-
Other changes	3	-	(12)	-
Closing balance	**141**	**74**	**175**	**73**

In the year ended 31 December 2021 and 31 December 2020, no reclassification occurred between level 1 and 2 of the fair value hierarchy; nor did such reclassification occur from or to level 3 of that hierarchy.

51.2. Revenue, expenses, gain and loss items included in the statement of comprehensive income by category of financial instruments

Year ended 31 December 2021

	Assets/ liabilities at fair value through profit or loss	Financial assets at amortized cost	Financial liabilities at amortized cost	Hedging instruments	Financial assets/liabilities excluded from the scope of IFRS 9	Total
Dividends and shares in profits	10	-	-	-	-	**10**
Interest income / (expense)	-	23	(286)	(25)	(55)	**(343)**
Currency translation differences	(5)	1	19	-	-	**15**
Impairment / revaluation	67	(2)	12	-	-	**77**
Commission relating to loans and debt securities	-	-	(25)	-	-	**(25)**
Gain/(loss) on disposal of investments	(1)	(2)	-	-	-	**(3)**
Gain/(loss) on exercised derivative instruments*	47	-	-	-	-	**47**
Net financial income (revenues/costs)	**118**	**20**	**(280)**	**(25)**	**(55)**	**(222)**
Revaluation	(11)	(33)	-	-	-	**(44)**
Gain/(loss) on exercised derivative instruments*	114	-	-	-	-	**114**
Net operating income/(revenues/costs)	**103**	**(33)**	**-**	**-**	**-**	**70**
Remeasurement of IRS	-	-	-	455	-	**455**
Other comprehensive income	**-**	**-**	**-**	**455**	**-**	**455**

**The Group recognises income and expense from commodity derivatives in operating activities. Revenue and expenses regarding other derivatives are recognized under financial revenue/expenses.*

(in PLN million)

Year ended 31 December 2020 *(restated data)*

	Assets/ liabilities at fair value through profit or loss	Financial assets at amortized cost	Financial liabilities at amortized cost	Hedging instruments	Financial assets/liabilities excluded from the scope of IFRS 9	Total
Dividends and shares in profits	6	-	-	-	-	**6**
Interest income / (expense)	4	22	(206)	(29)	(50)	**(259)**
Currency translation differences	(5)	8	(249)	-	-	**(246)**
Impairment / revaluation	110	(223)	(14)	-	-	**(127)**
Commission relating to borrowings and debt securities	-	-	(18)	-	-	**(18)**
Gain/(loss) on disposal of investments	2	(5)	-	-	-	**(3)**
Gain/(loss) on exercised derivative instruments*	12	-	-	-	-	**12**
Net financial income (costs)	**129**	**(198)**	**(487)**	**(29)**	**(50)**	**(635)**
Revaluation	(2)	(60)	-	-	-	**(62)**
Gain/(loss) on exercised derivative instruments*	(136)	-	-	-	-	**(136)**
Net operating income/(costs)	**(138)**	**(60)**	**-**	**-**	**-**	**(198)**
Remeasurement of IRS	-	-	-	(103)	-	**(103)**
Other comprehensive income	**-**	**-**	**-**	**(103)**	**-**	**(103)**

**The Group recognises income and expense from commodity derivatives in operating activities. Revenue and expenses regarding other derivatives are recognized under financial revenue/expenses.*

52. Objectives and principles of financial risk management

Risks related to financial instruments which the TAURON Group is exposed to, including a description of the exposure and the risk management method are presented in the table below.

Risk exposure	Risk management	Regulation
	Credit risk	
Possible loss resulting from the counterparty default on contractual obligations. The credit exposure involves a default risk (the amount that may be lost if a counterparty defaults on its obligations) and a replacement risk (the amount that may be lost if a delivery is not made or a service is not provided).	Credit risk management is aimed at limiting losses resulting from the deterioration of the financial situation of the TAURON Group's counterparties and mitigating the risk of credit exposures at risk of impairment. Commercial transactions of significant value are preceded by an assessment of the counterparty's creditworthiness, including an economic and financial analysis of the entity. Based on the assessment, the counterparty is granted a credit limit, which is a limit on the maximum credit exposure understood as the amount that may be lost if the counterparty fails to meet its contractual obligations within a specified period of time (taking into account the value of the collateral provided). Credit exposure is calculated for the current day and divided into exposure due to payment and exposure of replacement. The TAURON Group has a decentralised credit risk management system, which means that each risk owner is actively responsible for managing the credit risks that arise within their business scope, but control, monitoring and reporting is performed at the Company-wide level. The TAURON Group's Credit Risk Management Policy sets out the credit risk management procedures for the entire Group with the view to reduce the impact of the risk on the Group's strategic objectives. Based on the value of exposure and assessment of financial standing of each client, the value of credit risk to which the TAURON Group is exposed is calculated using statistical methods to determine value at risk based on the total loss probability distribution.	Credit risk management policy for the TAURON Group
	Liquidity risk	
Possible loss or limitation of the ability to make payments on a day-to-day basis due to an inappropriate volume or structure of liquid assets as compared to current liabilities or an insufficient level of the actual net proceeds from operating activities.	The liquidity situation of TAURON Capital Group is monitored on an on-going basis in terms of potential deviations against the assumed plans and the availability of external sources of financing whose amount significantly exceeds the expected demand in a short term mitigates the risk of losing liquidity. To this end, the Company applies the rules of determining the liquidity position both of individual companies and the entire TAURON Group which helps ensure funds that would cover any potential liquidity gaps by allocating funds between companies (cash-pooling) as well as using external financing. The Company also manages the financing risk, understood as no capability to obtain new funding, an increase in funding costs and the risk of terminating the existing funding agreements. To mitigate the financing risk, the Company's policy assumes obtaining funding for the TAURON Group in advance of the planned time of use, i.e. up to 12 months prior to the planned demand. The key objective of the policy is to ensure flexible selection of funding source, use favourable market conditions and reduce the risk related to the necessity to contract new debt on adverse terms.	Liquidity management policy for the TAURON Group

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Risk exposure	Risk management	Regulation
	Market risk - interest rate and currency risks	
The possibility of an adverse effect on the Group's performance through fluctuations in the fair value of financial instruments or the related future cash flows, driven by changes in interest rates or foreign exchange rates.	TAURON Group manages currency and interest rate risks on the basis of the TAURON Group Financial Risk Management Policy developed and adopted for use, as well as the Risk Tolerance, the Global Limit for Financial Risk and its decomposition into individual types of financial risk approved by the Management Board. The key objective of such risk management is to minimise the cash flow sensitivity of the TAURON Group to financial risks and to minimize financial cost and costs of hedging with the use of derivative instruments. For interest rate hedging transactions and wherever possible and commercially viable, the Company uses derivative instruments whose characteristics allows for the application of hedge accounting. The financial risk management policy of the TAURON Group has also introduced hedge accounting principles which set out the terms and conditions and types of hedge accounting, along with the accounting treatment of hedging instruments and hedged items, to be applied as part of hedge accounting under IFRS.	Financial risk management policy for the TAURON Group
	Market risk - price risk	
Unplanned volatility of the TAURON Group's operating result resulting from fluctuations in commodity market prices in individual areas of the TAURON Group's trading activities.	Effective management is ensured by a commercial risk management system linked in terms of organisation and information with the TAURON Group's strategy of hedging trading positions. The policy has introduced an early-warning system and risk-exposure limiting system in various trading areas. The basic operational measure of the market risk in the TAURON Group is the Value at Risk measure which determines the maximum allowed change in the value of the position over a given time period and with a given probability.	Commercial risk management policy for the TAURON Group

52.1. Credit risk

Key classes of financial instruments that give rise to credit risk exposure have been presented in the table below. The maximum credit risk exposure related to financial assets of the TAURON Group equals their carrying amounts.

Classes of financial instruments	As at 31 December 2021	As at 31 December 2020
Receivables from buyers	3 322	2 473
Derivative instruments	997	159
Cash and cash equivalents	815	921
Loans granted	100	99
Deposits	56	53
Other financial receivables	106	177

52.1.1 Credit risk related to receivables from customers

The Group has receivables from two groups of customers: institutional customers and individual customers. The table below shows the percentage share of each group in the total amount of receivables from customers.

	As at 31 December 2021	As at 31 December 2020
Institutional clients	68.96%	64.45%
Individual clients	31.04%	35.55%
Total	**100%**	**100%**

The Group has no significant concentrations of credit risk related to its core business. Amounts due from PSE S.A. constitute the largest item of receivables from buyers with a share of 12.61% as at 31 December 2021 and 8.06% as at 31 December 2020, respectively.

The Group monitors credit risk related to its operations on an ongoing basis, in line with the *Credit Risk Management Policy in TAURON Group*. As a result of the analysis of credit standing of counterparties with significant credit exposure, the conclusion of trading transactions resulting in an increase in credit exposure above the allocated exposure limit generally requires the establishment of a collateral.

The ageing of receivables from customers and information on impairment losses on receivables from customers is presented in Note 31 to these consolidated financial statements.

(in PLN million)

52.1.2 Credit risk related to other financial receivables

The Group's other financial receivables at 31 December 2021 and as at 31 December 2020 mainly relate to institutional customers (share of 94.34% and 99.69%, respectively).

A significant item of other financial receivables are initial and margin deposits and other collaterals provided in respect of transactions entered into on stock exchange markets. In the opinion of the Company, the mechanisms of the stock exchange and the applied security measures materially mitigate credit risk. In addition to stock exchange collaterals, there is no significant concentration of credit risk associated with other financial receivables.

With respect to other financial receivables measured at amortised cost at the balance sheet day, the Group estimates the impairment loss.

Ageing of other financial receivables measured at amortised cost as at 31 December 2021

	Not past due	Past due					Total
		< 30 days	30-90 days	90-180 days	180-360 days	> 360 days	
Value of item before allowance/write-down	40	1	76	2	2	90	**211**
Allowance/write-down	(4)	(1)	(76)	(2)	(2)	(90)	**(175)**
Net Value	**36**	**-**	**-**	**-**	**-**	**-**	**36**

Ageing of other financial receivables measured at amortised cost as at 31 December 2020

	Not past due	Past due					Total
		< 30 days	30-90 days	90-180 days	180-360 days	> 360 days	
Value of item before allowance/write-down	115	3	9	8	6	80	**221**
Allowance/write-down	(8)	(1)	(9)	(8)	(6)	(80)	**(112)**
Net Value	**107**	**2**	**-**	**-**	**-**	**-**	**109**

Change in allowances/write-downs on other financial receivables measured at amortised cost

	Year ended 31 December 2021	Year ended 31 December 2020
Opening balance	**(112)**	**(116)**
Recognised	(73)	(2)
Utilized	3	-
Reversed	7	6
Closing balance	**(175)**	**(112)**

52.1.3 Credit risk related to cash and cash equivalents and derivatives

Cash and equivalents

The Group manages its cash credit risk by diversifying the banks where surplus cash can be deposited while reducing the cost of holding cash in accounts. These banks receive investment rating. The share of the three banks where the Group holds its largest cash balances was 82% as at 31 December 2021.

