TAURON Polska Energia S.A. Capital Group

Consolidated financial statements

in accordance with the International Financial Reporting Standards,

as endorsed by the European Union

for the year ended 31 December 2019

(in PLN thousand)

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Note	Year ended 31 December 2019	Year ended 31 December 2018 *(restated figures)*
Sales revenue	**11**	19 558 292	18 121 748
Recompensation revenue	**12**	952 650	-
Cost of sales, *of which:*	**13**	(19 264 536)	(16 437 147)
Impairment of non-financial non-current assets	***13.3***	*(1 275 480)*	*(815 410)*
Profit on sale		**1 246 406**	**1 684 601**
Selling and distribution expenses	**13**	(499 171)	(477 794)
Administrative expenses	**13**	(658 664)	(631 487)
Other operating income and expenses	**14**	158 936	160 519
Share in profit/(loss) of joint ventures	**24**	47 947	54 890
Operating profit		**295 454**	**790 729**
Interest expense on debt	**15**	(250 800)	(147 372)
Finance income and other finance costs	**15**	(60 022)	(138 710)
Profit (loss) before tax		**(15 368)**	**504 647**
Income tax expense	**17.1**	3 685	(297 602)
Net profit (loss)		**(11 683)**	**207 045**
Measurement of hedging instruments	**33.5**	15 179	(24 297)
Foreign exchange differences from translation of foreign entity		505	7 240
Income tax	**17.1**	(2 884)	4 617
Other comprehensive income subject to reclassification to profit or loss		**12 800**	**(12 440)**
Actuarial gains/(losses)	**36.1**	(140 320)	(14 830)
Income tax	**17.1**	26 654	2 819
Share in other comprehensive income of joint ventures	**24**	(987)	(71)
Other comprehensive income not subject to reclassification to profit or loss		**(114 653)**	**(12 082)**
Other comprehensive income, net of tax		**(101 853)**	**(24 522)**
Total comprehensive income		**(113 536)**	**182 523**
Net profit (loss):			
Attributable to equity holders of the Parent		(10 908)	204 880
Attributable to non-controlling interests		(775)	2 165
Total comprehensive income:			
Attributable to equity holders of the Parent		(112 530)	180 398
Attributable to non-controlling interests		(1 006)	2 125
Basic and diluted earnings (loss) per share (in PLN):	**18**	(0.01)	0.12

(in PLN thousand)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Note	As at 31 December 2019	As at 31 December 2018 *(restated figures)*	As at 1 January 2018 *(restated figures)*
ASSETS				
Non-current assets				
Property, plant and equipment	**19**	31 099 071	29 406 667	28 276 071
Right-of-use assets	**20**	1 773 498	-	-
Goodwill	**21**	26 183	26 183	40 156
Energy certificates and CO_2 emission allowances for surrender	**22.1**	468 197	661 603	303 130
Other intangible assets	**23**	478 261	1 287 703	1 254 077
Investments in joint ventures	**24**	559 144	543 913	499 204
Loans granted to joint ventures	**25**	238 035	217 402	240 767
Other financial assets	**26**	235 522	254 677	238 354
Other non-financial assets	**27.1**	152 288	168 051	202 785
Deferred tax assets	**17.3**	22 088	30 105	46 122
		35 052 287	**32 596 304**	**31 100 666**
				-
Current assets				-
Energy certificates and CO_2 emission allowances for surrender	**22.2**	1 285 193	201 663	652 260
Inventories	**28**	684 152	509 801	295 463
Receivables from buyers	**29**	2 290 746	2 229 363	2 032 813
Income tax receivables	**30**	255 702	14 497	2 128
Receivables arising from other taxes and charges	**31**	384 714	209 746	241 998
Loans granted to joint ventures	**25**	4 999	5	329 665
Other financial assets	**26**	599 035	443 033	219 933
Other non-financial assets	**27.2**	100 275	55 629	34 931
Cash and cash equivalents	**32**	1 237 952	823 724	909 249
Non-current assets classified as held for sale		22 710	13 712	15 910
		6 865 478	**4 501 173**	**4 734 350**
				-
TOTAL ASSETS		**41 917 765**	**37 097 477**	**35 835 016**

(in PLN thousand)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION - continued

	Note	As at 31 December 2019	As at 31 December 2018 *(restated figures)*	As at 1 January 2018 *(restated figures)*
EQUITY AND LIABILITIES				
Equity attributable to equity holders of the Parent				
Issued capital	**33.1**	8 762 747	8 762 747	8 762 747
Reserve capital	**33.3**	6 801 584	8 511 437	7 657 086
Revaluation reserve from valuation of hedging instruments	**33.5**	15 666	3 371	23 051
Foreign exchange differences from translation of foreign entities		14 521	14 016	6 776
Retained earnings/(Accumulated losses)	**33.4**	2 597 708	1 004 253	1 586 786
		18 192 226	**18 295 824**	**18 036 446**
Non-controlling interests	**33.6**	**900 434**	**132 657**	**31 367**
Total equity		**19 092 660**	**18 428 481**	**18 067 813**
Non-current liabilities				- -
Debt	**35**	11 830 183	8 488 210	9 501 414
Provisions for employee benefits	**36**	1 313 480	1 114 191	1 380 650
Provisions for dismantling of fixed assets, land restoration and other provisions	**37**	663 130	396 513	351 138
Accruals, deferred income and government grants	**40**	460 003	440 309	541 318
Deferred tax liabilities	**17.3**	605 285	823 754	871 865
Other financial liabilities	**44**	79 417	107 770	91 879
Other non-financial liabilities		11 776	11 507	1 588
		14 963 274	**11 382 254**	**12 739 852**
Current liabilities				-
Debt	**35**	2 484 093	2 475 167	351 382
Liabilities to suppliers	**41**	847 226	1 127 738	1 042 427
Capital commitments	**42**	757 943	794 917	797 304
Provisions for employee benefits	**36**	118 418	117 287	134 273
Provisions for liabilities due to energy certificates and CO_2 emission allowances	**38**	1 378 233	495 472	948 946
Other provisions	**39**	563 753	559 365	353 271
Accruals, deferred income and government grants	**40**	185 544	200 097	296 576
Income tax liabilities		3 853	426	38 446
Liabilities arising from other taxes and charges	**43**	589 001	405 654	411 714
Other financial liabilities	**44**	560 455	773 571	342 162
Other non-financial liabilities	**45**	364 376	337 048	310 850
Liabilities directly related to non-current assets classified as held for sale		8 936	-	-
		7 861 831	**7 286 742**	**5 027 351**
Total liabilities		**22 825 105**	**18 668 996**	- **17 767 203**
TOTAL EQUITY AND LIABILITIES		**41 917 765**	**37 097 477**	- **35 835 016**

(in PLN thousand)

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

		Equity attributable to the equity holders of the Parent							
	Note	Issued capital	Reserve capital	Revaluation reserve on valuation of hedging instruments	Foreign exchange differences from translation of foreign entities	Retained earnings/ (Accumulated losses)	Total	Non-controlling interests	Total equity
31 December 2017		**8 762 747**	**7 657 086**	**23 051**	**6 776**	**1 586 786**	**18 036 446**	**31 367**	**18 067 813**
Impact of IFRS 9		**-**	**-**	**-**	**-**	**(100 422)**	**(100 422)**	**(14)**	**(100 436)**
Impact of IFRS 15		**-**	**-**	**-**	**-**	**179 426**	**179 426**	**411**	**179 837**
As at 1 January 2018		**8 762 747**	**7 657 086**	**23 051**	**6 776**	**1 665 790**	**18 115 450**	**31 764**	**18 147 214**
Dividends	**33.6**	-	-	-	-	-	**-**	(879)	**(879)**
Other transactions with non-controlling shareholders	**33.6**	-	-	-	-	(24)	**(24)**	99 647	**99 623**
Distribution of prior years profits		-	854 351	-	-	(854 351)	**-**	-	**-**
Transactions with shareholders		**-**	**854 351**	**-**	**-**	**(854 375)**	**(24)**	**98 768**	**98 744**
Net profit		-	-	-	-	204 880	**204 880**	2 165	**207 045**
Other comprehensive income		-	-	(19 680)	7 240	(12 042)	**(24 482)**	(40)	**(24 522)**
Total comprehensive income		**-**	**-**	**(19 680)**	**7 240**	**192 838**	**180 398**	**2 125**	**182 523**
As at 31 December 2018		**8 762 747**	**8 511 437**	**3 371**	**14 016**	**1 004 253**	**18 295 824**	**132 657**	**18 428 481**
Dividends	**33.6**	-	-	-	-	-	**-**	(1 932)	**(1 932)**
	33.6	-	-	-	-	8 843	8 843	771 157	**780 000**
Other transactions with non-controlling shareholders	**33.6**	-	-	-	-	89	**89**	(442)	**(353)**
Coverage of prior years loss	**33.3**	-	(1 709 853)	-	-	1 709 853	**-**	-	**-**
Transactions with shareholders		**-**	**(1 709 853)**	**-**	**-**	**1 718 785**	**8 932**	**768 783**	**777 715**
Net loss		-	-	-	-	(10 908)	**(10 908)**	(775)	**(11 683)**
Other comprehensive income		-	-	12 295	505	(114 422)	**(101 622)**	(231)	**(101 853)**
Total comprehensive income		**-**	**-**	**12 295**	**505**	**(125 330)**	**(112 530)**	**(1 006)**	**(113 536)**
As at 31 December 2018		**8 762 747**	**6 801 584**	**15 666**	**14 521**	**2 597 708**	**18 192 226**	**900 434**	**19 092 660**

Accounting principles (policy) and notes to the consolidated financial statements constitute an integral part thereof

(in PLN thousand)

CONSOLIDATED STATEMENT OF CASH FLOWS

	Note	Year ended 31 December 2019	Year ended 31 December 2018 *(restated figures)*
Cash flows from operating activities			
Profit (loss) before taxation		**(15 368)**	**504 647**
Share in (profit)/loss of joint ventures		(47 947)	(54 890)
Depreciation and amortization		1 991 733	1 838 941
Impairment losses on non-financial non-current assets		1 310 000	862 209
Exchange differences		(35 614)	78 542
Interest and commissions		250 571	145 136
Profit on bargain purchase of wind farms		(119 515)	-
Other adjustments of profit before tax		49 052	24 065
Change in working capital	**46.1**	(923 601)	(783 845)
Income tax paid	**46.1**	(423 736)	(392 184)
Net cash from operating activities		**2 035 575**	**2 222 621**
Cash flows from investing activities			
Purchase of property, plant and equipment and intangible assets	**46.2**	(4 035 132)	(3 741 566)
Cash transfer related to the acquisition of wind farms (after deduction of the acquired cash balance)	**46.2**	(543 079)	-
Loans granted	**46.2**	(23 225)	(52 110)
Purchase of financial assets		(17 455)	(29 965)
Total payments		**(4 618 891)**	**(3 823 641)**
Proceeds from sale of property, plant and equipment and intangible assets		28 696	29 000
Repayment of loans granted		15 600	301 225
Dividends received		36 442	23 608
Redemption of investment fund units		-	77 742
Other proceeds		3 415	4 664
Total proceeds		**84 153**	**436 239**
Net cash used in investing activities		**(4 534 738)**	**(3 387 402)**
Cash flows from financing activities			
Redemption of debt securities	**46.3**	(2 420 000)	-
Repayment of loans and borrowings	**46.3**	(867 360)	(168 874)
Interest paid	**46.3**	(212 556)	(160 170)
Repayment of lease libilities	**46.3**	(75 047)	(23 521)
Grants returned		-	(10 000)
Other payments		(20 914)	(18 687)
Total payments		**(3 595 877)**	**(381 252)**
Issue of debt securities	**46.3**	500 000	1 350 000
Proceeds from contracted loans	**43.3**	5 150 000	293
Proceeds from non-controlling interests	**43.3**	780 000	100 000
Subsidies received		60 669	102 359
Total proceeds		**6 490 669**	**1 552 652**
Net cash from financing activities		**2 894 792**	**1 171 400**
Net increase / (decrease) in cash and cash equivalents		**395 629**	**6 619**
Net foreign exchange difference		(256)	(422)
Cash and cash equivalents at the beginning of the period	**32**	**807 972**	**801 353**
Cash and cash equivalents at the end of the period, *of which*:	**32**	**1 203 601**	**807 972**
restricted cash	**32**	729 450	231 987

Accounting principles (policy) and notes to the consolidated financial statements constitute an integral part thereof

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

INFORMATION ABOUT THE CAPITAL GROUP AND BASIS OF PREPARATION OF THE CONSOLIDATED FINANCIAL STATEMENTS

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

The TAURON Polska Energia S.A. Capital Group (the "Group", the "Capital Group", the "TAURON Group") is composed of TAURON Polska Energia S.A. (the "Parent", the "Company") and its subsidiaries. TAURON Polska Energia S.A., is located in Katowice at ul. ks. Piotra Ściegiennego 3. The Company operates as a joint-stock company incorporated by a notarized deed on 6 December 2006. Until 16 November 2007 it had operated under the name Energetyka Południe S.A.

The Parent has been entered in the Register of Entrepreneurs of the National Court Register kept by the District Court for Katowice-Wschód, Business Division of the National Court Register, under number KRS 0000271562.

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

The core business of the TAURON Group includes the following segments: Mining, Generation (encompassing generation of electricity from conventional and renewable sources and generation of heat), Distribution, Sales and other operations, including customer service, which has been discussed in more detail in Note 9 to these consolidated financial statements.

These consolidated financial statements have been prepared for the financial year ended 31 December 2019 and contain comparative information for the year ended 31 December 2018. Due to a retrospective change in accounting policy, as presented in note 8.2 of these consolidated financial statements, the opening balance sheet of the earliest period disclosed is also presented, i.e. as at 1 January 2018.

These consolidated financial statements were approved for publication by the Management Board on 30 March 2020.

Composition of the Management Board

As at 31 December 2019, the composition of the Management Board was as follows:

- Filip Grzegorczyk - President of the Management Board;
- Jarosław Broda - Vice President of the Management Board;
- Marek Wadowski - Vice President of the Management Board.

On 21 September 2019, the Supervisory Board of the Company dismissed Kamil Kamiński, Vice President of the Management Board from the composition of the Management Board and from his function.

After the reporting period there were no changes in the composition of the Company's Management Board.

2. Composition of the TAURON Capital Group and joint ventures

As at 31 December 2019, TAURON Polska Energia S.A. held direct and indirect interest in the following key subsidiaries:

(in PLN thousand)

Item	Company name	Registered office	Operating segment	Interest in the share capital by TAURON Polska Energia S.A.	Interest in the decision-making body held by TAURON Polska Energia S.A.
1	TAURON Wydobycie S.A.	Jaworzno	Mining	100.00%	100.00%
2	TAURON Wytwarzanie S.A.	Jaworzno	Generation	100.00%	100.00%
3	Nowe Jaworzno Grupa TAURON Sp. z o.o.	Jaworzno	Generation	84.76%	84.76%
4	TAURON Ekoenergia Sp. z o.o.	Jelenia Góra	Generation	100.00%	100.00%
5	Marselwind Sp. z o.o.	Katowice	Generation	100.00%	100.00%
6	TAURON Ciepło Sp. z o.o.	Katowice	Generation	100.00%	100.00%
7	TAURON Serwis Sp. z o.o.	Katowice	Generation	95.61%	95.61%
8	TAURON Dystrybucja S.A.	Kraków	Distribution	99.75%	99.75%
9	TAURON Dystrybucja Pomiary Sp. z o.o.[1]	Tarnów	Distribution	99.75%	99.75%
10	TAURON Sprzedaż Sp. z o.o.	Kraków	Sales	100.00%	100.00%
11	TAURON Sprzedaż GZE Sp. z o.o.	Gliwice	Sales	100.00%	100.00%
12	TAURON Czech Energy s.r.o.	Ostrawa, Czech Republic	Sales	100.00%	100.00%
13	TAURON Dystrybucja Serwis S.A.	Wrocław	Sales	100.00%	100.00%
14	TAURON Obsługa Klienta Sp. z o.o.	Wrocław	Other	100.00%	100.00%
15	Kopalnia Wapienia Czatkowice Sp. z o.o.	Krzeszowice	Other	100.00%	100.00%
16	Polska Energia-Pierwsza Kompania Handlowa Sp. z o.o.	Warszawa	Other	100.00%	100.00%
17	Finanse Grupa TAURON Sp. z o.o.[2]	Katowice	Other	100.00%	100.00%
18	Bioeko Grupa TAURON Sp. z o.o.	Stalowa Wola	Other	100.00%	100.00%
19	Wsparcie Grupa TAURON Sp. z o.o.[1]	Tarnów	Other	99.75%	99.75%
20	TEC1 Sp. z o.o.	Katowice	Generation	100.00%	100.00%
21	TEC2 Sp. z o.o.	Katowice	Generation	100.00%	100.00%
22	TEC3 Sp. z o.o.	Katowice	Generation	100.00%	100.00%
23	TEC1 spółka z ograniczoną odpowiedzialnością Mogilno I sp.k.[3]	Katowice	Generation	n/a	100.00%
24	TEC1 spółka z ograniczoną odpowiedzialnością Mogilno II sp.k.[3]	Katowice	Generation	n/a	100.00%
25	TEC1 spółka z ograniczoną odpowiedzialnością Mogilno III sp.k.[3]	Katowice	Generation	n/a	100.00%
26	TEC1 spółka z ograniczoną odpowiedzialnością Mogilno IV sp.k.[3]	Katowice	Generation	n/a	100.00%
27	TEC1 spółka z ograniczoną odpowiedzialnością Mogilno V sp.k.[3]	Katowice	Generation	n/a	100.00%
28	TEC1 spółka z ograniczoną odpowiedzialnością Mogilno VI sp.k.[3]	Katowice	Generation	n/a	100.00%
29	TEC1 spółka z ograniczoną odpowiedzialnością EW Śniatowo sp.k.[3]	Katowice	Generation	n/a	100.00%
30	TEC1 spółka z ograniczoną odpowiedzialnością EW Dobrzyń sp.k.[3]	Katowice	Generation	n/a	100.00%
31	TEC1 spółka z ograniczoną odpowiedzialnością EW Gołdap sp.k.[3]	Katowice	Generation	n/a	100.00%
32	TEC1 spółka z ograniczoną odpowiedzialnością Ino 1 sp.k.[3]	Katowice	Generation	n/a	100.00%

[1] *TAURON Polska Energia S.A. holds indirect interest in TAURON Dystrybucja Pomiary Sp. z o.o. and Wsparcie Grupa TAURON Sp. z o.o. through its subsidiary, TAURON Dystrybucja S.A. TAURON Polska Energia S.A. uses shares of TAURON Dystrybucja Pomiary Sp. z o.o.*
[2] *On 23 August 2019, a cross-border business-combination of Finanse Grupa TAURON Sp. z o.o. (the acquirer) with TAURON Sweden Energy AB (publ) (the acquiree) was registered as described in detail in Note 2.2 hereto.*
[3] *The rights and obligations in limited partnerships are held by TAURON Polska Energia S.A. indirectly through its subsidiaries TEC1 Sp. z o.o. and TEC3 Sp. z o.o. and German partnerships, as described in detail in Note 2.1 hereto.*

As at 31 December 2019, TAURON Polska Energia S.A. held direct and indirect interest in the following key jointly-controlled entities:

Item	Company name	Registered office	Operating segment	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	Generation	50.00%
2	TAMEH HOLDING Sp. z o.o. [2]	Dąbrowa Górnicza	Generation	50.00%
3	TAMEH POLSKA Sp. z o.o. [2]	Dąbrowa Górnicza	Generation	50.00%
4	TAMEH Czech s.r.o. [2]	Ostrawa, Czech Republic	Generation	50.00%

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

(in PLN thousand)

2.1. Assuming control over companies operating wind farms owned by the in.ventus group

On 3 September 2019, the transaction documentation regarding TEC1 Sp. z o.o., TEC2 Sp. z o.o. and TEC3 Sp. z o.o. (subsidiaries of TAURON Polska Energia S.A.) purchasing five wind farms owned by the in.ventus group and amounts owed to Hamburg Commercial Bank AG (formerly HSH Nordbank AG) by wind farm operators was signed. The transaction involved the following acquisitions:

- TEC1 Sp. z o.o. - rights and obligations of the general partner of the Polish partnerships owning the wind farms;
- TEC2 Sp. z o.o. - rights and obligations of the general partner of the German partnerships which are limited partners of the Polish partnerships,
- TEC3 Sp. z o.o. - the rights and obligations of the limited partner of the Polish and German partnerships, at the same time acquiring their debt contracted from Hamburg Commercial Bank AG and amounts owed to their former shareholders as a result of loans granted to the Polish partnerships.

In order to perform the intended transaction, on 2 September 2019, Extraordinary General Shareholders' Meeting of TEC1 Sp. z o.o., TEC2 Sp. z o.o., TEC3 Sp. z o.o. decided to increase their issued capital. The Company assumed the new shares for the total amount of PLN 600 900 thousand. The surplus of the above amount received as part of the capital increase over the value of cash transferred under the transaction in the amount of PLN 579 661 thousand is allocated to the companies' operating activities.

The total value of the transferred cash was determined based on the locked box mechanism as at 31 December 2018 and as at the transaction date amounted to PLN 579 661 thousand, including PLN 21 590 thousand of the acquisition price and PLN 558 071 thousand of the debt repaid to Hamburg Commercial Bank AG. The entire amount was transferred in cash.

In the Company's opinion, the fair value of the payment made does not differ from its nominal value.

	As at 3 September 2019 *(unaudited)*
Business acquisition price, including:	21 590
Consideration paid for rights and obligations acquired in partnerships	*8 490*
Consideration paid for amounts owed to former shareholders, arising from contracted loans	*13 100*
Repayment of debt contracted with Hamburg Commercial Bank AG	558 071
Total value of cash transferred in the transaction	**579 661**

The Group carried out an analysis, as a result of which it concluded that the transaction is a business combination as defined in IFRS 3 *Business Combinations.* The acquired wind farms are fully operational. The transaction included the acquisition of all business processes and operations of the wind farms (except for management-related processes to be replaced by processes already adopted by the Group), including rent and lease of land on which the generating assets are located, maintenance and service agreements regarding these assets and power sales contracts. Taking into account the above, the conditions to qualify the subject of the transaction as a business under IFRS 3 *Business Combinations* are met.

In line with IFRS 3 *Business Combinations,* the transaction was settled using the acquisition method. The day of taking over control the business was assumed on 3 September 2019. As at 30 September 2019, bearing in mind the short period that passed after the control assuming date, the Group was unable to obtain all the information necessary to complete the identification and fair value measurement of the acquired assets and liabilities and made a provisional settlement of the transaction. As at 31 December 2019, the Group has completed the process of valuation to fair value of property, plant and equipment, and valuation of provisions for cost of disassembly of non-current wind farm assets, which are the most significant elements of the net assets of the acquired business combination, performed by an independent experts. The Company also has identified and valued the remaining acquired net assets to fair value. Therefore, in these consolidated financial statements, the Group presents the fair values of the acquired assets and liabilities and finally settles the transaction using the acquisition method.

Fair values of assets and liabilities acquired as at the date of taking over control are presented in the following table:

(in PLN thousand)

	As at 3 September 2019 *(unaudited)*		As at 3 September 2019 *(unaudited)*
ASSETS		**EQUITY AND LIABILITIES**	
Non-current assets		**Non-current liabilities**	
Property, plant and equipment	712 193	Liabilities due to loans granted by Hamburg Commercial Bank AG	558 071
Right-of-use assets	36 163	Lease liabilities	32 964
Other non-financial assets	484	Provisions for costs of disassembly of non-current assets and land reclamation	60 817
		Deferred tax liability	3 122
	748 840		**654 974**
Current assets		**Current liabilities**	
Inventories	10 579	Lease liabilities	2 251
Receivables from buyers	3 802	Liabilities to suppliers and other financial liabilities	3 459
Other non-financial assets	6 605	Accruals and government grants	606
Cash and cash equivalents	36 582	Liabilities arising from other taxes and charges	4 013
	57 568		**10 329**
TOTAL ASSETS	**806 408**	**TOTAL EQUITY AND LIABILITIES**	**665 303**
		ACQUIRED NET ASSETS	**141 105**

Liabilities due to loans granted by Hamburg Commercial Bank AG, acquired with assets in the net amount of PLN 558 071 thousand were repaid when the transaction was concluded. As a result, the portfolio of the acquired companies does not include financial debt arising from loans contracted from entities outside the TAURON Capital Group.

In relation to the value of net assets presented as provisional settlement of the transaction in the condensed interim consolidated financial statements for the 9- months ended 30 September 2019 (unaudited), has significantly changed the value of:

- property, plant and equipment, whose provisional value amounted to PLN 857 797 thousand,
- provisions for costs of disassembly of non-current assets, whose temporary value amounted to PLN 51 258 thousand.

As a result of the above changes, related to the fair value measurement, the amount of the deferred tax liability, whose provisional value amounted to PLN 31 055 thousand, also changed significantly. The fair value of other net assets does not differ significantly from their provisional values.

As at the acquisition date, the determined amount of identifiable assets and acquired liabilities exceeds the consideration transferred by the Group. Therefore, according to the Group, the transaction is a bargain purchase.

	As at 3 September 2019 *(unaudited)*
Acquisition price	21 590
Acquired identifiable net assets	141 105
Gains on bargain purchase	**119 515**

Considering the specific requirements of IFRS 3 *Business Combinations* regarding the possibility of recognizing a possible gains on bargain purchase, the Group reassessed the completeness of identification of the acquired assets and liabilities and the procedures used to determine their value. As a consequence of the procedures performed, the Group decided that it is justified to recognized gains on bargain purchase in the above amount as operating activities in the consolidated statement of comprehensive income.

According to the Group, the bargain purchase gains resulted from a series of circumstances, the key of which were related to the financial standing of entities disposing of the assets and changes in the market standing of renewable energy sources that were favorable for the Company. In particular, following the privatization effected in 2018, Hamburg Commercial Bank AG commenced activities aimed at improvement of its financial standing, among others in the form of restructuring its loan debt portfolio. It should also be noted, the entities in which the TAURON Group acquired rights and obligations were in a bad financial standing, among others due to the need to repay their debt, in conditions of falling prices of green energy certificates, experienced in prior years. A market change involving an increase in the prices of electricity and of green certificates in the period from the seller's approval of the binding tender to the transaction closure date was another aspect contributing to the profitability of the transaction.

Revenue from the sale of the acquired wind farms from the acquisition to 31 December 2019 amounted to PLN 68 869 thousand and operating profit reached to PLN 37 324 thousand. The Group estimates the revenue from sales of the acquired wind farms for the year ended 31 December 2019 at PLN 174 862 thousand, and the related operating profit at PLN 41 958 thousand.

Acquiring control over wind farms formerly owned by the in.ventus group complies with the updated strategic directions published on 27 May 2019 and supplementing the TAURON Group Strategy for 2016-2025, which provides for an increase in low- and zero-emission generation installed capacity as described in detail in Note 55 hereto.

In relation to the purchase of the wind farms, on 4 September 2019, in relation to the case filed by Hamburg Commercial Bank AG against TAURON Sprzedaż Sp. z o.o. regarding the payment of damages due to the failure to deliver under contracts on sales of property rights arising from green certificates and liquidated damages charged in relation to the termination of the above contracts in the total amount of PLN 232 879 thousand with statutory interest for delay, calculated from the date of filing the case (i.e. 7 March 2019) to the date of payment, the Bank and TAURON Sprzedaż Sp. z o.o. (a subsidiary) filed a letter to the District Court in Kraków in which the Bank withdrew the case and resigned from the claim. Both parties motioned for dismissing the case and for a decision that each party would cover its own litigation costs. In a decision of 5 September 2019, the Regional Court in Kraków dismissed the above proceedings and mutually canceled the litigation costs incurred by the parties. The decision is binding.

On 24 September 2019 parties to all cases filed by in.ventus group companies against Polska Energia Pierwsza Kompania Handlowa Sp. z o.o. and TAURON Polska Energia S.A. motioned for suspension of the cases. The above cases were suspended by the court.

2.2. Other changes in the TAURON Group

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

During the year ended 31 December 2019, the issued capital of the subsidiary Nowe Jaworzno Grupa TAURON Sp. z o.o. was increased. In total, issued capital increase by PLN 11 300 thousand was registered. The new shares were subscribed for by Fundusz Inwestycji Infrastrukturalnych - Kapitałowy Fundusz Inwestycyjny Zamknięty Aktywów Niepublicznych for the total amount of PLN 440 000 thousand, PFR Inwestycje Fundusz Inwestycji Zamkniętych for the total amount of PLN 440 000 thousand and the Company for the total amount of PLN 250 000 thousand (of which the payment for the acquisition of shares in the amount of PLN 100 000 thousand was made in the year ended 31 December 2018). The surplus of the issue price of the shares over their nominal value in the total amount of PLN 1 118 700 thousand was transferred to the supplementary capital of Nowe Jaworzno Grupa TAURON Sp. z o.o. As a result of the transaction, the Company's interest in the issued capital and in the decision-making body went down from 97.89% to 84.76%

After the reporting period end, on 2 March 2020, the Extraordinary General Shareholders' Meeting of Nowe Jaworzno Grupa TAURON Sp. z o.o. adopted a resolution to increase the company's issued capital by PLN 4 551 thousand. All shares were subscribed for by the Company for the total amount of PLN 455 100 thousand. On 5 March 2020, the Company provided funds for capital increase. The Company's interest in the issued capital and in votes at the General Meeting after this transaction will change and will amount to 85.88%

Cross-border business combination of Finanse Grupa TAURON Sp. z o.o. and TAURON Sweden Energy AB (publ)

On 6 May 2019 Extraordinary General Meeting of Finanse Grupa TAURON Sp. z o.o. with the registered office in Katowice and on 17 May 2019 Extraordinary General Meeting of TAURON Sweden Energy AB (publ) with the registered office in Stockholm passed a resolution on cross-border business combination of Finanse Grupa TAURON Sp. z o.o. (the acquirer) with TAURON Sweden Energy AB (publ) (the acquiree).