Derivatives

The entities with which the Company enters into derivative transactions to hedge the risks associated with changes in interest rates and exchange rates operate in the financial sector. These banks receive investment rating. The Company diversifies banks with whom derivative transactions are concluded.

Derivatives, which basis are non-financial assets, included in IFRS 9 *Financial Instruments*, involve futures (exchange market) and forward transactions (OTC). Exchange markets apply appropriate mechanisms to protect, in the form of initial and variation margin deposits. Under variation margin deposits, the Company provides and receives cash arising from changes in the measurement of the underlying instruments on an ongoing basis, which means that as at the end of the reporting period, credit risk does not occur in relation to futures transactions.

In the case of OTC instruments there is a credit risk related to the possibility of insolvency of the other party to the agreement. Therefore, commercial transactions of significant value are preceded by the assessment of the credit standing counterparty, including the economic and financial analysis of the entity. On the basis of the assessment, the counterparty is granted a credit limit, which is a limit of the maximum credit exposure. Execution of trade transactions resulting in an increase in credit exposure above the allocated exposure limit generally requires the establishment of collateral in accordance with the *Credit Risk Management Policy in the TAURON Group*.

52.1.4 Credit risk related to loans granted

Loans measured at amortised cost

As far as granted loans measured at amortized cost are concerned, the Group assesses the risk of insolvency on the part of the borrowers based on the ratings assigned to the counterparties using an internal scoring model, appropriately restated to account for the probability of default. The expected credit loss is calculated based on the time value of money. For the purposes of determining the calculation horizon for expected credit losses, material credit risk increases related to certain financial assets are analysed beginning from the initial recognition of a given asset.

When analysing a significant increase in credit risk related to such assets, the Group considers the following indications:

- the counterparty's internal or external rating as at the reporting period end having deteriorated by more than two rating levels compared to its rating upon initial recognition;
- the counterparty's probability of insolvency projected within one-year horizon as at the reporting period end being at least twice higher than as at the initial recognition date;
- receivables related to a given asset being overdue by more than 30 days.

If a given counterparty's receivables are overdue by more than 90 days, they are classified as bad debt, i.e. the 100% probability of insolvency is assigned to that counterparty. The loans granted by the Group as at 31 December 2021 and 31 December 2020 were not overdue.

Loans measured at a fair value

The measurement of the loan granted to the joint venture, Elektrociepłownia Stalowa Wola S.A., classified as financial assets measured at a fair value through profit or loss, with the carrying amount of PLN 74 million takes into consideration the credit risk impact. The loan is collateralized with a blank promissory note accompanied by a promissory note agreement.

52.2. Liquidity risk

The Group maintains a balance between continuity, flexibility and cost of financing by using various sources of funding, which enable management of liquidity risk and effective mitigation of risk consequences. The Company pursues a policy of diversification of financing instruments but first of all it seeks to secure financing and maintain the ability of the TAURON Group companies to meet current and future liabilities in the short and long term. Liquidity risk management is connected with planning and monitoring cash flows in the short and long term and taking actions to ensure funds for the operations of the Group companies.

The TAURON Group carries out a centralized finance management policy, allowing effective management in this respect on the Group level. Among others, the TAURON Group has adopted *Liquidity management policy for the TAURON Group*, which facilitates optimization of liquidity management at the TAURON Group, reduces the risk of liquidity loss in the Group and in each company from the TAURON Group as well as financial expenses. Having implemented appropriate projection standards, the TAURON Group can precisely determine its liquidity position and optimize the time of obtaining funding, maturity and types of deposit instruments, as well as an appropriate level of the liquidity provision.

Additionally, in order to mitigate a possibility of cash flow disruption and liquidity risk, the TAURON Group uses the cash pooling mechanism. The cash pooling structure enables the Group companies that experience short-term shortage of funds to use cash provided by companies with cash surplus, without the need to obtain borrowings from third parties.

The Group has financing available under concluded financing agreements. Agreements with funding available as at the balance sheet day and the use of funds are shown in the table below.

(in PLN million)

	Borrowing institution	Funds availability termination date	As at 31 December 2021	
			Available llimit according to the agreement	Carrying amount
Hybrid bond issuance scheme	Bank Gospodarstwa Krajowego	11.03.2023	450	-
loan	Consortium of banks I	31.12.2022	5 570	1 700
	Consortium of banks II	25.03.2025	500	160
	European Investment Bank	29.10.2024	2 800	-
	Erste Group Bank AG	15.06.2023	500	-
overdraft facility	Bank Gospodarstwa Krajowego	30.08.2022	250	-

Available financing agreements can be used for corporate-wide purposes, including securing the Group's current liquidity position.

The policy pursued with regard to the acquisition of financing sources enables, above all, an increase in the possibility of obtaining financing for general corporate purposes and capital expenditure, a reduction in the cost of external capital, a reduction in the amount and forms of collateral established on TAURON Group assets and covenants required by financial institutions, and a reduction in administrative costs. The corporate finance model also makes it possible to acquire sources of financing that are not available to individual companies.

In 2021, the Group demonstrated full capacity to settle its liabilities on their maturity date.

The tables below show the ageing of the Group's financial liabilities by non-discounted contractual payments.

Financial liabilities as at 31 December 2021

Classes of financial instruments	Carrying amount	Non-discounted contractual payments	of which non-discounted contractual payments maturing within *(after the balance sheet date)*					
			less than 3 months	3 - 12 months	1 - 2 years	2 - 3 years	3 - 5 years	more than 5 years
Financial liabilities other than derivative instruments								
Interest-bearing loans and borrowings and issued bonds	**11 855**	**(13 777)**	(1 780)	(613)	(680)	(2 381)	(3 844)	(4 479)
Liabilities to suppliers	**1 242**	**(1 242)**	(1 241)	(1)	-	-	-	-
Liabilities due to the acquisition of non-controlling interests	**1 061**	**(1 061)**	(1 061)	-	-	-	-	-
Capital commitments	**616**	**(616)**	(595)	(21)	-	-	-	-
Other financial liabilities	**516**	**(516)**	(450)	(37)	(10)	(7)	(7)	(5)
Obligations under finance leases	**1 235**	**(2 415)**	(88)	(48)	(107)	(92)	(156)	(1 924)
Derivative financial liabilities								
Derivate instruments - commodity	**494**	**(185)**	(84)	(26)	(75)	-	-	-
Derivate instruments - CCIRS	**1**	**(13)**	-	(2)	(2)	(2)	(4)	(3)
Total	**17 020**	**(19 825)**	**(5 299)**	**(748)**	**(874)**	**(2 482)**	**(4 011)**	**(6 411)**

Financial liabilities as at 31 December 2020

Classes of financial instruments	Carrying amount	Non-discounted contractual payments	of which non-discounted contractual payments maturing within *(after the balance sheet date)*					
			less than 3 months	3 - 12 months	1 - 2 years	2 - 3 years	3 - 5 years	more than 5 years
Financial liabilities other than derivative instruments								
Interest-bearing loans and borrowings and issued bonds	**13 514**	**(15 318)**	(1 075)	(561)	(2 542)	(590)	(5 319)	(5 231)
Liabilities to suppliers	**1 021**	**(1 021)**	(1 019)	(1)	(1)	-	-	-
Capital commitments	**880**	**(880)**	(832)	(25)	(23)	-	-	-
Other financial liabilities	**499**	**(499)**	(428)	(29)	(20)	(6)	(8)	(8)
Obligations under finance leases	**1 146**	**(2 263)**	(77)	(49)	(99)	(84)	(149)	(1 805)
Derivative financial liabilities								
Derivate instruments - commodity	**84**	**(18)**	-	(13)	(5)	-	-	-
Derivate instruments - IRS	**90**	**(90)**	(2)	(31)	(31)	(22)	(3)	(1)
Derivate instruments - CCIRS	**2**	**(14)**	-	(2)	(2)	(2)	(4)	(4)
Total	**17 236**	**(20 103)**	**(3 433)**	**(711)**	**(2 723)**	**(704)**	**(5 483)**	**(7 049)**

(in PLN million)

52.3. Market risk

The Group identifies the following types of market risk it is exposed to:

- interest rate risk;
- currency risk;
- raw material and commodity price risk related to commodity derivative instruments.

52.3.1 Interest rate risk

Due to floating-rate items the Group is exposed to cash flow changes resulting from interest rate fluctuations. As a result of fixed-rate items the Group is exposed to changes in the fair value of items measured at a fair value. The risk of fair value changes resulting from interest rate changes relates to IRS and CCIRS contracts as well as the loan granted to Elektrociepłownia Stalowa Wola S.A. The Group is also exposed to the risk of lost benefits related to a decrease in interest rates in the case of fixed-rate debt or to an increase in interest rates in the case of fixed-rate assets, although the changes are not disclosed in the financial statements.

The purpose of interest rate risk management is to limit negative effects of market interest rate fluctuations on the Group's cash flows to an acceptable level and to minimize finance costs. In order to hedge interest rate risk related to floating-rate debt, the Group entered into interest rate swap (IRS) contracts, described in detail in Note 26 hereto. IRS transactions concluded in order to hedge interest rate risk are subject to hedge accounting.

The following tables present the carrying amounts of the Group's financial instruments exposed to interest rate risk. As the Group has adopted a dynamic financial risk management strategy where the hedged item is cash flows relating to the exposure to the floating WIBOR 6M interest rate, the interest rate risk for a portion of interest cash flows has been reduced by the hedging IRS transactions. Thus, a portion of the carrying amount of debt with floating interest cash flow fluctuations hedged with interest rate swaps has been presented in the tables below together with valuation of these hedging instruments as fixed-rate items.