On 23 August 2019 the business combination was registered in the National Court Register kept by the District Court in Katowice. On 26 August 2019 a Swedish court deleted TAURON Sweden Energy AB (publ) from its register.

Changes in TAURON Polska Energia S.A. share in the capital of TAURON Dystrybucja S.A.

As a result of the redemption of the shares acquired by TAURON Dystrybucja S.A. from minority shareholders under the squeeze-out procedure, the company's issued capital was reduced, and as a result, TAURON Polska Energia S.A.'s interest in TAURON Dystrybucja S.A.'s issued capital increased from 99.74% to 99.75%

As at 31 December 2019, there were no changes in the interest of TAURON Polska Energia S.A. in the issued capital and decision-making bodies of other material subsidiaries and jointly-controlled entities as compared to 31 December 2018.

3. Statement of compliance

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

The IFRS consist of standards and interpretations approved by the International Accounting Standards Board (“IASB”) and the International Financial Reporting Interpretations Committee.

The Group companies and the Parent keep their accounting records and prepare financial statements in compliance with the International Financial Reporting Standards ("IFRS") as endorsed by the EU, except for TAURON Czech Energy s.r.o., which keeps its accounting records and prepares its financial statements in line with accounting policies applicable in the Czech Republic, limited liability companies TEC1 sp. z o.o., TEC2 sp. z o.o., TEC 3 sp. z o.o. and limited partnerships, which keep their accounting books and prepare financial statements in line with the Polish Accounting Act.

During the year 2019, business combination of Finanse Grupa TAURON Sp. z o.o. (the acquirer) with TAURON Sweden Energy AB (publ) (the acquiree) was registered. Until the date of the business combination, TAURON Sweden Energy AB (publ) kept its accounts and prepared financial statements in accordance with the accounting principles applicable in Sweden.

The consolidated financial statements contain adjustments which have not been recognized in the accounting records of the Group companies, introduced in order to achieve compliance of the consolidated financial statements with EU-IFRS.

4. Going Concern

The consolidated financial statements have been prepared in accordance with the going concern principle regarding the Group companies. As at the date of approving these consolidated financial statements no circumstances have been detected that could put the going concern operation of the Group's companies at risk.

The Group identifies and actively manages liquidity risk understood as a possible loss or restriction of its ability to cover current expenses. Despite negative working capital recognized as at the reporting period end, the Group has retained full ability to timely pay its liabilities. As at the reporting period end, the Group has available financing under loan agreements, including overdraft facilities. After the reporting period end, the Company concluded further financing agreements. The above agreements have been described in detail in Note 48.2 hereto.

After the reporting period end, an epidemic of COVID-19 disease has occurred in the Group's area of operations, causing disturbances in the economic and administrative system in Poland and causing significant changes in the market environment that may affect the financial position of the Group, which is described in detail in Note 56 hereto. The Management Board analyzed the situation in the context of COVID-19 and at this time in the area of liquidity, financing and hedging of continuing operations, based on the considered scenarios, does not identify any risk for going concern in the foreseeable future, including the events described in Note 56 hereto.

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 and the subsidiaries included in 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”). Individual items of the financial statements of TAURON Czech Energy s.r.o. are translated to the presentation currency of the TAURON Group using applicable exchange rates.

The functional currency of TAURON Sweden Energy AB (publ) until the date of the business combination with Finanse Grupa TAURON Sp. z o.o. was the euro ("EUR").

These consolidated financial statements have been presented in the Polish zloty (“PLN”) and all figures are in PLN thousand, unless stated otherwise.

6. Accounting principles (policy) and material values based on professional judgment and estimates

Accounting principles (policy)

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

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

Consolidation

Subsidiaries are entities controlled by the Parent directly or indirectly through its 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, using consistent accounting principles. Balances and transactions between the Group entities, including unrealized 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 recognizes identifiable assets acquired and liabilities assumed, which are measured at fair value.

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 acquiree and the acquisition-date fair value of the acquirer's previously held equity interest in the acquiree over the net of the acquisition-date 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).

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 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 recognized in the accounting records of the acquirer thus far or consideration paid is recognized in the equity of the acquirer.

Material values based on professional judgment and estimates

When applying the accounting policy, professional judgment of the management, along with accounting estimates, have been of key importance; they have impacted the figures disclosed in these consolidated financial statements. The assumptions underlying the estimates have been based on the Management Board's best knowledge of current and future actions and events in individual areas. In the period covered by these consolidated financial statements, there were no significant changes in estimates or estimation methods applied, which would affect the current or future periods, other than described further 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 notes to these consolidated financial statements. Material estimates include allowances for non-financial assets, recognized as a result of impairment tests, as described in detail in Note 10 to these consolidated financial statements.

Additionally, the Group's material estimates include contingent liabilities recognized, in particular, in relation to legal proceedings to which the Group companies are parties. Contingent liabilities have been presented in detail in Note 50 hereto.

(in PLN thousand)

7. Standards, amendments to standards and interpretations which have been published but are not yet effective

The Group did not choose an early application of any standards, amendments to standards or interpretations, which were published, but are not yet mandatorily effective.

- **Amendments to standards issued by the International Accounting Standards Board which have been endorsed by the European Union but are not yet effective**

According to the Management Board, the following revised standards will not materially impact the accounting policies applied thus far:

Standard	Effective date in the EU *(annual periods beginning on or after the date provided)*
Revised IAS 1 *Presentation of Financial Statements* and IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors: Definition of Material*	1 January 2020
Amendments to References to the Conceptual Framework in IFRS	1 January 2020
Amendments to IFRS 9 Financial Instruments, IAS 39 Financial Instruments: Recognition and Measurement and IFRS 7 Financial Instruments: Disclosures: Interest Rate Benchmark Reform	1 January 2020

- **Standards and revised standards issued by the International Accounting Standards Board which have not been endorsed by the European Union and are not yet effective**

On 1 January 2020, amendments to IFRS 3 *Business Combinations* came into force (the amendments to the standard have not yet been approved by the European Union). The most important changes introduced to the above mentioned standard include the clarification of the definition of an undertaking. The amendments shall be applied prospectively for reporting periods beginning on or after 1 January 2020. The transaction of acquiring of the companies operating the wind farms belonging to the in.ventus group, carried out by the Group in 2019, described in more detail in Note 2.1 hetero, was finally settled as an bussines acquisition in accordance with the wording of IFRS 3 *Business Combinations* binding until 31 December 2019. The Group did not perform analyzes in terms of determining the effects of the settlement of the above transaction in accordance with IFRS 3 *Business Combinations* effective from 1 January 2020, therefore the Group does not exclude that the settlement of transactions in accordance with the amended wording of the standard could have different effects than presented in these consolidated financial statements.

According to the Management Board, the following standards and revised standards will not materially impact the accounting policies applied thus 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*
IFRS 17 *Insurance contracts*	1 January 2021
Revised 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 1 P*resentation of Financial Statements: Classification of Liabilities as Current or Non-current*	1 January 2022

**The European Commission decided not to launch the process of endorsement of the interim standard for use in the EU until the publication of the final version of IFRS 14 Regulatory Deferral Accountss.*

8. Changes in the accounting policies

The accounting principles (policy) adopted for the preparation of these consolidated financial statements are consistent with those adopted for the preparation of the annual consolidated financial statements of the Group for the year ended 31 December 2018, except for the application of the following new standards, amendments to standards, interpretation and changes to the accounting principles applied by the Group and discussed below.

8.1. Application of new standards, amendments to standards and interpretation

According to the Management Board, IFRS 16 *Leases* materially impacts the accounting policies applied thus far:

IFRS 16 *Leases*

Effective date in the EU: annual periods beginning on or after 1 January 2019.

Under IFRS 16 *Leases*, the lessee recognizes a right-of-use asset and a lease liability. The right-of-use asset is treated similarly to other non-financial assets and depreciated accordingly. The lease liability is initially measured at the present value of the lease payments payable over the lease term, discounted using the rate implicit in the lease if that rate can be readily determined. If that rate cannot be readily determined, the lessee uses the incremental borrowing rate. Determination of the lease term under IFRS 16 *Leases* requires an assessment which was not needed before for operating leases as it did not affect the recognition of expenditure in the financial statements. Variable lease payments should be considered when lease payments are being determined, if they depend on an index or a rate or in substance are fixed payments.

Lessors classify leases as either operating lease or finance leases, i.e. in line with IAS 17 *Leases*.

Impact on the consolidated financial statements

The Group has decided to apply the modified retrospective approach and the practical expedients allowed by IFRS 16 *Leases*, i.e. with the cumulative effect of initially applying this standard recognized at 1 January 2019. The Group decided not to restate the comparative information, as permitted by the Standard. The data as at 31 December 2018 have been prepared based on IAS 17 *Leases*, IFRIC 4 *Determining whether an Agreement Contains a Lease* and SIC 15 *Operating Leases - Incentives*.

As at 1 January 2019, the Group recognized the right-of-use assets at an amount equal to the lease liability at the present value of the remaining lease payments, discounted using the incremental borrowing rate adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognized in the statement of financial position immediately before the date of initial application.

The Group applies the portfolio approach to leases with similar characteristics (same assets used in a similar way). When accounting for leases under the portfolio approach, the Group applies estimates and assumptions that reflect the size and composition of the portfolio, including estimates of the weighted average lease term. The Group applies the portfolio approach specifically to rental and other contracts regarding premises and land to be used for the purpose of assembling heat and power infrastructure, that qualify as a lease. In the scope of contracts and business relations identified as contracts that meet the requirements of IFRS 16 *Leases*, the Group adopts for contracts concluded for an indefinite period the duration of the lease coinciding with the period of economic use related to the right-of-use assets.

The analysis of the impact of IFRS 16 *Leases* on the accounting principles (policy) has shown a change material for the Group, i.e. the need to recognize the right-of-use assets and lease liabilities for leases previously (i.e. until 31 December 2018) classified as operating leases. The key items are the rights of perpetual usufruct to land and contracts to rent premises to be used for the purposes of heat distribution centers and transformer stations, as well as other innominate contracts regarding parts of land occupied by linear infrastructure, decisions regarding the location of power devices in the public right-of-way. The analysis included in particular a review of contracts concluded by the Group for identification of leases, in particular identification of assets, verification of control over its use, determining the lease term and the methodology to determine the incremental rate of interest.

The Group decided to recognize the right-of-use assets in the statement of financial position separately from other assets. Lease liabilities are presented in the statement of financial position under debt liabilities, summed up with other titles previously recognized in this item. On the day of the first-time adoption of IFRS 16 *Leases*, the Group recognised the right-of-use asset related to the perpetual usufruct of land, lease and rental agreements for the development of heating nodes and for transformer stations, easement and outlays on easements not put into use as well as other lease and rental agreements, innominate contracts regarding parts of land occupied by linear infrastructure, decisions regarding the location of power devices in the public right-of-way that met the terms of IFRS 16 *Leases,* in the amount equal to the corresponding liability, adjusted by figures related to these assets, recognised in the statement of financial position prepared directly before the first-time application date. Therefore, the Group reclassified the amount of PLN 825 307 thousand from other intangible assets to right-of-use assets.

(in PLN thousand)

Impact of the application of IFRS 16 *Leases* as at 1 January 2019

	As at 31 December 2018 *(restated figures)*	Reclassification from other intangible assets to right-of-use assets	Recognition of right-of-use assets and lease liabilities	As at 1 January 2019
ASSETS				
Non-current assets	**32 596 304**	**-**	**905 833**	**33 502 137**
Other intangible assets	-	825 307	905 833	1 731 140
Right-of-use assets	1 287 703	(825 307)	-	462 396
Current assets	**4 501 173**	**-**	**12 282**	**4 513 455**
Non-current assets classified as held for sale	13 712	-	12 282	25 994
TOTAL ASSETS	**37 097 477**	**-**	**918 115**	**38 015 592**
EQUITY AND LIABILITIES				
Total equity	**18 428 481**	**-**	**-**	**18 428 481**
Non-current liabilities	**11 382 254**	**-**	**865 880**	**12 248 134**
Debt	8 488 210	-	865 880	9 354 090
Current liabilities	**7 286 742**	**-**	**52 235**	**7 338 977**
Debt	2 475 167	-	39 953	2 515 120
Liabilities directly related to non-current assets classified as held for sale	-	-	12 282	12 282
TOTAL EQUITY AND LIABILITIES	**37 097 477**	**-**	**918 115**	**38 015 592**

The group specification of right-of-use assets is presented in detail in Note 20 hereto.

The components of right-of-use assets and lease liabilities recognized by the Group in these consolidated financial statements as at the date of first-time adoption of the standard in the amount of PLN 918 115 thousand increased by PLN 304 721 thousand compared to the amounts reported by the Group in the condensed interim financial statements for the 9-months period ended 30 September 2019. The above is related to the fact that in June 2019, the IFRS Interpretation Committee issued a summary of decisions taken during public meetings, which were devoted to, inter alia, on the interpretation of titles to underground parts of land. Following the IFRS Interpretation Committee's decision, the TAURON Group decided to perform additional analyses of selected contract groups to determine whether they fall within the scope of IFRS 16 Leases, in the context of the conclusions adopted by the IFRS Interpretation Committee. These contracts include in particular, leases, rent, usufruct, easement, other innominate contracts regarding parts of land occupied by linear infrastructure, decisions regarding the location of power devices in the public right-of-way, contracts for placing power devices in the lane of an internal road and easement and other agreements with the State Forests having the same economic content. As a result of the works carried out, the Group concluded that the above agreements are leases in line with IFRS 16 *Leases*.

Reconciliation of future minimum operating lease payments calculated in line with IAS 17 *Leases* as at 31 December 2018 to lease liabilities in line with IFRS 16 *Leases* as at 1 January 2019:

Reconciliation IAS 17 *Leases* to IFRS 16 *Leases*	
Future minimum operating lease payments as at 31 December 2018 in line with IAS 17 *Leases*	1 364 263
Additional disclosure of agreements based on IFRS 16 *Leases* in 2019	526 532
Discount using the incremental borrowing rate	(949 321)
Commitments relating to short-term leases	(23 284)
Commitments relating to leases of low-value assets	(100)
Commitments relating to finance leases in line with IAS 17 *Leases*	25
Lease liabilities under IFRS 16 *Leases* as at 1 January 2019	**918 115**

(in PLN thousand)

Lease liabilities as at 1 January 2019 by maturity

		Mature in the period *(after 1 January 2019):*			
		up to 5 years	5-10 years	10-20 years	over 20 years
Value as at 1 January 2019	**918 115**	170 999	116 686	243 950	386 480

The Group applied incremental borrowing rates, ranging from 4.18% to 10.22%, to calculate the lease liabilities recognized in the consolidated statement of financial position as at the date of first-time adoption of IFRS 16 *Leases.*

Weighted average interest rates used for individual operating segments are presented in the table below:

Operating segment	Weighted average interest rates used for operating segment
Mining	8,35%
Generation	4,72%
Distribution	4,39%
Sales	4,47%

The Group applied the following practical expedients as at the date of first-time adoption of IFRS 16 *Leases*, i.e. as at 1 January 2019:

- IFRS 16 *Leases* was applied only to contracts which were in force as at the date of its initial application;
- a single discount rate was applied to a portfolio of leases with reasonably similar characteristics;
- the requirements of IFRS 16 *Leases* were not applied to leases for which the lease term ends within 12 months of the date of initial application;
- initial direct costs were not included in the measurement of right-of-use assets;
- hindsight was used as regards valid leases, specifically with respect to exercising an option to extend or terminate the lease;
- if a non-lease component cannot be separated for a class of underlying asset, both the lease and non-lease components were recognized as a single lease component;
- the requirements of IFRS 16 *Leases* would be applied to the leases of intangible assets other than those arising from licensing agreements within the scope of IAS 38 *Intangible Assets*;
- IFRS 16 *Leases* would not be applied to leases for which the value of the underlying asset does not exceed PLN 20 thousand and does not apply to the right of perpetual usufruct of land.

According to the Management Board, the introduction of the following amendments to standards and interpretations had no material impact on the accounting principles (policy) applied thus far:

Standard/Interpretation	Effective in the EU as of *(annual periods beginning on or after the date provided)*
Revised IAS 9 *Financial Instruments*	1 January 2019
Revised IAS 28 *Investments in Associates and Joint Ventures*	1 January 2019
IFRIC 23 *Uncertainty over Income Tax Treatments*	1 January 2019
Revised IAS 19 *Employee Benefits*	1 January 2019
Annual Improvements to IFRS (Cycle 2015-2017):	
IAS 12 *Income Taxes*	1 January 2019
IAS 23 *Borrowing Costs*	1 January 2019
IFRS 3 *Business Combinations*	1 January 2019
IFRS 11 *Joint Arrangements*	1 January 2019

8.2. Other changes in accounting and presentation principles applied by the Group

The Group analyzed the permitted manners of presenting mining assets in financial statements, applied by its competitors and including:

- assets used in the mining of production roadway workings and wall reinforcement in hard coal mines including the expenditures incurred on the works to mine the production roadway workings, less the value of the marketable coal extracted during the mining and the expenditures incurred on the works to reinforce the walls,

(in PLN thousand)

- stripping activity assets in surface mines including the expenditures incurred on the works to remove the overburden so as to access an identified part of calcareous stone, increased by general costs directly related to such works.

Following an analysis, the Group changed its accounting principles (policy) with respect to the recognition of the mining assets.

Mining assets used in the mining of production roadway workings and wall reinforcement

Under the changed accounting principles (policy), the cumulative cost of works to mine the production roadway workings and cumulative cost of works to reinforce the walls, entered into the deferrals account, are recognized under property, plant and equipment. The expenditures on such assets are recognized in monthly instalments over the period of the useful life of walls included in the workings and in the proportions in which the marketable coal is produced, and are included under depreciation in profit or loss. The period of exploitation of walls in a given deposit exceeds 12 months. Generally, upon recognition, the mine workings are in fact liquidated. Before the change in the accounting principles (policy), the cost of mining of production roadway workings and the cumulative cost of wall reinforcement were presented under other non-financial assets.

Overburden removal assets

Under the changed accounting principles (policy), the cumulative cost of overburden removal in surface mines, entered into the deferrals account, is recognized under property, plant and equipment. The expenditures incurred on such assets are accounted for using the method based on the expected period of exploitation of the deposit, which exceeds 12 months, and recognized as depreciation in profit or loss. Before the change in the accounting principles (policy), the cost of overburden removed at the production stage in surface mines was presented under other non-financial assets.

In the Group's opinion, the altered presentation better reflects the nature of the assets originated and maintained for use in the production process. The expenditures are deferred and allocated over the period of use. This way the accounting for the expenditures under depreciation reflects the specifics and the use of the assets. Furthermore, the analysis has revealed that the changed method of presentation is the method most commonly used by competitive stock exchange-listed coal mining companies.

The change has not had any effect on the Group's profit or loss. Charging the expenditure to the depreciation cost had an impact on EBITDA, i.e. operating profit/(loss) before depreciation and the write-downs on non-financial assets. The positive effect of the above change on EBITDA during the year ended 31 December 2019 amounted to PLN 95 837 thousand.

The Group has restated comparative information accordingly. The table below presents the impact of the above change of the consolidated statement of financial position as at 31 December 2018 and as at 1 January 2018 is presented in the table below.

	As at 31 December 2018			As at 1 January 2018		
	Authorised figures	Changed presentation of mining assets	Restated figures	Authorised figures	Changed presentation of mining assets	Restated figures
ASSETS						
Non-current assets	**32 541 865**	**54 439**	**32 596 304**	**31 048 542**	**52 124**	**31 100 666**
Property, plant and equipment	29 238 051	168 616	29 406 667	28 079 886	196 185	28 276 071
Other non-financial assets	282 228	(114 177)	168 051	346 846	(144 061)	202 785
Current assets	**4 555 612**	**(54 439)**	**4 501 173**	**4 786 474**	**(52 124)**	**4 734 350**
Other non-financial assets	110 068	(54 439)	55 629	87 055	(52 124)	34 931
TOTAL ASSETS	**37 097 477**	**-**	**37 097 477**	**35 835 016**	**-**	**35 835 016**

Effect on EBITDA for the year ended 31 December 2018:

	Year ended 31 December 2018 *(authorised figures)*	Changed presentation of mining assets	Year ended 31 December 2018 *(restated figures)*
Operating profit	790 729	-	**790 729**
Depreciation/amortization	(1 721 783)	(117 158)	**(1 838 941)**
Impairment	(862 414)	-	**(862 414)**
EBITDA	**3 374 926**	**(117 158)**	**3 492 084**

BUSINESS SEGMENTS

9. Information on operating segments

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

The Group is organized and managed by segment, in accordance with 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 were made between 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 are presented under unallocated expenses. General and administrative expenses of the Parent are incurred for the benefit of the entire Group and cannot be directly attributed to a 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 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 finance income 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 to take decisions on how to allocate the resources, to assess the effects of the allocation and to evaluate performance. Evaluation of performance is based on EBITDA and operating profit or loss. EBITDA is defined as EBIT increased by amortization/depreciation and write-downs on non-financial assets. EBIT is the profit/loss on continuing operations before tax, finance income and finance costs, i.e. operating profit (loss).

The Group's reporting format for the period from 1 January 2019 to 31 December 2019 was based on the operating segments presented in the table below. As of 1 January 2019 TAURON Dystrybucja Serwis S.A. has been assigned to the Sales segment (before: the Distribution segment). The change of assignment results from the organizational changes and restructuring within the company which led to the change in its business profile. At present the company's main business is to deliver lighting and power products and services and therefore its profile is aligned with the operations of the Group's sales companies. Comparative information, i.e. information for the yaer ended 30 September 2018 and as of 31 December 2018, was restated accordingly.

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 and power generation, as well as generation of electricity using joint combustion of biomass and other energy acquired thermally. Key fuels include hard coal, biomass, coal gas and coke-oven gas.* *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. *TAMEH HOLDING Sp. z o.o.** *TAMEH POLSKA Sp. z o.o.** *TAMEH Czech s.r.o.** *Elektrociepłownia Stalowa Wola S.A.**
	*Generation of electricity using renewable sources*	TAURON Ekoenergia Sp. z o.o. Marselwind Sp. z o.o. TEC1 Sp. z o.o. TEC2 Sp. z o.o. TEC3 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.
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 Dystrybucja Serwis S.A.

** Entities recognized with the equity method*

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 desulphurization installations and fluidized bed combustors (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 thousand)

9.1. Operating segments

Year ended 31 December 2019

	Mining	Generation	Distribution	Sales	Other	Unallocated items / Eliminations	Total
Revenue							
Sales to external customers	345 274	3 725 886	3 202 234	12 173 480	111 418	-	**19 558 292**
Inter-segment sales	599 159	1 197 395	3 392 630	2 734 457	868 493	(8 792 134)	**-**
Segment revenue	**944 433**	**4 923 281**	**6 594 864**	**14 907 937**	**979 911**	**(8 792 134)**	**19 558 292**
Recompensation revenue	**-**	**-**	**-**	**952 650**	**-**	**-**	**952 650**
Profit/(loss) of the segment	**(1 391 949)**	**(177 044)**	**1 443 741**	**382 185**	**46 152**	**51 691**	**354 776**
Share in profit/(loss) of joint ventures	-	47 947	-	-	-	-	**47 947**
Unallocated expenses	-	-	-	-	-	(107 269)	**(107 269)**
EBIT	**(1 391 949)**	**(129 097)**	**1 443 741**	**382 185**	**46 152**	**(55 578)**	**295 454**
Net finance income (costs)	-	-	-	-	-	(310 822)	**(310 822)**
Profit/(loss) before income tax	**(1 391 949)**	**(129 097)**	**1 443 741**	**382 185**	**46 152**	**(366 400)**	**(15 368)**
Income tax expense	-	-	-	-	-	3 685	**3 685**
Net profit/(loss) for the year	**(1 391 949)**	**(129 097)**	**1 443 741**	**382 185**	**46 152**	**(362 715)**	**(11 683)**
Assets and liabilities							
Segment assets	1 294 329	14 653 139	19 176 164	4 730 135	648 705	-	**40 502 472**
Investments in joint ventures	-	559 144	-	-	-	-	**559 144**
Unallocated assets	-	-	-	-	-	856 149	**856 149**
Total assets	**1 294 329**	**15 212 283**	**19 176 164**	**4 730 135**	**648 705**	**856 149**	**41 917 765**
Segment liabilities	928 077	2 275 426	2 011 950	1 855 630	511 992	-	**7 583 075**
Unallocated liabilities	-	-	-	-	-	15 242 030	**15 242 030**
Total liabilities	**928 077**	**2 275 426**	**2 011 950**	**1 855 630**	**511 992**	**15 242 030**	**22 825 105**
EBIT	**(1 391 949)**	**(129 097)**	**1 443 741**	**382 185**	**46 152**	**(55 578)**	**295 454**
Depreciation/amortization	**(197 617)**	**(502 875)**	**(1 161 247)**	**(40 801)**	**(89 193)**	**-**	**(1 991 733)**
Impairment	**(694 467)**	**(610 461)**	**(820)**	**(5 591)**	**(841)**	**-**	**(1 312 180)**
EBITDA	**(499 865)**	**984 239**	**2 605 808**	**428 577**	**136 186**	**(55 578)**	**3 599 367**
Other segment information							
Capital expenditure *	479 519	1 683 070	1 784 941	47 460	132 901	-	**4 127 891**

** Capital expenditure includes expenditures for property, plant and equipment and intangible assets, excluding acquisition of greenhouse gas emission allowances and energy certificates*

Year ended 31 December 2018 *(restated)*

	Mining	Generation	Distribution	Sales	Other	Unallocated items / Eliminations	Total
Revenue							
Sales to external customers	548 247	2 812 080	3 041 907	11 622 172	97 342	-	**18 121 748**
Inter-segment sales	717 777	1 826 414	3 018 294	2 597 505	760 120	(8 920 110)	**-**
Segment revenue	**1 266 024**	**4 638 494**	**6 060 201**	**14 219 677**	**857 462**	**(8 920 110)**	**18 121 748**
Profit/(loss) of the segment	**(1 053 469)**	**141 768**	**1 391 155**	**332 428**	**46 023**	**(34 489)**	**823 416**
Share in profit/(loss) of joint ventures	-	54 890	-	-	-	-	**54 890**
Unallocated expenses	-	-	-	-	-	(87 577)	**(87 577)**
EBIT	**(1 053 469)**	**196 658**	**1 391 155**	**332 428**	**46 023**	**(122 066)**	**790 729**
Net finance income (costs)	-	-	-	-	-	(286 082)	**(286 082)**
Profit/(loss) before income tax	**(1 053 469)**	**196 658**	**1 391 155**	**332 428**	**46 023**	**(408 148)**	**504 647**
Income tax expense	-	-	-	-	-	(297 602)	**(297 602)**
Net profit/(loss) for the year	**(1 053 469)**	**196 658**	**1 391 155**	**332 428**	**46 023**	**(705 750)**	**207 045**
Assets and liabilities							
Segment assets	1 589 823	12 168 948	17 923 661	3 801 630	581 497	-	**36 065 559**
Investments in joint ventures	-	543 913	-	-	-	-	**543 913**
Unallocated assets	-	-	-	-	-	488 005	**488 005**
Total assets	**1 589 823**	**12 712 861**	**17 923 661**	**3 801 630**	**581 497**	**488 005**	**37 097 477**
Segment liabilities	851 497	1 299 850	2 133 237	1 772 534	410 567	-	**6 467 685**
Unallocated liabilities	-	-	-	-	-	12 201 311	**12 201 311**
Total liabilities	**851 497**	**1 299 850**	**2 133 237**	**1 772 534**	**410 567**	**12 201 311**	**18 668 996**
EBIT	**(1 053 469)**	**196 658**	**1 391 155**	**332 428**	**46 023**	**(122 066)**	**790 729**
Depreciation/amortization	**(230 397)**	**(415 810)**	**(1 071 278)**	**(33 196)**	**(88 260)**	**-**	**(1 838 941)**
Impairment	**(732 810)**	**(118 904)**	**(3 104)**	**(6 847)**	**(749)**	**-**	**(862 414)**
EBITDA	**(90 262)**	**731 372**	**2 465 537**	**372 471**	**135 032**	**(122 066)**	**3 492 084**
Other segment information							
Capital expenditure *	412 028	1 299 817	2 014 507	36 947	74 561	-	**3 837 860**

** Capital expenditure includes expenditures for property, plant and equipment and intangible assets, excluding acquisition of greenhouse gas emission allowances and energy certificates*

(in PLN thousand)

In the years ended 31 December 2019 and 31 December 2018 the Group did not identify individual customers that would generate sales revenue in excess of 10% of total sales revenue of the TAURON Group.

9.2. Geographic areas of operations

The majority of the Group's business operations is carried out in Poland. The table below presents export sales classified by countries.

	Year ended 31 December 2019	Year ended 31 December 2018
Czech Republic	198 792	220 397
Slovakia	3 088	16 650
Luxembourg	517	2 058
Austria	896	2 042
Hungary	852	896
Other	241	48
Total	**204 386**	**242 091**

Sales to foreign buyers include mostly power, which accounted for 93% and 92%, respectively, of revenue generated by foreign buyers as at 31 December 2019 and 31 December 2018.

IMPAIRMENT OF NON-FINANCIAL ASSETS

10. Impairment 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 there are indications that they may have been impaired.

Impairment tests include estimation of the recoverable amount of an asset or the cash-generating unit (CGU) to which the asset belongs. In order to carry out 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 CGU which goodwill is allocated to has been presented in Note 21.

The recoverable amount of an asset or CGU is the higher of the fair value less costs to sell and the value in use. If the carrying amount of an asset or CGU exceeds 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, with the proviso that as a result of such allocation the carrying amount of the asset may not be lower than the highest of the fair value less costs to sell, 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 reversed.