Financial instruments by interest rate type

Financial instruments	As at 31 December 2021			As at 31 December 2020		
	Fixed interest rate	Floating interest rate	Total	Fixed interest rate	Floating interest rate	Total
Financial assets						
Deposits	26	30	**56**	53	-	**53**
Loans granted	100	-	**100**	97	2	**99**
Cash and cash equivalents	-	766	**766**	-	788	**788**
Derivative instruments-CCIRS	26	-	**26**	5	-	**5**
Derivative instruments-IRS	371	-	**371**	-	-	**-**
Financial liabilities						
Bank overdrafts	-	-	**-**	-	2	**2**
Preferential loans and borrowings	-	15	**15**	-	17	**17**
Arm's length loans and borrowings	2 634	1 886	**4 520**	2 789	3 184	**5 973**
Bonds issued	6 750	570	**7 320**	6 782	740	**7 522**
Obligations under finance leases	1 235	-	**1 235**	1 146	-	**1 146**
Derivative instruments-CCIRS	1	-	**1**	2	-	**2**
Derivative instruments-IRS	-	-	**-**	90	-	**90**

Other financial instruments of the Group which are not included in the above tables, are not interest-bearing and therefore they are not subject to interest rate risk.

Sensitivity analysis

For the needs of the analysis of sensitivity to changes in market risk factors the Group uses the scenario analysis method. The Group relies on expert scenarios reflecting its judgement concerning the behaviour of individual market risk factors in the future. The scope of the analysis includes only those items which meet the IFRS definition of financial instruments.

The interest rate risk sensitivity analysis is conducted by the Group using the parallel shift in the yield curve by the potential change in reference interest rates within a horizon until the date of the next financial statements. The interest rate risk sensitivity analysis has been carried out based on average reference interest rates in the year.

The Group identifies its exposure to the risk of changes in WIBOR, EURIBOR, ESTRON and LIBOR USD interest rate, whereas as at 31 December 2021 and 31 December 2020, its exposure to changes in EURIBOR, ESTRON and LIBOR USD rates was insignificant.

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The table below present sensitivity of the gross profit/loss as well as other comprehensive income (gross) of the Group to reasonably potential changes in interest rates within a horizon until the date of the next financial statements, assuming that all other risk factors remain unchanged.

Classes of finacial instruments	31 December 2021		Sensitivity analysis for interest rate risk as at 31 December 2021		31 December 2020		Sensitivity analysis for interest rate risk as at 31 December 2020 *(restated figures)*	
			WIBOR +64 bp	WIBOR -64 bp			WIBOR +69 bp	WIBOR -69 bp
	Carrying amount	Value at risk	*Profit/(Loss) / Other comprehensive income**		Carrying amount	Value at risk	*Profit/(Loss) / Other comprehensive income**	
Financial assets								
Derivatives	997	397	82	(82)	159	5	9	(9)
Cash and cash equivalents	815	766	4	(4)	921	788	5	(2)
Loans granted	100	74	(4)	5	99	75	(5)	5
Financial liabilities								
Bonds issued	7 320	2 663	(17)	17	7 522	2 830	(20)	20
Arm's length loans	4 520	3 638	(23)	23	5 973	4 934	(34)	34
Derivates	495	1	-	-	176	92	128	(128)
Total			**42**	**(41)**			**83**	**(80)**

** Refers to Interest Rate Swap financial derivatives covered by hedge accounting, as further discussed in Note 26 to these consolidated financial statements.*

The risk exposure as at 31 December 2021 and as at 31 December 2020 is representative of the Group's risk exposure during the preceding one-year period.

As at 31 December 2020, the sensitivity analysis for the risk of falling interest rates does not take into account cash in bank accounts for which, according to contractual provisions, banks will not charge negative interest rates.

52.3.2 Currency risk

TAURON Group companies are exposed to transaction and translation currency risk. Group companies are mainly exposed to changes in the currency exchange rates in connection with their operating and financing activities. The following tables show the Group's exposure to currency risk by class of financial instrument. Significant exposure relates to EUR/PLN and CZK/PLN exchange rate movements. The Group's exposure to other currencies is immaterial.

Classes of financial instruments	As at 31 December 2021					As at 31 December 2020				
	Total carrying amount in PLN	EUR		CZK		Total carrying amount in PLN	EUR		CZK	
		in currency	in PLN	in currency	in PLN		in currency	in PLN	in currency	in PLN
Financial assets										
Receivables from buyers	3 322	5	22	49	9	2 473	2	9	61	11
Derivatives	997	100	460	-	-	159	18	81	-	-
Other financial receivables	106	7	32	25	5	177	11	51	20	4
Cash and cash equivalents	815	22	101	24	5	921	27	124	29	5
Total		**134**	**615**	**98**	**19**		**58**	**265**	**110**	**20**
Financial liabilities										
Issued bonds	7 320	855	3 933	-	-	7 522	858	3 959	-	-
Liabilities to suppliers	1 242	4	21	7	1	1 021	12	57	8	1
Capital commitments	616	5	22	-	-	880	15	64	-	-
Derivatives	495	102	469	-	-	176	17	79	-	-
Other financial liabilities	250	22	102	-	-	247	16	73	-	-
Total		**988**	**4 547**	**7**	**1**		**918**	**4 232**	**8**	**1**
Net currency position		**(854)**	**(3 932)**	**91**	**18**		**(860)**	**(3 967)**	**102**	**19**

As part of its currency risk management, the TAURON Group uses forward contracts. The purpose of these transactions was to hedge the Group against currency risk arising in the course of its trading activities, mainly due to the purchase of CO_2 emission allowances and to hedge currency exposure generated by interest payments on acquired financing in EUR.

CO_2 emission allowances are purchased to meet the redemption obligation by the Group's installations. In connection with CO_2 emissions for a given reporting period, the Group creates a provision for the obligation to redeem CO_2 emission allowances in the amount of CO_2 emission allowances held and contracted to purchase in EUR. Thus, the value of the provision is exposed to the risk of a change in the EUR/PLN exchange rate. Currency contracts related to the purchase of CO_2 emission allowances secure the Group's cash flows resulting from the purchase of allowances.

The fair value measurement of currency forward contracts and CCIRS contracts is exposed to the risk of changes in the EUR/PLN exchange rate. Transactions entered into to hedge against currency risk are not subject to hedge accounting.

Sensitivity analysis

For the needs of the analysis of sensitivity to changes in market risk factors the Group uses the scenario analysis method. The Group relies on expert scenarios reflecting its judgement concerning the behaviour of individual market risk factors in the future. The scope of the analysis includes only those items which meet the IFRS definition of financial instruments.

The potential changes in foreign exchange rates have been determined within a horizon until the date of the next financial statements and calculated on the basis of annual implied volatility for FX options quoted on the interbank market for a given currency pair as at the end of the reporting period or, in the absence of quoted market prices, on the basis of historical volatility for a period of one year preceding the balance sheet day.

(in PLN million)

The Group identifies its exposure to foreign currency risk related to EUR/PLN, CZK/PLN, USD/PLN, GBP/PLN. Significant risk exposure regards EUR, mainly due to external financing contracted in EUR. Other currencies do not generate material risk for the Group.

The table below presents sensitivity of the gross profit/loss as well as other comprehensive income (gross) of the Group to reasonably possible changes in foreign exchange rate EUR/PLN within a horizon until the date of the next financial statements, assuming that all other risk factors remain unchanged.

Classes of finacial instruments	31 December 2021		Sensitivity analysis for currency risk as at 31 December 2021		31 December 2020		Sensitivity analysis for currency risk as at 31 December 2020	
			EUR/PLN				EUR/PLN	
	Carrying amount	Value at risk	exchange rate EUR/PLN +5.88%	exchange rate EUR/PLN -5.88%	Carrying amount	Value at risk	exchange rate EUR/PLN +5.78%	exchange rate EUR/PLN -5.78%
Financial assets								
Receivables from buyers	3 322	22	1	(1)	2 473	9	1	(1)
Derivatives	997	601	285	(285)	159	154	161	(161)
Other financial receivables	106	32	2	(2)	177	51	3	(3)
Cash and cash equivalents	815	101	6	(6)	921	124	7	(7)
Financial liabilities								
Bonds issued	7 320	3 933	(231)	231	7 522	3 959	(229)	229
Liabilities to suppliers	1 242	21	(1)	1	1 021	57	(3)	3
Capital commitments	616	22	(1)	1	880	64	(4)	4
Derivatives	495	470	(24)	24	176	81	(1)	1
Other financial liabilities	250	102	(6)	6	247	73	(4)	4
Total			**31**	**(31)**			**(69)**	**69**

The risk exposure as at 31 December 2021 and as at 31 December 2020 is representative of the Group's risk exposure during the preceding one-year period.

52.3.3 Raw material and commodity price risk related to commodity derivative instruments

The Group concludes derivative contracts, with underlying instruments being commodities and raw materials. The Group's exposure to price risk inherent in commodity derivative instruments is related to a risk of changes in the fair value of the said instruments, driven by fluctuations of prices of the underlying raw materials/commodities. The Group limits price risk related to commodity derivatives concluding offsetting transactions. The risk is limited to open long and short positions concerning a given commodity or raw material, i.e. concern unbalanced portfolio.

At 31 December 2021, the portfolio of concluded contracts is fully balanced. This minimises market risk in the commodity derivatives portfolio. This is confirmed by a sensitivity analysis, which indicated immaterial effects of potential changes in the prices of CO_2 emission allowances on Group’s gross profit/loss.

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53. Operational risk

The commercial operational risk is managed at the level of the TAURON Group, as described in section 3.3. of the Management Board report on the activities of TAURON Polska Energia S.A. and TAURON Capital Group for the financial year 2021. The Group manages its commercial risk following the developed and adopted *Commercial risk management policy in the TAURON Group*, which has introduced an early warning system in addition to a system of limiting the exposure to risk in various commercial areas.

Companies of the Group are exposed to adverse effects of risks related to changes in cash flows and financial performance in the domestic currency due to changes in prices of goods. The Group's exposure to commodity price risk is reflected in the volume of purchases of basic raw materials and commodities, which include hard coal, gas and energy.

The volume and costs of purchases of basic raw materials from suppliers outside the Group are shown in the table below.

Fuel type	Unit	2021		2020	
		Volume	Purchase cost	Volume	Purchase cost
Coal	tonne	2 414 222	559	2 814 471	703
Gas	MWh	4 720 343	572	3 965 153	331
Electricity	MWh	32 316 552	9 640	32 036 767	8 093
Heat energy	GJ	5 193 627	249	4 769 991	209
Total			**11 020**		**9 336**

OTHER INFORMATION

54. Contingent liabilities

Claims related to termination of long-term contracts

Claims relating to termination of long-term contracts against subsidiary Polska Energia - Pierwsza Kompania Handlowa Sp. z o.o.

In 2015, companies belonging to the Polenergia and Wind Invest groups filed a case against Polska Energia-Pierwsza Kompania Handlowa Sp. z o.o. to declare notices of termination of agreements submitted by Polska Energia-Pierwsza Kompania Handlowa Sp. z o.o. with regard to power purchase and property rights concluded with these companies ineffective. In the course of court proceedings, plaintiffs extend their scope raising claims for damages and contractual penalty claims related to contract termination or submit separate claims for compensation.

As at the date of approval of these consolidated financial statements for publication, the amount of damages claimed in the lawsuits amounts to: Polenergia Group companies – PLN 116 million (including Amon Sp. z o.o. – PLN 70 million, Talia Sp. z o.o. – PLN 46 million); Wind Invest group companies – PLN 402 million.

In the case filed by Amon Sp. z o.o. and Talia Sp. z o.o., partial and preliminary judgements were issued (judgement of 25 July 2019 in the Amon Sp. z o.o. lawsuit and judgement of 6 March 2020, supplemented by the court on 8 September 2020 in the Talia Sp. o.o. lawsuit), in which the courts determined that the statements of Polska Energia-Pierwsza Kompania Handlowa Sp. z o.o. on termination of long-term agreements concluded between Polska Energia-Pierwsza Kompania Handlowa Sp. z o.o. and Amon Sp. z o.o. and those concluded between Polska Energia-Pierwsza Kompania Handlowa Sp. z o.o. and Talia Sp. z o.o. for the purchase of electricity and property rights resulting from certificates of origin are ineffective and do not produce legal effect in the form of termination of both agreements, as a result of which the agreements after the notice period, i.e. after 30 April 2015, remain in force in respect of all provisions and are binding on the parties. Moreover, the courts also recognised the claims of Amon Sp. z o.o. and Talia Sp. z o.o. for payment of damages justified as to the merits, without, however, prejudging the amount of potential damages. Polska Energia-Pierwsza Kompania Handlowa sp. z o.o. filed a complaint against the judgements. The judgement in the Amon Sp. z o.o. case is not final. In the case brought by Talia Sp. z o.o., on 20 December 2021 the Court of Appeals in Gdańsk announced a judgement dismissing the appeals of Polska Energia-Pierwsza Kompania Handlowa Sp. z o.o. The judgement of the Court of Appeals and consequently the preliminary and partial judgements and the supplementary judgement indicated above are final, however, it is possible to apply for the judicial review. These judgements do not award any damages from Polska Energia-Pierwsza Kompania Handlowa Sp. z o.o. to the claimant, i.e. Talia Sp. z o.o.

The above-mentioned final, partial and preliminary judgements in the Talia Sp. z o.o. lawsuit do not change the Group's assessment that the chances of ultimately losing the case for damages in favour of Talia Sp. z o.o. are not higher than the chances of winning it, and therefore no provision is created for the related costs. The partial and preliminary judgement in the Amon Sp. z o.o. lawsuit does not change the Group's assessment that the chances of losing the case resulting in the necessity to pay compensation are not higher than the chances of winning it and therefore no provision is created for the related costs.

In the case filed by Pękanino Wind Invest Sp. z o.o. for the provision of security for claims for determining that the terminations of long-term contracts submitted by Polska Energia-Pierwsza Kompania Handlowa Sp. z o.o. are ineffective, the Court of Appeasl in Warsaw on 6 November 2019 partially granted the application for security by ordering Polska Energia-Pierwsza Kompania Handlowa Sp. z o.o. to perform the provisions of the contracts in their entirety on the existing terms and conditions, in accordance with their content, until the proceedings from the suit of Pękanino Wind Invest Sp. z o.o. are legally concluded against Polska Energia-Pierwsza Kompania Handlowa Sp. z o.o., pending before the Regional Court in Warsaw. The decision regarding the security is binding. This decision does not prejudge the merits of the action, which can only take place in a binding judgement, but only temporarily regulates the parties' relations for the duration of the proceedings. In view of the need to implement the security provision referred to above, Polska Energia-Pierwsza Kompania Handlowa Sp. z o.o. created a provision for onerous contracts. During the year ended 31 December 2021, the provision was fully released as a result of gaining profits due to the performance of framework agreements for the purchase of electricity and property rights with Pękanino Wind Invest Sp. z o.o.

Other cases are held at first instance courts (including one remanded for re-examination to the first-instance court by a second-instance court).

Taking into account the current status of the lawsuits and the circumstances surrounding them, the Group believes that the chances of losing the remaining lawsuits related to both declarations of ineffectiveness of termination of agreements and claims for damages are not higher than the chances of winning the lawsuits in question, and therefore it does not recognise a provision for related costs.

Claims relating to termination of long-term contracts against TAURON Polska Energia S.A.

In 2017 and 2018, companies belonging to the Polenergia and Wind Invest groups filed actions against TAURON Polska Energia S.A. regarding payment of damages and determining liability for potential future losses resulting from tort, including unfair competition. According to the plaintiffs notices of termination submitted by Polska-Energia Pierwsza Kompania Handlowa Sp. z o.o. regarding long-term contracts for the purchase of power and property rights related to energy certificates allegedly directed by TAURON Polska Energia S.A., provided the factual basis for these claims.

As at the date of approval of these consolidated financial statements for publication, the damages claimed in the lawsuits amount to: Polenergia Group companies – PLN 131 million, Wind Invest group companies – PLN 272 million.

Moreover, in their claims, the plaintiff companies indicate the following values of estimated damages that may arise in the future: Polenergia Group companies – PLN 265 million, Wind Invest Group companies – PLN 1 119 million.

The District Court in Katowice has jurisdiction to hear the lawsuits. All cases are held before the first instance courts. The proceedings filed by Wind Invest group companies are held in camera. As at the date of approval of these consolidated financial statements for publication, the Company's chances of obtaining a favourable resolution of the disputes should be assessed positively, i.e. the chances of losing are not higher than the chances of winning.

Claim against PGE EJ 1 Sp. z o.o. (currently Polskie Elektrownie Jądrowe Sp. z o.o.)

On 13 March 2015, a consortium of WorleyParsons Nuclear Services JSC, WorleyParsons International Inc, WorleyParsons Group Inc (hereinafter referred to as the "WorleyParsons consortium"), which is a research contractor within the investment process related to the construction of a nuclear power plant by PGE EJ 1 Sp. z o.o. (hereafter: "the Agreement"), reported in connection with the Agreement - in a call for payment to the PGE EJ 1 Sp. z o.o. - claims for the total amount of PLN 92 million. As a result, on 15 April 2015 the Company (as a holder of 10% of shares in the issued capital of PGE EJ 1 Sp. z o.o.) concluded an agreement with PGE EJ 1 Sp. z o.o. and its other then shareholders (i.e. PGE Polska Grupa Energetyczna S.A., KGHM Polska Miedź S.A. and ENEA S.A.) that regulated mutual relations of the parties to the agreement as regards the claims, including principles of providing additional funds (if any) to PGE EJ 1 Sp. z o.o. by its shareholders.

In November 2015, the District Court in Warsaw served PGE EJ 1 Sp. z o.o. with the claim lodged by the WorleyParsons consortium for the amount of approx. PLN 59 million, then extended in 2017 and 2019 to the amount of approx. PLN 128 million.

On 26 March 2021, the Company and other entities holding shares in PGE EJ 1 Sp. z o.o. signed an agreement with the State Treasury for the sale of shares in PGE EJ 1 Sp. z o.o., which is described in more detail in Note 34 to these consolidated financial statements. Moreover, the Company and PGE Polska Grupa Energetyczna S.A., KGHM Polska Miedź S.A. and ENEA S.A. concluded an annex to the WorleyParsons agreement of 15 April 2015 with PGE EJ 1 Sp. z o.o., regulating the issues of the parties' potential liabilities and benefits resulting from the settlement of the dispute with the WorleyParsons consortium following the sale of the shares in PGE EJ 1 Sp. z o.o. In accordance with the annex signed, the shareholders in proportion to their previously held number of shares in PGE EJ 1 Sp. z o.o. are liable for liabilities or proportionally entitled to benefits potentially arising as a result of the settlement of the dispute with the WorleyParsons consortium up to the maximum level of claims with interest set as at 26 March 2021, amounting respectively to PLN 140 million for claims raised by the WorleyParsons consortium against PGE EJ 1 Sp. z o.o. and PLN 71 million for claims raised by PGE EJ 1 Sp. z o.o. against the WorleyParsons consortium.

PGE EJ 1 Sp. z o.o. did not accept the claim and believed that the probability that the court would decide in favour of the plaintiffs was remote. No provision was recognised in relation to the above events.

On 15 June 2021 an amendment to the articles of association of PGE EJ 1 Sp. z o.o. was registered which, among others, changed the name of the company (following the conclusion of the share purchase agreement described above) to Polskie Elektrownie Jądrowe Sp. z o.o.

Claims filed by Huta Łaziska S.A.

In connection with the merger of the Company with Górnośląski Zakład Elektroenergetyczny S.A. (GZE), TAURON Polska Energia S.A. company became the party to the court dispute with Huta Łaziska S.A. ("Huta") against GZE and the State Treasury represented by the President of the ERO. Currently, the proceedings are pending before the Court of Appeals in Warsaw.

By the statement of claim of 12 March 2007 Huta demands from GZE and the State Treasury - the President of the Energy Regulatory Office (in solidum) to adjudicate the amount of PLN 182 million including interest accrued from the date of filing the statement of claim to the date of payment as compensation for the alleged damage caused by the failure of GZE to implement the decision of the ERO President of 12 October 2001 concerning the resumption by GZE of deliveries of electricity to Huta.

In this case, the courts of the first and second instance passed judgements favourable for GZE; however, in its judgement of 29 November 2011 the Supreme Court overruled the judgement of the Court of Appeals and remanded the case for re-examination by that Court. On 5 June 2012, the Court of Appeals overruled the decision of the Regional Court and remanded the case for re-examination by the latter. By judgement of 28 May 2019, the Regional Court in Warsaw dismissed Huta's claim in its entirety and ruled that Huta reimbursed each of the defendant for the costs of the proceedings. The judgement is not legally binding. Huta lodged an appeal (dated 25 July 2019), challenging the above judgement in its entirety and requesting that it be amended by upholding the claim in its entirety and ordering the defendants to pay the costs of the proceedings in favour of Huta, or, in the alternative, that the contested judgement be set aside in its entirety and the case be referred back to the court of first instance. In response to the appeal of 9 August 2019, the Company requested that the appeal be dismissed in its entirety as manifestly unfounded and that the costs of the appeal proceedings be awarded against Huta in favour of the Company. After the balance sheet day, by the judgment of 9 February 2022, Huta's appeal was dismissed, and, inter alia, reimbursement of the costs of the appeal proceedings be awarded for the benefit of the Company. The judgment is final.