The impairment tests performed as at 31 December 2019 and 30 June 2019 included changes resulting from the come into force of IFRS 16 *Leases.* The value of the assets tested was increased by the value of the right-of-use assets. At the same time, the projected cash flows were adjusted by the value of the liabilities due to right-of-use assets, which was transferred from operating costs to financial costs. As regards WACC, the change in the level of indebtedness of comparable companies in particular areas of activity in 2019 compared to 2018 was verified. The analyses performed showed that the level of debt change is neutral for the calculation of the discount rate.

PROFESSIONAL JUDGMENT AND ESTIMATES

As at each reporting period end, the Group assesses whether objective indication of impairment occurs in relation to non-financial non-current assets. The analysis includes both internal and external indication.

In the course of impairment tests, 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 the year ended 31 December 2019, the Group recognized and reversed recognized before impairment losses on property, plant and equipment and intangible assets as a result of impairment tests performed as at 31 December 2019 and 30 June 2019.

The recoverable amount of the above group of assets corresponds to their value in use.

(in PLN thousand)

The impairment loss and its reversal resulting from the tests performed in the year ended 31 December 2019 are related to the following cash-generating units:

CGU	Company	Discount rate (before tax) assumed in tests as at:			Recoverable amount	Impairment loss recognized	Impairment loss derecognized
		31 December 2019	30 June 2019 *(unaudited)*	31 December 2018	As at 31 December 2019	Year ended 31 December 2019	
Mining	TAURON Wydobycie S.A.	14.01%	11.40%	11.58%	371 215	(694 498)	-
Generation - Coal	TAURON Wytwarzanie S.A. / Nowe Jaworzno Grupa TAURON Sp. z o.o.	8.60%	8.61%	8.59%	6 784 195	(680 363)	-
Generation - Biomass		8.60%	8.61%	8.59%	-	-	-
ZW Bielsko EC1	TAURON Ciepło Sp. z o.o.	8.57%	7.65%	7.51%	372 007	(12 314)	-
ZW Bielsko EC2					-	(2 292)	-
ZW Katowice					864 007	-	-
ZW Tychy					656 832	-	58 958
Local generators					69 196	-	-
Transmission		7.51%	7.24%	6.91%	725 726	-	-
Hydropower plants	TAURON Ekoenergia Sp. z o.o. / TEC	8.90%	9.16%	9.31%	945 111	-	-
Wind farms		8.94%	9.63%	10.00%	2 168 673	-	25 962
Total						**(1 389 467)**	**84 920**

Impairment allowances were charged to cost of sales.

As at 31 December 2019, impairment tests were performed for property, plant and equipment based on the following indications:

- the market value of the Company's net assets remaining below the net asset carrying amount for a long period;
- changes in global prices of energy resources, electricity and dynamic increases in the prices of CO_2 emission allowances;
- significant fluctuations of energy prices on the future/forward market and continuing liquidity problems;
- regulatory activities aimed at the limiting of end user price increases;
- increased risks in commercial coal production;
- the effects of the results of the RES auctions to date and the very dynamic development of the prosumer and microinstallation sub-sector in connection with the support programmes launched;
- results of proceeding winter package provisions (including emission standards) that adversely impact the capability of coal-based units to participate in the power market after 1 July 2025;
- tightening of emission standards persisting unfavourable market conditions for the conventional power industry;
- a decrease in the risk-free rate.

The tests conducted as at 31 December 2019 and 30 June 2019 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 the level of individual companies, except for:

- TAURON Wytwarzanie S.A. and Nowe Jaworzno Grupa TAURON Sp. z o.o., where the identification of cash-generating units ("CGU") was recognized at a different level by identifying two centres generating economic benefits in the area of activity of the companies TAURON Wytwarzanie S.A. and Nowe Jaworzno Grupa TAURON Sp. z o.o: CGU Generation Coal and CGU Generation Biomass. Key indications included: the publication of provisions regarding new Power Market mechanism in 2018, launching a new product: net disposable capacity; the strategy of joining the Power Market consisting in the portfolio approach, where maximizing the total Power Market revenue matters; allocating power to suppliers; determining the reserve sources level for the other power contracted at the power market and high dependence of cash proceeds among generators. The settlement of the first three Capacity Market auctions in 2018 allows for additional cash inflows from 2021 onwards;
- TAURON Ciepło Sp. z o.o. - where separated generation of heat and electricity and transmission and distribution of heat. Additional tests were carried out for individual “generation" units for individual generation plants: CGU ZW Katowice, CGU ZW Tychy, CGU ZW Bielsko EC1, CGU ZW Bielsko EC2, CGU Local Generators;
- 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

(in PLN thousand)

Sp. Komandytowa, TEC 1 Sp. z o.o. Ino 1 Sp. Komandytowa, where the test was carried out separately for hydropower generation units - CGU Hydropower plants and for total windfarms power generation unit - CGU Windfarms. Consolidation of windfarms in one CGU resulted mainly from the specificity and nature of the basic service contracts and technical management of individual windfarms allowing for optimisation of the production process aimed at improving economic indicators of the operated windfarms. Moreover, from the point of view of management analysis, the notion of a group of assets producing power in wind technology is important, not a single operation of windfarms. This is also important for the integrated management of the portfolio of produced volume from windfarms and the sale of power and property rights within the TAURON Group.

Key assumptions made for purposes of tests performed as at 31 December 2019:

Category	Description
Coal	Coal prices in the coming years were adopted at a slightly declining level. In the long term, coal prices will fall more sharply as a result of the implementation of climate policy and the shift away from coal to other countries, as well as the growing production of energy from RES sources. The prices forecasted until 2030 show a constant downward trend. It has been assumed that in the years 2021–2040 the prices of power coal will decrease by 14%.
Electricity	The adopted forecast of wholesale electricity prices in 2020-2029 with an outlook until 2040 assumes, among other things, the impact of the demand and supply balance on electricity, fuel purchase costs and CO2 emission allowances. Compared to the average SPOT price in 2019, a price increase of 19% for 2020 was assumed, mainly due to an price increase of CO_2 emission allowance prices. In the following 2021, energy prices were assumed to increase by 3% compared to 2020, which results, among other things, from predictions of further increase in prices o CO_2 emission allowances and exclusion of conventional units in Germany - which should reduce the volume of energy exports to Poland. Then, in the period up to 2029, an increase in prices by 8% in relation to 2021 was assumed, mainly due to significant unit exclusions after 2025; in the years 2030-2040, a drop in prices by 14% (in constant prices) in relation to 2029 was assumed. The electricity retail price path has been adopted based on the wholesale price of black energy, taking into account the costs of excise duty, the obligation to surrender energy certificates as well as an expected level of margin.
CO_2	CO_2 emission limits for heat generation have been set 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 for the years 2020-2029 with the perspective by 2040 has been adopted. In 2021 the price of CO_2 emission allowances was assumed to be 25% higher than the average price in 2019. It has been assumed that the market price will increase by ca. 33% comparing to the average price observed in 2019, with slight CO_2 emission allowance price decreases in 2029-2040 versus 2028 (fixed prices), totaling 11%. This results from the assumed increase in decarbonization of the economy and the resultant drop in demand for emission allowances after 2030. The long-term projections of CGU Coal assume the purchase of CO_2 emission allowances at the level of the total planned deficit in the year to which the emissions relate. It was thus assumed that the provision for CO_2 deficiency will be dissolved at the end of the year to which the provision applies.
Energy certificates	The price path assumed for emission certificates and the obligatory redemption in the subsequent years are based on the current Act on Renewable Energy Sources;
Power Market	The operating reserve capacity mechanism is to be excluded from the beginning of 2021, i.e. from the time the Capacity Market has been implemented. The Power Market mechanism implementation has been taken into account (in line with the adopted and notified Act on the Power Market and the draft Power Market Regulations). It is assumed that payments for capacity will be launched from 2021 and maintained until 2025 for existing coal units which do not meet the EPS 550 criterion (for which the unit emission capacity exceeds 550 kg/MWh). For entities that won or will win long-term contracts by 31 December 2019 and do not meet the EPS 550 criterion, payments have been assumed to be continued until the contract expiration date;
RES	Limited support periods for green energy have been assumed in accordance with the Act on Renewable Energy Sources, which provides for new support mechanisms for renewable energy. The support period has been limited to 15 years as from the date of the first supply of electricity qualifying for an energy certificate to the network;
WACC	The weighted average cost of capital (WACC) during the projection period, for particular CGUs, as used in the calculations, ranges from 6.52% to 14.01% in nominal terms before tax, taking into account the risk free rate determined by reference to the yield on 10-year treasury bonds (2.81%) and the risk premium for operations appropriate for the power industry (6.25%). The growth rate used for extrapolation of projected cash flows beyond the detailed planning period is 2.5% and it corresponds to the estimated long-term inflation rate. The level of WACC as at 31 December 2019 increased compared to the level as at 31 December 2018 mainly due to the increase in the cost of debt and market risk premium.
Regulated and tariff revenue	Regulated revenue generated by distribution companies, ensuring coverage of reasonable costs and a reasonable level of return on capital has been assumed. The return on capital is conditional on the Regulatory Asset Value. Tariff revenue generated by heat companies, ensuring coverage of reasonable costs and a reasonable level of return on capital has been assumed;
Sales volume and production capacity	End-user sales volumes taking into account GDP growth and increased market competition have been applied. Maintaining the production capacity of the existing non-current assets as a result of replacement investments was considered.

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

The impairment loss on CGU Mining assets (in the first and second half of the year 2019) and CGU Generation-Coal assets, CGU ZW Bielsko EC1 assets and CGU ZW Bielsko EC2 assets (in the second half of the year 2019) resulted from:

- CGU Mining - in the first half of the year 2019 in particular from updating the technical and economic assumptions, mainly in terms of exploitation plans and availability of deposits. The update of assumptions concerned the period before obtaining significant effects from strategic investments, that is before 2024. In the second half of the year 2019 resulted in particular from updating market assumptions regarding the cost of capital;
- CGU Generation - Coal assets - in particular from the European Union's climate policy affecting the projected level of margins on sales of power from conventional sources and the shift of commissioning of the 910 MW unit in Jaworzno;
- CGU ZW BB EC1 assets and CGU ZW BB EC2 assets - in particular from updating market assumptions regarding the cost of capital.

The possibility of reversing the impairment loss on individual CGUs assets in the second half of the year 2019 resulted from:

- CGU ZW Tychy assets - in particular from the permanent reorganisation of the operation of the biomass unit in order to make maximum use of the production potential from a renewable source;
- CGU Windfarms assets – mainly from the changes regarding renewable energy sources (regarding the method of determining the substitution fee) that positively affect financial results generated by assets based on renewable energy sources and a fundamental change in market factors related to energy generation from renewable sources, and thus increasing competitiveness in relation to the conventional generation.

Sensitivity analysis for the Mining and Generation units

A sensitivity analysis performed for each CGU revealed that the value in use of the tested assets was mainly affected by the forecast electricity prices, CO_2 emission allowances prices, discount rates and hard coal prices. The estimated changes in impairment losses on Mining and Generation assets as at 31 December 2019 as a result of changes in the key assumptions, have been presented below.

Parameter	Change	Impact on impairment loss *(in PLN million)*	
		Increase of impairment loss (net)	Decrease of impairment loss (net)
Change of electricity prices in the forecast period	+1%	-	385
	-1%	385	-
Change of CO_2 emission allowances prices in the forecast period	+1%	153	-
	-1%	-	153
Change of WACC (net)	+0,1 p.p.	130	-
	-0,1 p.p.	-	132
Change of coal prices in the forecast period	+1%	60	-
	-1%	-	60

Sensitivity analysis for the Distribution unit

The sensitivity analysis was performed for a change in the discount rate and a change in the WACC level adopted for the calculation of regulated income in the years 2025-2029 and in the residual period. The table below presents the estimated inflows to the impairment loss on assets of the Distribution assets as at 31 December 2019.

Parameter	Change	Impact on increase of impairment loss *(in PLN million)*
Change of WACC (net)	+0,1 p.p.	527
	-0,1 p.p.	-
Change of WACC adopted for calculation of regulated income in years 2025-2019 and in the residual period	+0,1 p.p.	-
	-0,1 p.p.	347

(in PLN thousand)

Impairment 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.

The test was performed based on the present value of projected cash flows from operations. The calculations were based on detailed projections for the period from 2019 to 2028 and the estimated residual value. Reliance on projections covering a period longer than 5 years results mainly from the fact that investment processes in the power industry are time-consuming. The macroeconomic and sector assumptions serving as the basis for projections are updated as frequently as any indications for their modification are observed on the market. Projections also take into account changes in the regulatory environment known as at the date of the test.

The weighted average cost of capital (WACC) during the projection period for particular CGUs, as used in the calculations, ranges from 7.02% to 7.80% in nominal terms before tax, taking into account the risk free rate determined by reference to the yield on 10-year treasury bonds (2.81%) and the risk premium for operations appropriate for the power industry (6.25%). The growth rate used for extrapolation of projected cash flows beyond the detailed planning period is 2.5% and it corresponds to the estimated long-term inflation rate. The level of WACC as at 31 December 2019 has decreased compared to the level as at 31 December 2018 due to a decrease in the risk-free rate.

The key assumptions affecting the estimated value in use and the discount rates applied during tests:

Operating segment	Key assumptions	Discount rate (before tax) assumed in tests as at:		
		31 December 2019	30 June 2019 *(unaudited)*	31 December 2018
Distribution	Regulated revenue generated by distribution companies, ensuring coverage of reasonable costs and a reasonable level of return on capital. The return level depends on the so-called Regulatory Value of Assets. Maintaining generation capacity of the existing non-current assets as a result of replacement investments.	7.02%	7.78%	7.61%

The impairment test performed as at 31 December 2019 did not reveal impairment of the carrying amount of goodwill in particular segments.

NOTES TO THE CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

11. Sales revenue

SELECTED ACCOUNTING PRINCIPLES

The Group has introduced five steps of revenue recognition: identify the contract(s) with a customer; identify the performance obligations in the contract; determine the transaction price; allocate the transaction price to each performance obligation; and recognize revenue when (or as) the entity satisfies a performance obligation.

Revenue is recognized when (or as) the performance obligation is fulfilled in the form of transferring the promised goods, products, materials (i.e. assets) or rendering the service to a client. The asset transfer takes place when a client obtains control over an asset. For sales of electricity, gaseous fuels and heat, the energy is deemed sold when delivered to a consumer.

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

Revenue includes only economic proceeds received or due on the entity's bank 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, they are not recognized in revenue. Similarly, the transitional fee and renewable energy sources fee charged by the Group from the end users of power and then transferred to the Transmission System Operator is recognized in the net amount of consideration.

For goods and materials, revenue is recognized when the Group ceases to be involved in permanent management of the goods 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 billed due to the buyer settlement system used.

The most significant revenues the Group achieves from the sale of power and distribution services in the Sales segment, distribution services in the Distribution segment and power in the Generation segment.

Revenue from sales of electricity and distribution services in the Sales segment

The Group companies operating in the Sales segment generate revenue from sales of electricity and distribution services to retail and wholesale clients (balancing market sales). This segment also generates revenues from road lighting maintenance services. Revenue from sales is determined on the basis of the billed volume and price, including additional assessments.