Based on a legal analysis of claims, as well as taking into account the said judgement, the Company believes that they are unjustified and the risk that they must be satisfied is remote. Consequently, no provision has been recognised by the Company for any costs associated with those claims.

Case filed by ENEA S.A.

Case filed by ENEA S.A. (“ENEA”) against TAURON Polska Energia S.A., which has been heard by the Regional Court in Katowice since 2016, and currently before the Court of Appeal in Katowice refers to the payment of the amount of PLN 17 million including the statutory interest accrued from 30 June 2015 until the payment date. The actual basis of ENEA's claim are allegations concerning unjust enrichment of the Company in connection with possible errors in the determination of the aggregated measurement and settlement data by ENEA Operator Sp. z o.o. constituting the basis for settlements between ENEA and the Company and Polskie Sieci Elektroenergetyczne S.A. on account of imbalance on the Balancing Market in the period from January to December 2012. In the course of the proceedings at the request of ENEA additional sellers were summoned, for whom TAURON Polska Energia S.A. acted as an entity responsible for trade balancing, including the Company's subsidiaries, i.e. TAURON Sprzedaż Sp. z o.o. and TAURON Sprzedaż GZE Sp. z o.o. The claim for payment by the above subsidiaries amounting in total to PLN 8 million, including the statutory interest, was lodged by the claimant in the event the action against TAURON Polska Energia S.A. is dismissed.

On 22 March 2021, the Regional Court in Katowice dismissed the claim of ENEA in its entriety and ruled on ENEA's obligation to reimburse the costs of the proceedings to the Company. The judgement is not legally binding. ENEA has filed an appeal against the above ruling. Until the date of approval of these consolidated financial statements for publication, no notice was delivered to the Company on the date of the appeal hearing.

The Company did not recognize any provision as, in the opinion of the Company, the risk of losing the case is below 50%. Provisions for costs were created by subsidiaries, TAURON Sprzedaż Sp. z o.o. and TAURON Sprzedaż GZE Sp. z o.o. In the year ended 31 December 2021, the provisions were fully released due to the position of the companies and the assessment of the chances of positive outcome of the proceedings that ended with a non-final judgement favourable to the companies.

Proceedings initiated by the President of the Office of Competition and Consumer Protection and the President of the Energy Regulatory Office

Administrative and explanatory proceedings are pending against companies in the Sales segment. The companies provide clarifications in the respective cases on an ongoing basis and undertake remedying actions. The companies do not create provisions for potential penalties related to initiated proceedings, since in the opinion of the Management Boards of the companies the risk of unfavourable resolution of cases and imposition of a penalty is low.

As regards proceedings initiated to impose fines against companies from the Sales segment, for which the President of the Energy Regulatory Office issued decisions imposing fines, the company created provisions for pending proceedings in the total amount of PLN 3 million.

Non-contractual use of the real estate

The companies belonging to Group do not hold legal titles to all plots of land on which the distribution grids, heating installations and the related equipment and installations are situated. In the future, the Group may be required to incur costs for the use of real estate without the underlying contracts; however, it must be emphasised that the risk of loss of assets is minor. The Group creates the provision for all court disputes filed in this respect. The provision is not established for unreported potential claims by owners of land of unregulated status due to the lack of detailed record of unregulated land and the resulting inability to reliably estimate the amount of potential claims. However, considering the record of the reported claims and the costs incurred in this respect in previous years, the risk of the necessity to incur significant costs due to such claims can be considered as remote.

As at the balance sheet day, provisions in the amount of PLN 74 million were created for reported court disputes, which are recognised in the statement of financial position under other provisions (Note 41.1).

Claim for reimbursement of expenses incurred to protect a facility against the effects of mining operations

In December 2017, the subsidiary, TAURON Wydobycie S.A. received a claim from Galeria Galena Sp. z o.o., with its registered office in Gliwice, for payment of the amount of PLN 23 million as reimbursement of expenses for protecting the facility located in Jaworzno against the effects of mining exploitation. In addition, on 5 April 2018, the company received a claim for payment filed by Galeria Galena Sp. z o.o. against the legal successors of Kompania Węglowa S.A. together with an application for merging this case for joint consideration with the case against TAURON Wydobycie S.A. The case has been combined for joint examination against the defendants by Galeria Galena Sp. z o.o., i.e. against the State Treasury - Director of the Regional Mining Office in Katowice and legal successors of Kompania Węglowa S.A. in Katowice. The parties have been providing explanations and serving pleadings on an ongoing basis. The case is pending before District Court in Katowice (the first instance).

Due to the extension of the claim to additional defendants represented by legal successors of the former Kompania Węglowa S.A. and doubts of factual and legal nature preventing an unambiguous determination of the direction of the Court's adjudication of the case as well as the amount of the adjudicated claim, the company does not create a provision for the above event.

Claim for amendment to the agreement for the construction of the Grzegorz Shaft in TAURON Wydobycie S.A.

The general contractor for TAURON Wydobycie S.A. investment project entitled “Construction works performed by the General Contractor for Stage I of the construction of the Grzegorz Shaft along with the construction of surface infrastructure for TAURON Wydobycie S.A.” suspended the works, indicating as the reason the risk to safety caused by the disclosure of changes in hydrogeological conditions in the area of the works and applied to the company for an amendment to the underlying agreement, including changes in the scope of the amount of the remuneration. TAURON Wydobycie S.A., having analysed materials related to claims for amendments to the agreement by the contractor and having obtained an expert opinion on the correctness of execution of hydrogeological and geological and engineering documentation for the needs of the sinking of the Grzegorz Shaft, which did not confirm the thesis of the General Contractor, as well as on the basis of an expert opinion which indicated significant errors in the design of the shaft enclosure making it impossible to continue execution of the agreement with the General Contractor, requested the designer of the design documentation to remove significant defects in the technical design of the shaft enclosure of the Grzegorz Shaft. In the opinion of the company, in order to execute the investment in a manner consistent with the agreement concluded with the General Contractor, it is necessary to improve the design of the shaft enclosure and remove design errors. In response to the contractor's request for a guarantee of payment for the construction works, TAURON Wydobycie S.A. granted the contractor a guarantee of payment in the form of a bank letter of credit valid until 18 January 2021. The bank letter of credit has not been extended.

In February 2021, the company filed a request for mediation with the Court of Arbitration at the General Counsel to the Republic of Poland. On

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17 March 2021, the first mediation meeting was held as a starting point of the mediation process continuing to date.

The Group assesses that there is no basis to create provisions for the effects of the above events as at the balance sheet day. The case is not subject to legal proceedings.

55. Collaterals for repayment of liabilities

As part of its operations, the Group uses a number of instruments to hedge its own liabilities and liabilities of joint ventures under the concluded agreements and transactions. The major types of collaterals are presented below.

Collateral	Collateral amount as at	
	31 December 2021	31 December 2020
Declarations of submission to enforcement*	19 189	18 734
Pledges on shares	1 796	416
Corporate and bank guarantees	1 526	1 651
Bank account mandates	600	1 408
Blank promissory notes	499	682
Surety contracts	62	37

**As at 31 December 2021, the item comprises collaterals relating to agreements for which, as at the balance sheet day, the liabilities expired, were repaid or replaced by others, in the total amount of PLN 580 million.*

The most significant items of collaterals include:

- The declaration of submission to enforcement up to PLN 7 284 million established for the bank facility agreement with the Consortium of Banks I of 19 June 2019, described in more detail in Note 37.2 to these consolidated financial statements.
- Collaterals for the repayment of liabilities due to the acquisition of non-controlling interests, as discussed in more detail in Note 44 to these consolidated financial statements.

  As part of collaterals, pursuant to the agreement of 22 December 2021 concluded with Fundusz Inwestycji Infrastrukturalnych–Kapitałowy Fundusz Inwestycyjny Aktywów Niepublicznych (the “Fund”), the Company established pledges on 176 000 shares in the share capital of the subsidiary, Nowe Jaworzno Grupa TAURON Sp. z o.o, i.e. a registered pledge with the first priority of satisfying on the shares up to the maximum amount of security of PLN 1 380 million and an ordinary pledge with the first priority of satisfying equal to the priority of the registered pledge. Moreover, the Company assigned the rights to receive dividends or other profit distributions in respect of the pledged shares and granted the Fund an unconditional and irrevocable power of attorney to exercise the voting rights of the pledged shares in the subsidiary. The pledges were valid until the secured receivables were fully satisfied. In addition, the Company signed a declaration of submission to enforcement for the benefit of the Fund up to the amount of PLN 1 380 million, with the deadline of 22 September 2023. After the balance sheet day, on 22 March 2022, the Company repaid its obligations under the agreement to acquire shares in the subsidiary Nowe Jaworzno Grupa TAURON Sp. z o.o.
- The registered pledge and the financial pledge established under the agreement concluded in 2015 on the shares held, representing 50% of the shares in the share capital of TAMEH HOLDING Sp. z o.o., in favour of RAIFFEISEN BANK INTERNATIONAL AG. The registered pledges are pledges with the highest priority of satisfaction on shares up to the highest amount of security in the amount of CZK 3 950 million and PLN 1 370 million, respectively. The agreement for the establishment of registered pledges and financial pledges was concluded in order to secure the transaction involving the agreement for term and working capital loans, which was concluded between TAMEH Czech s.r.o. and TAMEH POLSKA Sp. z o.o. as the original borrowers, TAMEH HOLDING Sp. z o.o. as the parent company and guarantor and RAIFFEISEN BANK INTERNATIONAL AG as the agent and collateral agent. The registered pledges are valid in the collateral period, i.e. until the total repayment of secured receivables or until release of the pledge by the pledgee. The financial pledge is valid in the entire collateral period or until release by the pledgee, not later than on 31 December 2028.
- The corporate guarantee was granted by the Company in 2014 to secure the bonds of Finanse Grupa TAURON Sp. z o.o. (the so-called NSV). The guarantee shall be effective until 3 December 2029, i.e. the redemption date of the bonds and amounts to EUR 168 million (PLN 773 million), while the beneficiaries of the guarantee are the private placement investors who purchased the bonds issued.
- The liability to MUFG Bank, Ltd. arising from the issuance of a bank guarantee at the request of the Company by MUFG Bank, Ltd. as a collateral for the receivables of Bank Gospodarstwa Krajowego (BGK) arising from the loan agreement concluded on 8 March 2018 between the borrower, Elektrociepłownia Stalowa Wola S.A. and BGK and PGNiG S.A. As at the balance sheet day, the amount of the security granted is PLN 518 million, with the effective term to 11 April 2022. The receivables of the bank against the Company are secured by a declaration on submission

(in PLN million)

to enforcement up to the amount of PLN 621 million with a validity period until 31 October 2022. In connection with the guarantee issued, the Company recognised a liability in the amount of expected credit losses, which amounted to PLN 16 million as at 31 December 2021 (PLN 28 million as at 31 December 2020).

After the balance sheet day, the following events took place:

- bank guarantees were issued in favour of Izba Rozliczeniowa Giełd Towarowych S.A. ("IRGiT") to secure the liabilities of the Company in the total amount of PLN 150 million, with expiry dates from 14 February to 24 April 2022;
- on 4 January 2022, a declaration of submission to enforcement was signed up to the maximum amount of PLN 600 million with the expiry date of 15 December 2029, in connection with the conclusion of the facility agreement up to the maximum amount of PLN 500 million by the Company on 15 December 2021, as further described in Note 37.2 to these financial statements.
- on 4 March 2022, the Company concluded the annex to the agreement with BGK for the provision of bank guarantees under the line, extending its term by one year, i.e. until 13 March 2023. The agreement is secured by a declaration on submission to enforcement up to the amount of PLN 300 million with a period of effectiveness until 14 March 2025;
- on 14 March 2022, the Company concluded the agreement with Intesa Sanpaolo S.p.A. for a guarantee line of up to PLN 518 million, with a period of effectiveness until 11 October 2022, under which, at the Company request, a bank guarantee was issued to secure BGK receivables under the loan agreement concluded on 8 March 2018 between the borrower, Elektrociepłownia Stalowa Wola S.A. and BGK and PGNiG S.A. The guarantee line is secured by a declaration on submission to enforcement up to the amount of PLN 621 million with a validity period until 14 March 2025;
- on 24 March 2022, the Company granted to the subsidiary TAURON Czech Energy s.r.o. security in the form of a corporate guarantee in the amount of EUR 3 million, as security for commercial agreements concluded by the company, valid until 31 January 2024 and in the form of a patronage declaration up to the amount of CZK 180 million, as security for a framework agreement for granting bank guarantees for the period of its validity.

Carrying amount of assets pledged as a collateral for the repayment of the Group's liabilities

The carrying amounts of assets pledged as a collateral for the repayment of liabilities at each balance sheet day have been presented in the table below.

	As at 31 December 2021	As at 31 December 2020
Other financial receivables	29	49
Real estate	4	8
Cash	-	8
Total	**33**	**65**

The main item consists of collaterals of forward transactions - derivative financial instruments concluded by the Company on foreign stock exchange markets. As at 31 December 2021 and as at 31 December 2020, the related collaterals amounted to PLN 29 thousand and PLN 49 million, respectively.

Collateral for transactions concluded on the Polish Power Exchange [Towarowa Giełda Energii S.A.]

The Company secures transactions concluded on the Polish Power Exchange [Towarowa Giełda Energii S.A.], among others, in the form of bank guarantees issued to IRGiT. As at 31 December 2021 and 31 December 2020, bank guarantees totalling PLN 70 million and PLN 180 million, respectively, were in force.

Pursuant to the agreement defining the principles for the establishment of financial collateral for the energy Group concluded with the IRGiT, TAURON Group applies a mechanism for setting off the margins. In terms of the transactions performed, the margins required by the IRGiT are calculated against the positions offset within the Group, which translates into the reduction in the funds involved on a Group-wide basis in maintaining the collateral required by the IRGiT.

Provision of funds to cover future decommissioning costs

In order to secure funds to cover future decommissioning costs, the Group's subsidiaries, i.e. TAURON Wydobycie S.A. and Kopalnia Wapienia Czatkowice Sp. z o.o. create the Mine Decommissioning Fund, as described in detail in Note 39.1 to these consolidated financial statements.

(in PLN million)

56. Related party disclosures

56.1. Transactions with joint ventures

The group has interest in the following joint ventures: Elektrociepłownia Stalowa Wola S.A. and the TAMEH HOLDING Sp. z o.o. capital group, which are further described in Note 24 to these consolidated financial statements.

The total value of transactions with jointly-controlled entities is presented in the table below.

	Year ended 31 December 2021	Year ended 31 December 2020
Revenue	412	296
Costs	(488)	(118)

The main item of settlements with jointly-controlled entities are the loans granted to Elektrociepłownia Stalowa Wola S.A., which is discussed in more detail in Note 25 to these consolidated financial statements.

The Company provided collateral to joint ventures in the form of pledges on shares in TAMEH HOLDING Sp. z o.o. and a bank guarantee commissioned by the Company to secure loan liabilities of Elektrociepłownia Stalowa Wola S.A., as described in detail in Note 55 hereto.

56.2. Transactions with State Treasury companies

The main shareholder of the Group is the State Treasury of the Republic of Poland, therefore the State Treasury companies are treated as related parties.

The total value of transactions with State Treasury companies are presented in the table below.

Revenues and costs

	Year ended 31 December 2021	Year ended 31 December 2020
Revenue	3 344	2 473
Costs	(4 457)	(2 747)

Receivables and liabilities

	As at 31 December 2021	As at 31 December 2020
Receivables*	573	320
Payables	506	388

**As at 31 December 2021 and as at 31 December 2020, the receivables item in the table above comprises advance payments for the purchase of fixed assets in the amount of PLN 2 million and PLN 3 million, respectively.*

Among the State Treasury companies, the largest customers of TAURON Polska Energia S.A. Group in the year ended 31 December 2021 included KGHM Polska Miedź S.A., PSE S.A. and Polska Grupa Górnicza S.A. The largest purchase transactions were performed by the Group with PSE S.A., Polska Grupa Górnicza S.A. and Węglokoks S.A.

Among the State Treasury companies, the largest customers of TAURON Polska Energia S.A. Group in the year ended 31 December 2020 included KGHM Polska Miedź S.A., PSE S.A. and Spółka Restrukturyzacji Kopalń S.A. The largest purchase transactions were performed by the Group with PSE S.A., Polska Grupa Górnicza S.A. and Węglokoks S.A.

Costs from State Treasury companies include the costs of charges to Polskie Sieci Elektroenergetyczne S.A., which are ultimately collected by the Group from electricity consumers and for which the Group acts as an intermediary, reducing in the consolidated statement of comprehensive income the revenue received from consumers by the costs incurred to Polskie Sieci Elektroenergetyczne S.A. The growth of costs in the current period in relation to the comparable period results mainly from the launch of operation of the Capacity Market from 1 January 2021 and the related cost of purchasing the capacity fee from Polskie Sieci Elektroenergetyczne S.A.

The Capital Group conducts material transactions on the energy market through Izba Rozliczeniowa Giełd Towarowych S.A. Due to the fact that this entity only arranges stock exchange trading, the purchase and sale transactions performed through it are not treated as related party transactions.

Transactions with State Treasury companies are mainly related to the operating activities of the Group and are performed on an arm’s length terms.

The above tables do not include transactions with banks controlled by the State Treasury, which, in accordance with IAS 24 *Related Party Disclosures*, are not considered related parties as funding institutions.

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Transactions with the State Treasury

On 22 March 2021, an agreement was concluded between the State Treasury represented by the Minister of State Assets and the Company, under which the Company is authorised to receive reimbursement of the costs incurred in connection with the implementation of the activities commissioned to it pursuant to the decision of the Prime Minister of 29 October 2020 in the scope of counteracting COVID-19, consisting in organising and establishing a temporary hospital in Krynica - Zdrój and maintaining the operation of this hospital. The total costs incurred for this task amounted to PLN 9 million, and by the balance sheet day the Company had received reimbursement of the costs incurred in the total amount of PLN 7 million. In the year ended 31 December 2021, the costs incurred amounted to PLN 4 million. In principle, the settlement of the task has no impact on the financial results of the Company due to the entitlement of the Company to receive reimbursement of the reasonable costs incurred.

On 26 March 2021, the Company signed the agreement with the State Treasury concerning the sale of the shares in PGE EJ 1 Sp. z o.o. (currently: Polskie Elektrownie Jądrowe Sp. z o.o.), as further described in Note 34 to these consolidated financial statements.

56.3. Remuneration of the executives

The amount of compensation and other benefits paid and/or due to the Management Board, Supervisory Boards and other key management personnel of the parent company and the subsidiaries in the year ended 31 December 2021 and in the comparative period has been presented in the table below.

	Year ended 31 December 2021		Year ended 31 December 2020	
	Parent	Subsidiaries	Parent	Subsidiaries
Management Board	**4**	**22**	**5**	**24**
Short-term benefits (with surcharges)	4	22	4	23
Employment termination benefits	-	-	1	1
Supervisory Board	**1**	**-**	**1**	**1**
Short-term employee benefits (salaries and surcharges)	1	-	1	1
Other key management personnel	**16**	**47**	**17**	**45**
Short-term employee benefits (salaries and surcharges)	14	47	15	44
Employment termination benefits	1	-	1	-
Other	1	-	1	1
Total	**21**	**69**	**23**	**70**

In accordance with the accounting policy adopted, the Group creates provisions for benefits due to members of the Management Board on account of termination of their management contracts and to other key executives on account of termination of their employment, which may be paid or payable in subsequent reporting periods. The table above takes into account the amounts paid and due to be paid until 31 December 2021.

57. Finance and capital management

The Company carries out a centralised finance management policy, allowing effective management in this respect at a level of the entire TAURON Group. The main tools allowing for effective management include the appropriate internal corporate regulations, as well as the TAURON Group's cash pool service and intra-group loans. In addition, the finance management system is supported by the TAURON Group's central financial risk management policy and the TAURON Group's insurance policy. In these areas, the Company acts as a manager and decides on the direction of activities, enabling it to set appropriate risk exposure limits.

Detailed information concerning finance management are described in section 7.3. of the Management Board's reports on the activities of TAURON Polska Energia S.A. and TAURON Capital Group for the financial year 2021.

In 2021, the Company and TAURON Group demonstrated full capacity to settle their liabilities on their maturity date.