Four types of additional assessment of revenue from sales of electricity and distribution services are made in this segment:

(in PLN thousand)

Additional assessment type	Description
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 balancing market prices	The additional assessment includes buyers whose sales of the electricity are priced in line with the 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 sales of electricity distribution services in the Distribution segment

The Group's revenue from sales of services includes in particular revenue related to distribution operations. Electricity distribution services are considered sold upon service provision to the client, as registered by the electricity meter, including the projected use and assessed additional revenue, not measured and charged yet due to specifics of the applied buyer settlement system.

Revenue from wholesale of electricity in the Generation segment

Wholesale of electricity from the generation units managed centrally and as part of trading operations requires the client and the supplier's notification of the volume of electricity declared per each hour to the Transmission System Operator, which volume a Generation segment company is obliged to provide a supplier or ensure its provision and the client is obliged to accept. Both the price and volume per each hour is determined on the basis of transactions signed in advance or (in the case of the Polish Power Exchange) recorded electronically. The Transmission System Operator, which somewhat guarantees volume settlements, ensures reliability of data concerning the supplied volume of energy. As billing is based on reports generated by the Transmission System Operator.

Sales invoices relating to electricity supplied to the Balancing Market are raised on the basis of reports from the centralized system balancing sales in the Polish National Power System. Such settlements are made every decade.

Wholesale of electricity from generation units which are not managed centrally (local market generation units of less than 100MW) is subject to similar rules. However, it is the local market operator (DSO) that is responsible for the settlements.

PROFESSIONAL JUDGMENT AND ESTIMATES

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

As at 31 December 2019, additionally assessed revenue from sale of electricity and distribution services in the Sales segment totaled PLN 631 795 thousand and, when reversed estimations from the prior year have been accounted for, the impact on the profit or loss for the 2019 year was PLN 22 503 thousand.

	Year ended 31 December 2019	Year ended 31 December 2018 *(restated figures)*
Sale of goods for resale, finished goods, materials without elimination of excise	**13 062 166**	**12 194 728**
Excise	(138 962)	(409 243)
Sale of goods for resale, finished goods and materials	**12 923 204**	**11 785 485**
Electricity	11 329 312	10 138 636
Heat energy	620 002	628 178
Gas	335 833	261 604
Coal	302 926	485 366
Energy certificates	143 177	89 378
Other goods for resale, finished goods and materials	191 954	182 323
Rendering of services	**6 569 022**	**6 274 345**
Distribution and trade services	6 250 923	5 941 258
Maintenance of road lighting	120 527	121 650
Connection fees	81 079	82 070
Other services	116 493	129 367
Other revenue	**66 066**	**61 918**
Total	**19 558 292**	**18 121 748**

(in PLN thousand)

In the year ended 31 December 2019, sales revenues increased in relation to the comparable period, and the main changes concerned sales revenues of the following finished goods and materials:

electricity - the increase in revenue from sales of electricity versus comparative period results mostly from an increase in electricity prices in the current reporting period, as well as to the higher electricity sales volume. At the same time, in the year ended 31 December 2019, as compared to the comparable period , there was a decrease in revenue from the sale of electricity due to the entry into force of the amended Excise Duty Act and certain other acts, which is discussed in detail in Note 12 hereto,

- gas - the increase in revenue from sales of gas versus comparative period results mostly from an increase in the current reporting period in gas sales price and higher volume of sales,
- coal - the decrease in revenue from sales of coal results from lower volume of sales outside the Group related to lower production of the Group's mining plants,
- distribution services - the increase in revenue from sales of distribution services results mainly from the increase in the average rate of sales of distribution services.

The decrease in excise tax in 2019 versus comparable period is mainly related to the come into force of the Act of 28 December 2018 amending the Excise Duty Act and certain other acts, under which the excise tax rate on electricity was changed from 20 PLN to 5 PLN per megawatt hour (MWh).

The Group's sales revenue by operating segment has been presented below.

Year ended 31 December 2019

	Mining	Generation	Distribution	Sales	Other	Total
Sale of goods for resale, finished goods and materials	**325 098**	**3 495 394**	**6 201**	**9 004 753**	**91 758**	**12 923 204**
Electricity	**-**	**2 729 038**	**-**	**8 600 274**	**-**	**11 329 312**
Heat energy	**33**	**619 969**	**-**	**-**	**-**	**620 002**
Gas	**-**	**-**	**-**	**335 833**	**-**	**335 833**
Coal	**302 926**	**-**	**-**	**-**	**-**	**302 926**
Energy certificates and similar	**-**	**141 295**	**-**	**1 882**	**-**	**143 177**
Other goods for resale, finished goods and materials	**22 139**	**5 092**	**6 201**	**66 764**	**91 758**	**191 954**
Rendering of services	**18 714**	**214 275**	**3 162 970**	**3 165 082**	**7 981**	**6 569 022**
Distribution and trade services	**-**	**206 018**	**3 019 253**	**3 025 652**	**-**	**6 250 923**
Maintenance of road lighting	**-**	**-**	**11**	**120 516**	**-**	**120 527**
Connection fees	**-**	**325**	**80 754**	**-**	**-**	**81 079**
Other services	18 714	7 932	62 952	18 914	7 981	**116 493**
Other revenue	**1 462**	**16 217**	**33 063**	**3 645**	**11 679**	**66 066**
Total	**345 274**	**3 725 886**	**3 202 234**	**12 173 480**	**111 418**	**19 558 292**

For the year ended 31 December 2018 *(restated)*

	Mining	Generation	Distribution	Sales	Other	Total
Sale of goods for resale, finished goods and materials	**519 862**	**2 580 352**	**4 996**	**8 601 609**	**78 666**	**11 785 485**
Electricity	242	1 861 379	-	8 277 015	-	**10 138 636**
Heat energy	-	628 178	-	-	-	**628 178**
Gas	-	-	-	261 604	-	**261 604**
Coal	485 366	-	-	-	-	**485 366**
Energy certificates and similar	2 882	84 797	792	907	-	**89 378**
Other goods for resale, finished goods and materials	31 372	5 998	4 204	62 083	78 666	**182 323**
Rendering of services	**26 724**	**217 182**	**3 003 875**	**3 019 493**	**7 071**	**6 274 345**
Distribution and trade services	63	204 595	2 854 068	2 882 532	-	**5 941 258**
Maintenance of road lighting	-	-	405	121 245	-	**121 650**
Connection fees	-	953	81 117	-	-	**82 070**
Other services	26 661	11 634	68 285	15 716	7 071	**129 367**
Other revenue	**1 661**	**14 546**	**33 036**	**1 070**	**11 605**	**61 918**
Total	**548 247**	**2 812 080**	**3 041 907**	**11 622 172**	**97 342**	**18 121 748**

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

(in PLN thousand)

	Year ended 31 December 2019	Year ended 31 December 2018 *(restated figures)*
Revenue from sales of electricity	**11 329 312**	**10 138 636**
Retail sale	**7 486 181**	**6 907 841**
Strategic clients	1 336 635	1 367 676
Business clients	3 192 695	3 035 259
Mass clients, including:	3 026 110	2 871 328
G group	2 337 247	2 329 686
Other	69 703	42 821
Excise duty	(138 962)	(409 243)
Wholesale	**3 157 432**	**2 533 584**
Operational capacity reserve	**216 994**	**212 473**
Other	**468 705**	**484 738**

12. Recompensation revenue

	Year ended 31 December 2019
Price difference amount	637 595
Financial compensation	315 055
Total	**952 650**

The *Act on the amendment to the act on the excise tax and some other acts* (“Act”) came into force on 28 December 2018. In accordance with the Act, in its version applicable as of 31 December 2018, energy companies (electric utilities) dealing with electricity trading were obligated to apply in 2019 gross prices and fee rates not higher than the gross prices and fee rates included in the tariff or electricity price list in force on 30 June 2018, taking into account the reduction of the excise tax rate for electricity.

The Act, amended during the year 2019, imposed an obligation on trading companies to apply the price of 30 June 2018 to the following groups of end users:

- final customers from the G-tariff, for whom in the first and second half of the year 2019 the price as of 30 June 2018 shall always apply, determined in accordance with the rules set out in the acts implementing the Act;
- end users belonging to the following groups: micro-entrepreneurs, small entrepreneurs, hospitals, public finance sector entities or other state organizational units without legal personality, for whom the price as of 30 June 2018 always applies in the first half of 2019, while in the second half of 2019, provided that a declaration of the end user is submitted, in accordance with the specimen constituting Annex 1 to the Act;
- other end users for whom the price of 30 June 2018 applies only in the first half of 2019.

At the same time, the Act, as amended, provides for two formulas of recompensation for trading enterprises:

- the amount of the price difference for the period from 1 January 2019 to 30 June 2019 for all customers ("Price Difference Amount");
- financial compensation for the period from 1 July 2019 to 31 December 2019 - with regard to final customers referred to in Article 5(1a), i.e. customers to whom the Company is obliged to apply the prices as of 30 June 2018 ("Financial Compensation").

In the consolidated statement of comprehensive income for the year ended 31 December 2019, the Group recognised the effects of the amended Act and its implementing acts in the form of the amended Act:

- the amount of due recompensation for trading companies in the form of the Price Difference Amount and Financial Compensation in the total amount of PLN 952 650 thousand.

  Considering the submitted as at 31 December 2019 in the case of the TAURON Group's trading companies, applications to Zarządca Rozliczeń S.A. for payment of the Price Difference Amount and Financial Compensation for the period from January to November 2019, as well as the application for Financial Compensation for December 2019 submitted after the reporting period on 12 January 2020, the Group recognised revenue from the Price Difference Amount of PLN 637 595 thousand and revenue from Financial Compensation for the period of the second half of the year 2019 in the amount of PLN 315 055 thousand. The above revenues were calculated as the difference between the amount of revenues for trading in electricity for the benefit of end users, determined on the basis of the volume-weighted average price of electricity on the wholesale market increased by other unit costs (including, among others, own costs of conducting business activities, costs of balancing electricity demand characteristics, costs of obtaining and redeeming certificates of origin or incurring a substitute fee and a margin) and the amount of revenues resulting from the application of electricity prices applied on 30 June 2018.

As at the balance sheet date, the trading companies of the TAURON Group received cash on account of Price Difference Ammount and Financial Compensation for the period from January to September 2019 in amount of PLN 801 536 thousand. Cash from Financial Compensation for the fourth quarter of 2019 in the amount of PLN 151 114 thousand was received by the trading companies after the period end date, to 27 February 2020. As at 31 December 2019, the receivable as recompensation for trading companies in the amount of PLN 151 114 thousand was presented in the consolidated statement of financial position under other financial assets.

- adjustments reducing revenues from customers in 2019, resulting from the need to adjust prices in that period to the provisions of the amended Act.

  The adjustments apply to all customers for whom the price of 30 June 2018 applies in the first half of the year 2019 and for whom the prices in contracts have not been reduced from 1 January 2019 and, in case for the second half of the year 2019, micro, small businesses, hospitals, public finance sector units or other state organizational units without legal personality, who have submitted declarations of the final recipient, according to the statutory template. The amount of recognised adjustments was PLN 569 572 thousand. As at the balance sheet date, the liability to return overpaid amounts to customers presented in the consolidated statement of financial position under other short-term financial liabilities amounted to PLN 41 720 thousand.

Apart from the above adjustments, the Group reduced the price for eligible customers in invoices issued for the period from September to December 2019, which according to the Group's estimates, reduced revenues from the sale of electricity in the amount of PLN 85 171 thousand.

13. Cost of goods, products, materials and services sold (cost of sales)

SELECTED ACCOUNTING PRINCIPLES

The Group presents costs by function.

Operating expenses 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 selling and distribution expenses, and administrative expenses incurred in the reporting period (disclosed separately in the statement of comprehensive income).

Costs that can be assigned directly to revenue generated by the Group impact the profit or loss for the period which the revenue pertains to.

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

(in PLN thousand)

13.1. Expenses by type

	Year ended 31 December 2019	Year ended 31 December 2018 *(restated figures)*
Depreciation of property, plant and equipment, right-of-use assets and amortization of intangible assets	(1 991 733)	(1 838 941)
Impairment of property, plant and equipment, right-of-use assets and intangible assets	(1 310 000)	(862 209)
Materials and energy	(1 702 735)	(1 672 650)
Maitenance and repair services	(239 679)	(240 231)
Distribution services	(1 550 246)	(1 432 389)
Other external services	(762 121)	(857 798)
Cost of obligation to remit the CO_2 emission allowances	(774 539)	(611 586)
Other taxes and charges	(675 861)	(715 820)
Employee benefits expense	(3 033 560)	(2 706 145)
Allowance for trade receivables expected credit losses	(27 818)	(20 079)
Other	(108 450)	(117 217)
Total costs by type	**(12 176 742)**	**(11 075 065)**
Change in inventories, prepayments, accruals and deferred income	119 593	32 295
Cost of goods produced for internal purposes	858 219	728 154
Selling and distribution expenses	499 171	477 794
Administrative expenses	658 664	631 487
Cost of goods for resale and materials sold	(9 223 441)	(7 231 812)
Cost of sales	**(19 264 536)**	**(16 437 147)**

In the year ended 31 December 2019, the cost of goods, products, materials and services sold increased versus comparable period, including the main changes therein:

- increase in depreciation costs, impairment losses on property, plant and equipment, intangible assets and right-of-use assets, and increase in employee benefits costs described in Notes 13.2 and 13.3 hereto;
- increase in materials and energy consumption relates mainly higher costs of fuels used for production as a result of higher volume consumption of biomass as a result of higher production of electricity from units used with this fuel.
- increase in distribution services costs due to higher network and quality charge components due to the tariff change;
- decrease in other external services costs, which is influenced by lower costs of construction and assembly services in the current year due to intensified work in 2018 related to the implementation of the project - construction of the 910 MW unit in Jaworzno, partial reversal of the provision for reclamation of furnace waste landfill, lower costs of mining services and machine rental due to lower production of mining plants and lower costs of rent and lease due to IFRS 16 *Leases* coming into force from 1 January 2019;
- increase in the cost of the obligation to surrender the CO_2 emission allowances, which is mainly due to the increase in allowance prices. At the same time, the cost of fulfilling the obligation to surrender the CO_2 emission allowances and thus the calculation of the provision includes units of certified emission reductions (CER) in the amount of 883 000, whose purchase price is lower than EUA;
- increase in the value of goods and materials sold, which is mainly due to the increase in the current reporting period in the prices of electricity, as well as to a greater amount of purchased energy from contractors outside the TAURON Group, which is related to the increase by the legislator of the obligation of electricity generators to sell electricity through the exchange from 1 January 2019 to the level of 100% (compared to 30% in the comparable period).

  In the value of goods and materials sold in connection with the come into force of the amended *Act on the amendment to the act on the excise tax and some other acts* and in connection with the approval by the President of the Energy Regulatory Office of the tariff for the sale of electricity, the Group recognised in 2019 the net cost of creating provisions for onerous contracts in the amount of PLN 293 946 thousand, which is discussed in detail in Note 39.2 hereto.