The main objective of the Group's capital management is to maintain a good credit rating and safe capital ratios that would support the Group's operations and increase value for its shareholders.

The Company primarily monitors the debt ratio of the Group, defined as the ratio of net financial debt to EBITDA. The TAURON Group's net financial debt is defined in individual financing agreements and generally represents the obligation to pay or reimburse the money on account of loans, borrowings and debt securities and on account of financial leases (within the meaning of the provisions of the IAS 17 standard), excluding: subordinated bond liabilities less cash and short-term investments with a maturity of up to 1 year. EBITDA means the TAURON Group's operating profit or loss plus depreciation and amortisation and write-downs on non-financial assets. In addition, the Company has the option, at its own discretion, to resign from including in the calculation the debt ratio the financing contracted by special purpose vehicles under the project finance formula (as long as such debt has no recourse to the Company), while excluding the

(in PLN million)

EBITDA value of the relevant special purpose vehicle. In addition, sustainability indicators in the form of a RES capacity growth indicator and the CO_2 emission reduction indicator are monitored for some financing agreements.

The value of the indicators is monitored by the institutions financing the Group and rating agencies and affects the possibility and cost of fund-raising as well as the Company credit rating.

As at the balance sheet day, the debt ratio stood at 2.44, which is acceptable to financial institutions.

	Year ended 31 December 2021	Year ended 31 December 2020 *(restated figures)*
Loans and borrowings	2 685	4 795
Unsubordinated bonds	5 145	5 322
Non-current debt liabilities	**7 830**	**10 117**
Loans and borrowings	1 850	1 197
Unsubordinated bonds	203	202
Liabilities due to the acquisition of non-controlling interests	1 061	-
Short-term debt liabilities	**3 114**	**1 399**
Total debt	**10 944**	**11 516**
Cash and cash equivalents	815	921
Net debt	**10 129**	**10 595**
EBITDA	**4 152**	**4 226**
Operating profit (loss)	916	(1 537)
Depreciation/amortization	(2 101)	(2 017)
Impairment	(1 135)	(3 746)
Net debt / EBITDA	**2.44**	**2.51**

(in PLN million)

The change in debt liabilities is shown in the table below.

	Year ended 31 December 2021	Year ended 31 December 2020 *(restated figures)*
Opening balance	**14 652**	**14 314**
subordinated bonds	(1 998)	(1 913)
lease indebtedness (except for those meeting the conditions of IAS 17 *Leases*)	(1 138)	(1 007)
Opening balance - debt in the calculation of debt ratio	**11 516**	**11 394**
Proceeds arising from debt taken out	**2 002**	**4 360**
financing received	2 003	4 369
transaction costs	(1)	(9)
Interest accrued	**409**	**426**
charged to profit or loss	395	257
capitalized to property, plant and equipment and intangible assets	14	169
Debt related payments	**(4 110)**	**(4 954)**
debt securities redemption	(170)	(60)
principal repaid	(3 466)	(4 407)
lease instalments paid	(117)	(102)
interest paid	(343)	(216)
interest paid, capitalized to investment projects	(14)	(169)
Recognition of liabilities due to the acquisition of non-controlling interests	**1 061**	**-**
Change in the balance of overdraft facility and cash pool	**1**	**(16)**
Recognition of new lease agreements and change of lease agreements	**163**	**187**
Change in debt measurement	**(25)**	**339**
Other non-monetary changes	**(2)**	**(4)**
Closing balance	**14 151**	**14 652**
subordinated bonds	(1 972)	(1 998)
lease debt (except for debt meeting the conditions of IAS 17 *Leases*)	(1 235)	(1 138)
Closing balance - debt in the calculation of debt ratio	**10 944**	**11 516**

58. Fee of the certified auditor or the entity authorized to audit financial statements

Information on the auditor's remuneration is presented in section 6. of the Management Board's reports on the activities of TAURON Polska Energia S.A. and TAURON Capital Group for the financial year 2021.

59. Other material information

Signing the agreement concerning the cooperation in the field of unbundling of coal assets

On 23 July 2021, the Company, PGE Polska Grupa Energetyczna S.A., ENEA S.A., Energa S.A. (collectively, the "Energy Companies") and the State Treasury concluded the agreement on cooperation in the scope of unbundling of coal assets and their integration into the National Energy Security Agency (the "Agreement"). The conclusion of the Agreement is related to the document published by the Ministry of State Assets “Transformation of the electricity sector in Poland. Separation of coal assets from the companies with State Treasury shareholding”. The above document presents the concept of unbundling of assets related to generation of electricity in conventional coal units from capital groups of individual Energy Companies, which stipulates, among others, integration of the aforementioned assets within a single entity, i.e. PGE Górnictwo i Energetyka Konwencjonalna S.A. - a subsidiary of PGE Polska Grupa Energetyczna S.A., which will ultimately operate under the name of National Energy Security Agency. Taking into account the foregoing and recognising the need to coordinate the cooperation in the planned process of unbundling coal assets, the parties declared the mutual exchange of necessary information under the Agreement, which will allow for the efficient and effective implementation of the process aimed at creating the National Energy Security Agency. After the balance sheet day, on 1 March 2022, the document “Transformation of the electricity sector in Poland. Separation of coal production assets from companies with the share of State Treasury” was adopted by the Government.

As at 31 December 2021, in the Group's opinion, the criteria of IFRS 5 *Non-current assets held for sale and discontinued operations* in the classification of the above assets as held for sale have not been met.

Shutdown of the 910 MW unit in Jaworzno

In the year ended 31 December 2021, the 910 MW unit in Jaworzno, operating as part of the subsidiary Nowe Jaworzno Grupa TAURON Sp. z o.o. (the "Unit") was shut down. The planned date of synchronization with the Unit's network is on 29 April 2022.

The key events that took place with regard to the Unit's shutdown are described below:

- On 2 August 2021, TAURON Polska Energia S.A. received a letter from its subsidiary, Nowe Jaworzno Grupa TAURON Sp. z o.o. indicating that E003B7 Sp. z o.o. (a subsidiary of RAFAKO S.A.) submitted to Nowe Jaworzno Grupa TAURON Sp. z o.o. the schedule of works to be conducted on the Unit. The schedule comprising the date indicated by E003B7 Sp. z o.o. for the re-synchronisation of the Unit with the grid, i.e. 25 February 2022, resulted from the need to carry out work on certain elements of the Unit that were identified by internal equipment inspections during the Block downtime.
- On 8 September 2021, RAFAKO S.A., which is one of the members of the consortium RAFAKO S.A. - MOSTOSTAL WARSZAWA S.A. (the "Consortium") which performs the execution works related to the Unit, provided the Company with a statement that the condition to ensure efficient continuation of works on the Unit is the capital engagement by the Company in RAFAKO S.A. The Company did not take any decisions or actions aimed at acquiring a block of RAFAKO S.A. shares, including no negotiations with RAFAKO S.A. on this matter.
- On 8 September 2021, Nowe Jaworzno Grupa TAURON Sp. z o.o. received a call from RAFAKO S.A. to immediately clarify the causes of the fire incidents that occurred at the Unit, under the pain of withdrawal from the agreement concluded on 17 April 2014 for the construction of the Unit. In the opinion of the Company, any activities undertaken by Nowe Jaworzno Grupa TAURON Sp. z o.o., including in the framework of the execution of the investment and the operation of the Unit, including those related to the fire incidents mentioned above, were and are compliant with the highest standards and legal regulations, including fire protection regulations as well as with the operating documentation prepared by RAFAKO S.A. under the agreement for the construction of the Unit.
- On 3 November 2021, the Company was notified by its subsidiary, Nowe Jaworzno Grupa TAURON Sp. z o.o. of a new date declared by RAFAKO S.A. for re-synchronisation of the Unit with the grid, scheduled for 29 April 2022. A new date for re-synchronisation of the Unit with the grid was indicated in the minutes of the mediation of 3 November 2021, conducted with the participation of the Mediators of the Court of Arbitration at the General Counsel to the Republic of Poland.
- On 2 December 2021, Nowe Jaworzno Grupa TAURON Sp. z o.o., E003B7 Sp. z o.o. and the Consortium signed a settlement before the Court of Arbitration at the General Counsel to the Republic of Poland's Office. As part of the settlement, the date of the synchronisation of the Unit with the grid, scheduled for 29 April 2022, was confirmed. Moreover, the settlement regulates issues related to, among others, the performance by the Consortium of additional services and works reducing the costs of the future operation of the Unit, the principles and conditions regarding the waiver of contractual penalties accrued by the Parties and the pursuit of claims, the principles of calculating additional contractual penalties and withdrawal from the agreement in the event of a delay in the synchronisation of the Unit with the grid.
- In connection with the conclusion of the settlement, on 2 December 2021, Nowe Jaworzno Group TAURON Sp. z o.o. and the Consortium concluded annexes to the agreement for the construction of the Unit, which regulate in detail the mediation arrangements of the Parties. The total remuneration of PLN 91 million was agreed for the performance of additional services and works, the acquisition of the licence to the boiler workshop documentation, and the repair of the Unit. Furthermore, Nowe Jaworzno Grupa TAURON Sp. z o.o. conditionally undertook to entrust the Consortium with other works increasing the efficiency of the Unit if the Consortium performs the synchronisation of the Unit on time and presents a statement of the financial institutions securing the execution of the agreement, containing a consent to release additional financing for RAFAKO S.A. The value of the works referred to above was determined at a level of PLN 23 million. The settlement and the annexes referred to above shall enter into force upon the fulfilment of conditions precedent. The parties also agreed that the settlement concluded before the mediator would be referred to the competent common court with a request for its approval by the court. Upon final approval of the settlement concluded before the mediator by the court, the settlement shall acquire legal force of a court settlement. On 9 March 2022 Nowe Jaworzno Grupa TAURON Sp. z o.o. received a court decision of 1 March 2022 approving the settlement. On 24 March 2022, the deadline for lodging an appeal against the decision approving the settlement expired. Nowe Jaworzno Grupa TAURON Sp. z o.o. did not contest the settlement and, to the best of its knowledge, the settlement was also not contested by the Consortium.

Signing of the letter of intent concerning the sale of shares in the subsidiary, TAURON Wydobycie S.A.

On 15 September 2021, the Company signed a letter of intent with the State Treasury concerning the acquisition of 100% of the shares in TAURON Wydobycie S.A. by the State Treasury. The Company and the State Treasury have unanimously declared that they will undertake any measures necessary to prepare and execute the transaction and will in good faith conduct discussions, negotiations and take actions related to the transaction, including taking actions related to the selection of an appraiser for the valuation of TAURON Wydobycie S.A. The aforementioned letter of intent does not entail a commitment to conclude the transaction. The decision to proceed with the transaction will depend on the outcome of the negotiations in this regard and the fulfilment of other conditions stipulated by law or corporate documents.