(in PLN thousand)

13.2. Employee benefits expenses

	Year ended 31 December 2019	Year ended 31 December 2018
Wages and salaries	(2 258 550)	(2 099 057)
Social security costs	(440 661)	(407 808)
Jubilee bonuses	(89 507)	80 449
Social Fund	(54 321)	(53 087)
Post-employment benefit expenses, *of which:*	(91 308)	(30 926)
Provision for retirement, disability and similar benefits	(16 557)	(16 490)
Coal allowances and special electricity rates and charges	(9 066)	40 063
Social Benefits Fund	(2 736)	2 246
Contributions to employee retirement plans	(62 949)	(56 745)
Voluntary termination scheme	13 459	(4 350)
Other employee benefit expenses	(112 672)	(191 366)
Total	**(3 033 560)**	**(2 706 145)**
Items included in cost of sales	(2 000 866)	(1 785 447)
Items included in selling and distribution expenses	(228 434)	(199 535)
Movement in stock of finished goods	-	(44)
Items included in administrative expenses	(405 633)	(370 031)
Items included in cost of goods produced for internal purposes	(398 627)	(351 088)

The increase in the costs of salaries and social insurance in the year ended 31 December 2019 versus comparative period resulted mainly from the following:

- an increase in the level of employment in the Group's companies in connection with a change in the mining operating model by supporting its own preparatory work departments, limiting temporary work as a consequence of the change in the applicable legal regulations and developing real estate protection and management activities;
- implementation of provisions resulting from agreements signed with the community representatives;
- increase in the minimum wage.

The increase in the cost of provisions for jubilee bonuses and special electricity rates in the current period versus comparable period results mainly from the following:

- changes in the assumptions (including mainly the discount rate) of the actuarial valuation as at the balance sheet date - in the financial result the Group recognised actuarial losses related to provisions for jubilee bonuses in the amount of PLN 66 773 thousand (in 2018 PLN 19 068 thousand);
- events that took place in the comparable period, i.e. recognition of the effects of the release of actuarial provisions for the employee tariff in the segment Generation of actuarial provisions for the current employees as future pensioners in amount of PLN 49 270 thousand and release of provisions for jubilee bonuses in the amount of PLN 121 172 thousand.

At the same time, in connection with the release of provisions for jubilee bonuses, compensation in the amount of PLN 79 316 thousand was paid to the employees, which was charged to the costs of employee benefits (in the table above, recognized as other employee benefit expenses).

13.3. Depreciation and amortization charges and impairment losses

	Year ended 31 December 2019	Year ended 31 December 2018
Amortization, *included in item:*	**(1 991 733)**	**(1 838 941)**
Selling and distribution expenses	(1 876 048)	(1 745 333)
Cost of sales	(40 964)	(39 559)
Administrative expenses	(46 333)	(34 927)
Cost of goods produced for internal purposes	(28 388)	(19 122)
Impairment allowance, *included in item:*	**(1 310 000)**	**(862 209)**
Selling and distribution expenses	(1 275 480)	(815 410)
Cost of sales	(9 151)	(9 757)
Administrative expenses	(25 311)	(37 042)
Cost of goods produced for internal purposes	(58)	-
Total	**(3 301 733)**	**(2 701 150)**

(in PLN thousand)

The increase in depreciation and amortization costs results mainly from the recognition in the current period of amortization on the right-of-use assets in the amount of PLN 93 049 thousand in connection with the come into force of IFRS 16 *Leases* from 1 January 2019.

In the year ended 31 December 2019, the Group recognized impairment losses in the Generation and Mining segments, in addition to reversing in part the impairment losses recognized before in the Generation segment, which was due to impairment tests performed as at 31 December 2019 and 30 June 2019. The total effect on the Group's gross profit for 2019 was PLN 1 304 547 thousand (excess of recognition over reversal). The tests and their results have been discussed in more detail in Note 10 hereto.

Additionally, in the year ended 31 December 2019 the Group's companies recognized and reversed impairment losses on individual assets, customer contract assets and non-current assets classified as held for sale which resulted in the Group's operating expenses being charged with PLN 5 453 thousand.

The total impairment loss on property, plant and equipment, intangible assets and rights-of-use assets in the year ended December 31, 2019 amounted to PLN 1 310 000 thousand.

14. Other operating revenue and expenses

	Year ended 31 December 2019	Year ended 31 December 2018
Bargain purchase	119 515	-
Penalties, fines, compensations received or receivable	53 611	35 851
Subsidies/grants and revenue representing the equivalent of amortization/depreciation charges	41 405	33 011
Surplus of other provisions (recognized)/derecognized	10 945	(19 594)
Costs of court proceedings, fines and damages	(8 598)	(8 749)
Loss on the disposal or liquidation of property, plant and equipment / intangible assets and costs of damages to non-current assets	(8 869)	(7 704)
Write-off for abandoned investments and production as well as liquidated materials	(45 631)	(342)
Surplus of (recognition)/reversal of actuarial provisions for the existing pensioners and disability pensioners	-	139 402
Other operating income	25 419	19 401
Other operating expenses	(28 861)	(30 757)
Total	**158 936**	**160 519**

The result from the bargain purchase is related to the acquisition of wind farms, as described in detail in Note 2.1 hereto. The increase in the costs of write-offs of abandoned investments and production versus comparable period is related to the withdrawal by the company of Mining segment from the mining exploatations of bed 405/1 East lot at the Brzeszcze Mining Plant and the withdrawal from the exploatation of longwall no. 302 at the Sobieski Mining Plant and longwall no. 727a at the Janina Mining Plant, which burdened the costs with the total amount of PLN 42 600 thousand.

In the comparative period, the company from the Generation segment released provisions for the employee tariff and the Company Social Benefits Fund in part for pensioners, and therefore recognised other operating income of PLN 139 470 thousand.

15. Finance income and costs

SELECTED ACCOUNTING PRINCIPLES

Finance income and costs include mainly items relating to:

- interest and discount unwinding effect and revenue from profit sharing in other entities;
- revaluation of financial instruments, except for revaluation of financial instruments recognised in other comprehensive income and charged to revaluation capital 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 recognized;
- foreign exchange differences resulting from transactions performed during the reporting period and balance sheet measurement of assets and liabilities at the end of the reporting period, except for differences recognized in the initial value of a fixed asset, to the extent they are classified as adjustment to interest expenses;
- disposal/liquidation of financial assets;
- other items related to financing activities.

Foreign currency transactions (i.e. those not made in the functional currency) are translated into the functional currency at initial recognition at the exchange rate applicable as at the transaction date. As at the end of the reporting period monetary items are translated at the closing rate (for entities whose functional currency is PLN the closing rate is the average exchange rate published for the currency by the National Bank of Poland as at the date).

Exchange rates applied for the purpose of balance sheet measurement:

(in PLN thousand)

Currency	31 December 2019	31 December 2018
USD	3.7977	3.7597
EUR	4.2585	4.3000
CZK	0.1676	0.1673

Exchange differences from measurement as at the end of the reporting period and from settlement are recognized through profit or loss within finance income (or cost), except for those capitalized in assets.

	Year ended 31 December 2019	Year ended 31 December 2018
Income and costs from financial instruments	**(257 320)**	**(238 323)**
Dividend income	4 264	7 348
Interest income	31 273	28 086
Interest costs	(250 800)	(147 372)
Commission relating to borrowings and debt securities	(20 338)	(22 945)
Gain/loss on derivative instruments	(53 233)	(4 052)
Foreign exchange gains/losses	30 083	(83 455)
Remeasurement of loans granted	15 936	(4 309)
Other	(14 505)	(11 624)
Other finance income and costs	**(53 502)**	**(47 759)**
Interest on employee benefits	(32 692)	(33 394)
Interest on discount of other provisions	(12 154)	(12 683)
Other	(8 656)	(1 682)
Total, *including recognized in the statement of comprehensive income:*	**(310 822)**	**(286 082)**
Interest expense on debt	(250 800)	(147 372)
Finance income and other finance costs	(60 022)	(138 710)

The change in the amount of interest expenses in the year ended 31 December 2019 versus comparable period results mainly from recognition in the current period of interest expenses under lease agreements recognised as at 1 January 2019 in accordance with IFRS 16 *Leases* in amount of PLN 44 800 thousand and recognition in the financial result of costs related to new financing, taking into account capitalisation of interest expenses for investment tasks.

In the year ended 31 December 2019 there was a surplus of positive exchange differences over negative ones in the amount of PLN 30 083 thousand, in the comparative period there was a surplus of negative exchange differences over positive ones - PLN 83 455 thousand. The exchange rate differences relate mainly to exchange rate differences related to the Company's debt obligations in EUR. In 2019, the Group recognised revenue of PLN 36 252 thousand and in 2018 cost of PLN 113 013 thousand, of which negative exchange rate differences of PLN 35 577 thousand were activated for investment tasks.

16. Costs arising from leases

The note below presents the total financial result due to lease contracts in which the Group companies are the lessee.

	Year ended 31 December 2019
Cost arising from leases recognized in accordance with MSSF 16 *Leases, including:*	(137 849)
Depreciation of right-of-use assets	(93 049)
Cost of interest on lease liabilities	(44 800)
Cost arising from leases for which practical exclusion from MSSF 16 Leases has been applied, including:	(20 240)
Cost of short--term leases	(19 877)
Cost of low-value asset leases	(111)
Variable lease charges not included in the measurement of lease liabilities	(252)
Razem	**(158 089)**

17. Income tax

SELECTED ACCOUNTING PRINCIPLES

Current tax

Income tax recognized in profit or loss for the period includes actual tax charge for the given reporting period for each company from the Tax Capital Group ("TCG") as well as other non-TCG companies, determined in line with the provisions of the CIT Act, as well as any previous year tax adjustments.

(in PLN thousand)

Deferred income tax

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

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

Income tax related to items which are recognized in other comprehensive income or directly in equity is recognized in other comprehensive income or in equity, respectively.

The deferred tax asset and deferred tax liability of companies from the Tax Capital Group are netted off due to the fact that the companies file combined tax returns.

PROFESSIONAL JUDGMENT AND ESTIMATES

As at each balance sheet date, the Group analyzes realizability of deferred tax asset and assesses its unrecognized items.

Based on the forecasts prepared for the TGC, according to which taxable income will be earned in future periods, it has been concluded that there is no risk that the deferred tax asset recognized in these consolidated financial statements will not be realized.

17.1. Tax expense in the statement of comprehensive income

	Year ended 31 December 2019	Year ended 31 December 2018 *(restated figures)*
Current income tax	**(186 426)**	**(341 630)**
Current income tax expense	(192 668)	(331 740)
Adjustments to current income tax from previous years	6 242	(9 890)
Deferred tax	**190 111**	**44 028**
Income tax expense in profit/(loss)	**3 685**	**(297 602)**
Income tax expense relating to other comprehensive income	**23 770**	**7 436**
subject to reclassification to profit or loss	(2 884)	4 617
not subject to reclassification to profit or loss	26 654	2 819

The decrease of current income tax expense in relation to the comparable period is connected with taking into account in the settlement of Tax Capital Group for the year ended 31 December 2019 a higher tax loss of the company in the Mining segment.

17.2. Reconciliation of the effective tax rate

	Year ended 31 December 2019	Year ended 31 December 2018
Profit (loss) before taxation	**(15 368)**	**504 647**
Tax at Poland's statutory tax rate of 19%	**2 920**	**(95 883)**
Adjustments to income tax from previous years	6 242	(9 890)
Tax effects of the following items:	(18 664)	(173 382)
Recognition of non-deductible provisions and write-downs/allowances	(29 607)	(1 460)
National Disabled Persons Rehabilitation Fund (PFRON)	(5 673)	(5 141)
Permanent differences on costs related to tangible assets	(3 643)	(4 459)
Impairment of goodwill	-	(2 655)
Other tax non-deductible costs	(31 634)	(7 430)
Share in profit/loss of joint ventures	9 110	10 429
Changes in deferred tax estimates caused by revenue and cost with a different tax point	27 511	(181 845)
Other income not included in taxable base	15 272	19 179
Bargain purchase	22 708	-
Other	(9 521)	(18 447)
Tax at the effective rate of 24.0% (2018 - 59.0%)	**3 685**	**(297 602)**
Income tax (expense) in profit/(loss)	3 685	(297 602)

A decrease in the effective tax rate in the year ended 31 December 2019 versus the comparative period is related mostly to the recognized change in deferred tax estimates, arising from a difference in the tax point and the recognition of the estimated revenue from supplies of electricity and gas documented with advance payment invoices.

(in PLN thousand)

In the year ended 31 December 2019, certain IT solutions were implemented to support the determination of revenue with regard to settlement periods to be closed in the subsequent accounting period. Effects of estimate changes were charged to profit or loss for the year ended 31 December 2019.

17.3. Deferred income tax

	As at 31 December 2019	As at 31 December 2018
difference between tax base and carrying amount of fixed and intangible assets	1 880 816	1 503 445
difference between tax base and carrying amount of financial assets	48 137	65 366
different timing of recognition of sales revenue for tax purposes	327 914	360 507
difference between tax base and carrying amount of energy certificates	17 623	10 227
other	66 780	52 929
Deferred tax liabilities	**2 341 270**	**1 992 474**
provisions and accruals	665 886	490 191
difference between tax base and carrying amount of fixed and intangible assets	495 875	194 224
power infrastructure received free of charge and received connection fees	7 859	12 039
difference between tax base and carrying amount of financial assets and financial liabilities	292 771	145 497
different timing of recognition of cost of sales for tax purposes	277 964	312 824
tax losses	6 533	15 358
other	11 185	28 692
Deferred tax assets	**1 758 073**	**1 198 825**
After setting off balances at the level of individual Group companies, deferred tax for the Group is presented as:		
Deferred tax asset	**22 088**	**30 105**
Deferred tax liability	**(605 285)**	**(823 754)**

In connection with the come into force of IFRS 16 *Leases* as at 1 January 2019, the Group recognised the right-of-use assets and the lease liability, which is discussed in detail in Note 8.1 hereto, which resulted in an increase in the deferred income tax liability on the difference between the tax and balance sheet value of tangible fixed assets, intangible assets and right-of-use assets, and an increase in the deferred income tax asset on the difference between the tax and carrying amount of financial assets and liabilities of PLN 174 442 thousand.

Change in deferred tax liability and assets

	Year ended 31 December 2019		Year ended 31 December 2018	
	Deferred tax liabilities	Deferred tax assets	Deferred tax liabilities	Deferred tax assets
Opening balance	**1 992 474**	**1 198 825**	**1 756 752**	**931 009**
Effects of implementing new IFRS	174 442	174 442	9 634	(10 525)
Restated opening balance	**2 166 916**	**1 373 267**	**1 766 386**	**920 484**
Change in the balance:				
corresponding to profit/(loss)	138 478	328 589	230 635	274 663
corresponding to other comprehensive income	2 884	26 654	(4 617)	2 819
business acquisition	28 950	25 828	-	-
other changes	4 042	3 735	70	859
Closing balance	**2 341 270**	**1 758 073**	**1 992 474**	**1 198 825**

18. Earnings (loss) per share

SELECTED ACCOUNTING PRINCIPLES

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

	Year ended 31 December 2019	Year ended 31 December 2018
Net profit (loss) for the year attributable to equity holders of the Parent	(10 908)	204 880
Number of ordinary shares	1 752 549 394	1 752 549 394
Earnings per share (in PLN), basic and diluted	**(0.01)**	**0.12**

NOTES TO THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

19. Property, plant and equipment

SELECTED ACCOUNTING PRINCIPLES

Key fixed assets by segment:

- Generation:

 - 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 sulfur-recovery facilities, steam generators, landfills, storage and other buildings;
 - thermal stations, equipment used for purposes of fuel unloading and transportation as well as pumping stations and water treatment facilities;
 - wind farms, water turbine, hydro power plant buildings, sets as well as weirs and dams and hydrotechnical devices.