As at 31 December 2021, in the Group's opinion, the criteria of IFRS 5 *Non-current assets held for sale and discontinued operations* in the classification of the assets and liabilities of TAURON Wydobycie S.A. as held for sale have not been met.

Impact of the COVID-19 pandemic on the operations of the Group

2021 saw a continuing COVID-19 pandemic with an increase in cases resulting in record levels of registered SARS-CoV-2 infections, followed by a gradual decline in the second and third quarters of 2021 and the development of another wave of infections in the fourth quarter of 2021. In connection with the foregoing, depending on the current epidemiological situation, restrictions were in place in the country aimed at containing the spread of the pandemic. This situation triggered turbulences in the economic and administrative system in Poland and worldwide. As a consequence, mainly in the first and second quarter of 2021, the pandemic continued to contain the economic activity, affecting in particular the performance of companies in sectors such as tourism, trade and transport. Consequently, in the medium and long term, it should be expected - taking into account the continuing high level of infections and the emergence of new waves - that the COVID-19 pandemic will continue to affect the national, European and global economic situation, potentially having an impact on macroeconomic factors, i.e. on economic growth in Poland in the current year and in subsequent years, as well as on inflation. Material issues relating to the impact of the pandemic on the TAURON Group are set out below:

- Despite the applicable restrictions, an increase in demand for electricity of TAURON Group customers was observed in the period of 2021.
- No significant changes or permanent trends in the level of overdue receivables and volatility of electricity and related products prices resulting from the COVID-19 pandemic were observed in the reporting period.
- The persistent state of the COVID-19 pandemic in 2021 triggered some difficulties in the implementation of certain TAURON Capital Group's strategic investment projects, affected, among others, by disruptions in the supply of materials and equipment and by the occurring problems related to the functioning of public administration, which had an impact on the extension of the duration of administrative proceedings.
- The situation related to the COVID-19 pandemic continued to affect the operations of individual business areas through increased employee absenteeism and the growth of operating costs resulting from the requirement to ensure the epidemiological safety.

In 2021 the TAURON Group, being aware of the risks related to the epidemiological situation, continued to undertake active measures to mitigate the impact of the current and expected economic situation as well as to protect against extreme events. It should be stressed that the COVID-19 pandemic situation is highly volatile and the future impact and scale of the pandemic are currently difficult to estimate precisely. The duration of the pandemic, its severity and range, vaccination rate and the impact on the Polish economic growth in the short, medium and long term will be significant.

The Management Board of the Company, being aware of the threats resulting from the pandemic, monitors the impact on an ongoing basis and will take all possible steps to mitigate any negative effects of the COVID-19 pandemic on TAURON Group.

60. Events after the balance sheet day

Release of credit tranches

Subsequent to the balance sheet day, the Company has released tranches under agreements concluded in October and December 2021:

- On 16 February 2022, the Company drew down funds in the amount of PLN 96 million under the loan agreement dated 15 December 2021 with Erste Group Bank AG;
- On 24 February 2022, a tranche of PLN 800 million was drawn down under the loan agreement of 29 October 2021 with the European Investment Bank.

The facility agreements mentioned above are further described in Note 37.2 to these consolidated financial statements.

Sale of 1 717 000 CO_2 emission allowances held by the Group for redemption purposes for 2022

Due to the failure of the 910 MW unit in Jaworzno in the middle of 2021, CO_2 emissions in 2021 at the subsidiary Nowe Jaworzno Grupa TAURON Sp. z o.o. were significantly lower than the volume of contracted and accepted CO_2 emission allowances secured by the Group for the planned energy production. Part of the resulting surplus of 1 717 000 EUAs from the settlement of contracts in December 2021 was allocated for redemption purposes of another Group installation for 2022. With a view to aligning the delivery of allowances and the cash outlay, the Group after the balance sheet day decided to sell its surplus of CO_2 emission allowances (1 717 000 Mg CO_2) and simultaneously buy back this volume in the EUA MAR'23 forward product for the redemption purposes of emission allowance for 2022.

The transaction is one-off and incidental in nature and is a direct result of an unplanned, one-off event such as the failure of the 910 MWe unit. The Group physically accepted the allowances subject to sales and plans the physical acceptance of the allowances repurchased for redemption. The sale of EUAs results from the mismatch between the timing of contracts (deliveries) and redemption needs, as a consequence of an extraordinary event such as a unit failure. Accordingly, the transactions are excluded from the scope of IFRS 9 *Financial Instruments*.

The activities described above were carried out in the first quarter of 2022. The Group estimates, that the Group's result on account of resale will amount to PLN 400 million. At the same time, the repurchase of the volume in the EUA MAR'23 forward product at prices higher than the average price of resold allowances will increase the cost of the Group's provision created for CO_2 emission liabilities for 2022. As a result of the foregoing, the Group estimates that the cumulative impact of the measures described on its operating profit will not be significant.

Impact of the armed aggression of the Russian Federation against Ukraine on the current and future operations of the TAURON Group

In February 2022, the aggression of the army of the Russian Federation against Ukraine began what has triggered geopolitical tensions both in Europe and worldwide. In response to the situation, the European Union is introducing successive packages of sanctions against the Russian Federation, which take a wide and varied range of forms, including diplomatic and financial measures, individual sanctions and restrictions on economic relations.

TAURON Group identifies a surge in volatility and price levels of commodities listed in commodity markets (including oil, gas and coal), as well as electricity prices and CO_2 emission allowances. Major changes have been also recorded in foreign exchange quotations, including a significant depreciation of the PLN exchange rate against the EUR as well as an increase in market interest rates and an intervention increase in the NBP reference rate by 75 bps. Moreover, the third alert level CHARLIE-CRP was introduced on the territory of Poland, indicating an increased risk related to the possibility of terrorist events. It should also be noted that there are difficulties in accessing agro biomass, which is mainly imported from the territory of Ukraine.

In other areas, at the moment TAURON Group has not identified any direct effects of the aggression on its own operational and business activities so far, while the continuity of business processes is not at risk. The Group does not have any assets located in Ukraine, Russia or Belarus, and there were no significant transactions related to the sale or deliveries of the Group in these directions. It should be stressed that the situation related to the aggression of the troops of the Russian Federation against Ukraine is highly volatile and its future impact and scale are currently difficult to estimate precisely. They will depend, in particular, on the scale and duration of the aggression, as well as the impact on the condition of the Polish and global economies. The impact on TAURON Group will also depend on the scope of sanctions targeted at the Russian Federation and their impact on local and global political and economic relations.

Potential risks that could be a future consequence of this situation with an elevated risk of materialisation on TAURON Group include:

- increased cybersecurity risk (potential attacks on IT and OT systems and consequent disruption of its critical infrastructure),
- potential turbulences on the fuel market in the European Union and consequently high volatility of gas, hard coal and biomass prices, which may translate into the level and volatility of electricity prices, as well as the risk of ensuring sufficient supply of energy fuels in the Group,
- increased volatility of electricity prices, prices of CO_2 emission allowances and other related products, which may affect the market risk related to the Group's trading activities and may also influence the level of trading deposits resulting from transactions concluded on the TGE commodity exchange market,
- changes in the energy balance of the European Union and, as a consequence, the potential of increased operation of units located in the territory of Poland, which may cause disruptions in the operation of the power grid as well as increased load on the generating units in TAURON Group and escalation of the risk of energy fuel supply and the risk of maintaining strategic reserves,
- volatility of prices of raw materials and electricity and related products, which may affect the profitability of ongoing and planned investment processes,
- potential impact on the interference/disruption of supply chains of goods and services, which may affect, inter alia, potential delays in ongoing investment and restructuring processes,

- potential disruptions in the availability of liquid fuels may cause difficulties in road transport, which may translate into the lack of UPS and UPW receiving capacity and, consequently, into limitations in the operation of the TAURON Group generating units,
- increase in prices of raw materials and goods and services, which may have a negative impact on the condition of the economy, triggering further increase in inflation in Poland and other European Union countries,
- as a result of the potential deterioration of the economic situation, further increases in the level of interest rates (impact on the costs of financing based on a floating interest rate and impact on the future level of return on capital employed in the Distribution segment) and fluctuations in the exchange rate of the national currency against key foreign currencies can be expected,
- if the economic situation in the country deteriorates, it can be expected a decrease in the level of domestic demand for electricity, which may have an impact on the profitability of the Distribution segment and the Sales segment,
- as a result of the increased immigration of Ukrainian citizens to Poland, an increased demand for electricity in the household segment can be expected, which may translate into an increase in the cost of purchasing electricity in the Sales segment,
- possible disruptions in the operation of enterprises and possible reallocation of production plants capacity may affect the level of domestic electricity demand in the business customer segment, which may translate into profitability of the Distribution segment and the Sales segment,
- due to the potential reduction in trade exchange between Poland and the Russian Federation, as well as the potential economic slowdown, financial difficulties may be expected at some of the TAURON Capital Group's customers and counterparties, which may translate into an increase in credit risk at the Group,
- unfavourable perception of TAURON Group by financial institutions in the context of Poland's geographic location as a neighbouring country to Ukraine,
- potential restrictions in the access to IT infrastructure, internet and GSM networks, which may cause disruptions to operational processes and business continuity.

The aforementioned risks represent the effects of the situation observed, identified as at the date of preparation of the information, which may affect the operations of the TAURON Group in the future and therefore do not constitute an exhaustive catalogue.

Recognising the extent of the risk associated with the current situation, TAURON Group monitors the impact of the war on the territory of Ukraine on an ongoing basis and takes measures to mitigate the potential effects in TAURON Group risk materialisation as well as to maintain the continuity of critical infrastructure operations. The coordination of the works related to the identification of effects and response to risks is managed by dedicated Crisis Teams established both at a level of the Company and at a level of individual TAURON Capital Group subsidiaries.

Management Board of the Company

Katowice, 29 March 2022

Artur Michałowski – acting President of the Management Board / Vice-President of the Management Board

Patryk Demski – Vice-President of the Management Board

Krzysztof Surma – Vice-President of the Management Board

Jerzy Topolski – Vice-President of the Management Board

Artur Warzocha – Vice-President of the Management Board

Oliwia Tokarczyk – Executive Director for Accounting and Taxes