- Distribution:

 - power lines and stations. Power lines are located on the area of 57 thousand square meters, with the total length of ca. 237 thousand km;
 - electrical substations (approximately 61 thousand items);

- Mining:

 - mechanized lining, 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 accumulated costs of work related to the reinforcement of longwalls

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 on provisioning for these costs has been presented in Note 37 hereto);
- borrowing 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 their key parts. The Group recognizes specialized spare parts and service equipment as separate items of property, plant and equipment if their useful life exceeds one year.

Depreciation is calculated by reference to the cost of the asset less its residual value. Depreciation is based on a 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 estimated useful lives, except for land and fixed assets under construction, which are not depreciated. Specialized spare parts and service equipment are depreciated over the useful life of the fixed asset they relate to.

Borrowing costs

Borrowing costs are capitalized as part of the cost of qualifying non-current assets.

Borrowing costs include mainly interest on specific and general borrowings calculated using the effective interest rate method and forex differences related to foreign currency financing to the extent of being classified as interest cost adjustments. The effective portion of the hedge for contracts that satisfy the hedge accounting criteria and are entered into in connection with financing the development of non-current assets is also capitalized. After the completion of a qualifying asset that has been financed using specific borrowings, specific borrowings and the related costs are not taken into account when determining borrowing costs eligible for capitalization.

General borrowing costs eligible for capitalization are determined by applying the capitalization rate to expenditure incurred for qualifying assets. The capitalization rate is the weighted average rate of all borrowing costs related to borrowings classified as liabilities in a given period, other than specific borrowings.

Fixed assets received free of charge, connection fees and subsidies to assets

Fixed assets received free of charge and connection fees are initially recognized at cost, corresponding to the estimated fair value or the amount of cash received in the form of subsidies to assets.

Revenue from fixed assets received free of charge, funded with subsidies, are reported in the statement of financial position as deferred income and recognized as other operating revenue in correspondence to depreciation of the received or acquired property, plant and equipment.

PROFESSIONAL JUDGMENT AND ESTIMATES

Impairment

As at each reporting period end, 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 10 hereto.

Useful lives

Average residual useful lives by fixed asset group:

(in PLN thousand)

Asset group	Average remaining depreciation period (number of years)
Buildings, premises, civil and water engineering structures	18 years
Plant and machinery	11 years
Mining excavations	2 years
Other tangible fixed assets	4 years

The depreciation method and rate, as well as the residual value of fixed assets are reviewed at least at the end of each financial year with possible adjustments to depreciation charges recognized as at the beginning of the reporting period when the review was completed.

A review of the estimated useful lives of fixed assets and intangible assets, conducted in 2019, had the most material effect on the amortization and depreciation expense in the Generation segment – a decrease of amortisation and depreciation costs of PLN 17 602 thousand and Distribution segment - a decrease of amortization and depreciation costs of PLN 19 600 thousand. The effect on other segments was not material.

Year ended 31 December 2019

	Land	Buildings, premises and civil engineering structures	Plant and machinery	Mine workings	Other	Assets under construction	Property, plant and equipment, total
COST							
Opening balance	**125 869**	**23 775 062**	**19 133 480**	**221 074**	**943 340**	**6 376 491**	**50 575 316**
Direct purchase	-	-	-	1 714	-	3 251 159	**3 252 873**
Borrowing costs	-	-	-	-	-	183 439	**183 439**
Transfer of assets under construction	14 006	1 395 272	924 748	-	53 706	(2 387 732)	**-**
Business acquisition	592	270 463	441 138	-	-	-	**712 193**
Sale	(39)	(3 264)	(94 428)	-	(26 460)	(47)	**(124 238)**
Liquidation	(10)	(62 965)	(101 672)	(124 816)	(11 285)	-	**(300 748)**
Received free of charge	-	17 107	232	-	-	-	**17 339**
Transfers to/from assets held for sale	(64)	(13 636)	(46)	-	(175)	-	**(13 921)**
Overhaul expenses	-	-	-	-	-	193 955	**193 955**
Items generated internally	-	-	-	184 542	-	99 509	**284 051**
Cost of disassembly of wind farms and decommissioning of mines	-	101 182	2 102	-	-	-	**103 284**
Other movements	200	1 285	(8 256)	(17 513)	(1 168)	60 319	**34 867**
Foreign exchange differences from translation of foreign entities	-	-	-	-	1	-	**1**
Closing balance	**140 554**	**25 480 506**	**20 297 298**	**265 001**	**957 959**	**7 777 093**	**54 918 411**
ACCUMULATED DEPRECIATION							
Opening balance	**(404)**	**(9 599 896)**	**(10 765 131)**	**(52 458)**	**(611 258)**	**(139 502)**	**(21 168 649)**
Depreciation for the period	-	(829 750)	(797 235)	(95 837)	(74 362)	(915)	**(1 798 099)**
Increase of impairment	-	(426 283)	(698 406)	(92 759)	(6 592)	(148 752)	**(1 372 792)**
Decrease of impairment	65	35 438	53 208	-	102	522	**89 335**
Sale	-	2 143	91 800	-	24 963	-	**118 906**
Liquidation	-	55 449	95 937	124 816	11 249	-	**287 451**
Transfers to/from assets held for sale	-	9 666	38	-	163	-	**9 867**
Other movements	(2)	(3 366)	11 597	-	676	5 737	**14 642**
Foreign exchange differences from translation of foreign entities	-	-	-	-	(1)	-	**(1)**
Closing balance	**(341)**	**(10 756 599)**	**(12 008 192)**	**(116 238)**	**(655 060)**	**(282 910)**	**(23 819 340)**
NET CARRYING AMOUNT AT THE BEGINNING OF THE PERIOD	**125 465**	**14 175 166**	**8 368 349**	**168 616**	**332 082**	**6 236 989**	**29 406 667**
NET CARRYING AMOUNT AT THE END OF THE PERIOD	**140 213**	**14 723 907**	**8 289 106**	**148 763**	**302 899**	**7 494 183**	**31 099 071**
of which operating segments:							
Mining	**3 146**	**377 857**	**281 925**	**144 613**	**6 980**	**288 647**	**1 103 168**
Generation	**43 284**	**2 290 717**	**3 297 937**	**-**	**24 999**	**6 168 751**	**11 825 688**
Distribution	**76 924**	**11 558 666**	**4 590 377**	**-**	**252 469**	**1 002 867**	**17 481 303**
Other segments and other operations	**16 859**	**496 667**	**118 867**	**4 150**	**18 451**	**33 918**	**688 912**

(in PLN thousand)

For the year ended 31 December 2018 *(restated)*

	Land	Buildings, premises and civil engineering structures	Plant and machinery	Mine workings	Other	Assets under construction	Property, plant and equipment, total
COST							
Opening balance	**122 780**	**22 580 965**	**18 647 127**	**-**	**895 144**	**4 856 088**	**47 102 104**
Opening balance adjustments	**-**	**-**	**-**	**196 185**	**-**	**-**	**196 185**
Restated opening balance	**122 780**	**22 580 965**	**18 647 127**	**196 185**	**895 144**	**4 856 088**	**47 298 289**
Direct purchase	-	-	-	1 320	-	3 280 447	**3 281 767**
Borrowing costs	-	-	-	-	-	163 766	**163 766**
Transfer of assets under construction	4 012	1 235 535	691 115	-	92 894	(2 023 556)	**-**
Sale	(43)	(1 511)	(65 888)	-	(29 575)	-	**(97 017)**
Liquidation	(48)	(63 612)	(135 253)	(140 966)	(10 662)	(36)	**(350 577)**
Received free of charge	437	22 482	77	-	-	-	**22 996**
Transfers to/from assets held for sale	(987)	(2 204)	(7 650)	-	(2 087)	-	**(12 928)**
Overhaul expenses	-	-	-	-	-	65 920	**65 920**
Items generated internally	-	-	-	164 535	-	38 825	**203 360**
Cost of disassembly of wind farms and decommissioning of mines	-	5 093	106	-	-	-	5 199
Other movements	(282)	(1 686)	3 837	-	(2 388)	(4 963)	**(5 482)**
Foreign exchange differences from translation of foreign entities	-	-	9	-	14	-	**23**
Closing balance	**125 869**	**23 775 062**	**19 133 480**	**221 074**	**943 340**	**6 376 491**	**50 575 316**
ACCUMULATED DEPRECIATION							
Opening balance	**(407)**	**(8 553 035)**	**(9 866 322)**	**-**	**(565 315)**	**(37 139)**	**(19 022 218)**
Depreciation for the period	-	(804 815)	(742 385)	(117 158)	(81 249)	-	**(1 745 607)**
Increase of impairment	(16)	(705 630)	(1 150 860)	(76 266)	(8 628)	(102 383)	**(2 043 783)**
Decrease of impairment	19	406 718	795 176	-	1 397	20	**1 203 330**
Sale	-	1 038	62 855	-	28 699	-	**92 592**
Liquidation	-	54 121	130 336	140 966	10 607	-	**336 030**
Transfers to/from assets held for sale	-	1 479	7 215	-	1 699	-	**10 393**
Other movements	-	228	(1 140)	-	1 538	-	**626**
Foreign exchange differences from translation of foreign entities	-	-	(6)	-	(6)	-	**(12)**
Closing balance	**(404)**	**(9 599 896)**	**(10 765 131)**	**(52 458)**	**(611 258)**	**(139 502)**	**(21 168 649)**
NET CARRYING AMOUNT AT THE BEGINNING OF THE PERIOD	**122 373**	**14 027 930**	**8 780 805**	**-**	**329 829**	**4 818 949**	**28 079 886**
Opening balance adjustments	**-**	**-**	**-**	**196 185**	**-**	**-**	**196 185**
RESTATED NET CARRYING AMOUNT AT THE BEGINNING OF THE PERIOD	**122 373**	**14 027 930**	**8 780 805**	**196 185**	**329 829**	**4 818 949**	**28 276 071**
NET CARRYING AMOUNT AT THE END OF THE PERIOD	**125 465**	**14 175 166**	**8 368 349**	**168 616**	**332 082**	**6 236 989**	**29 406 667**
of which operating segments:							
Mining	**3 118**	**501 042**	**408 867**	**165 801**	**11 654**	**336 587**	**1 427 069**
Generation	**42 721**	**2 213 878**	**3 436 115**	**-**	**30 644**	**4 787 752**	**10 511 110**
Distribution	**62 766**	**10 998 046**	**4 413 973**	**-**	**272 365**	**1 070 256**	**16 817 406**
Other segments and other operations	**16 860**	**462 200**	**109 394**	**2 815**	**17 419**	**42 394**	**651 082**

In the year ended 31 December 2019, the Group acquired property, plant and equipment of PLN 3 436 312 thousand (including capitalized borrowing costs). The major purchases were made in connection with investments in the following operating segments:

Operating segment	Year ended 31 December 2019	Year ended 31 December 2018
Distribution	1 744 031	1 955 756
Generation	1 300 827	1 202 401
Mining	285 257	237 515

The average capitalization rate of the borrowing costs in the year ended 31 December 2019 was 3.28% versus 3.57% in the year ended 31 December 2018.

Key investment projects carried out by the Group in the financial year 2019 have been described in item1.5.1. Management Board's reports on the activities of TAURON Polska Energia S.A. and of the TAURON Polska Energia S.A. Capital Group for the financial year 2019.

Recognition and reversal of impairment losses on property, plant and equipment had the following impact on operating segment performance:

Year ended 31 December 2019

	Generation	Mining	Distribution	Total
Increase of impairment	(694 044)	(676 610)	(2 138)	**(1 372 792)**
Decrease of impairrment	85 468	-	3 867	**89 335**
Total impact on the profit (loss) for the period	**(608 576)**	**(676 610)**	**1 729**	**(1 283 457)**

(in PLN thousand)

Year ended 31 December 2018

	Generation	Mining	Distribution	Other	Total
Increase of impairment	(1 321 783)	(717 818)	(3 842)	(340)	(2 043 783)
Decrease of impairrment	1 203 095	-	235	-	1 203 330
Total impact on the profit (loss) for the period	**(118 688)**	**(717 818)**	**(3 607)**	**(340)**	**(840 453)**

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 asset 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.

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,
- any lease payments made at or before the inception of the lease, less any amount received 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 impairment losses and adjusted for the revaluation of the lease liability. Depreciation and/or amortization principles applied to right-of-use assets are consistent with those applied to depreciation and/or amortization 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.

PROFESSIONAL JUDGMENT AND ESTIMATES

At the date of commencement of the lease, the Group measures a rights-of-use asset, among others, 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 interest 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.

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

Year ended 31 December 2019

	Land	Perpetual usufruct right	Buildings, premises and civil engineering structures	Plant and machinery	Motor vehickles	Transmission easements	Right-of-use assets in progress	Right-of-use assets total
COST								
Opening balance	-	-	-	-	-	-	-	-
Impact of IFRS 16 *Leases*	393 110	1 071 236	166 028	28 978	3 739	96 489	12 931	**1 772 511**
Restated opening balance	**393 110**	**1 071 236**	**166 028**	**28 978**	**3 739**	**96 489**	**12 931**	**1 772 511**
Increase due to a new lease contract	40 384	9	4 478	36 674	2 569	360	-	**84 474**
Increase(decrease) due to lease changes	8 547	2 287	5 274	(863)	397	(12)	-	**15 630**
Business acquisition	34 931	-	1 199	-	-	33	-	**36 163**
Other movements	(1 109)	2 553	(555)	-	(134)	24 274	(6 675)	**18 354**
Closing balance	**475 863**	**1 076 085**	**176 424**	**64 789**	**6 571**	**121 144**	**6 256**	**1 927 132**
ACCUMULATED DEPRECIATION								
Opening balance	-	-	-	-	-	-	-	-
Impact of IFRS 16 *Leases*	-	(25 384)	-	-	-	(15 987)	-	**(41 371)**
Restated opening balance	**-**	**(25 384)**	**-**	**-**	**-**	**(15 987)**	**-**	**(41 371)**
Depreciation for the period	(20 229)	(32 435)	(15 334)	(17 828)	(2 112)	(5 111)	-	**(93 049)**
Increase of impairment	-	(3 080)	(48)	(16 885)	(124)	-	-	**(20 137)**
Decrease of impairment	-	460	-	-	-	-	-	**460**
Other movements	53	342	41	-	26	1	-	**463**
Closing balance	**(20 176)**	**(60 097)**	**(15 341)**	**(34 713)**	**(2 210)**	**(21 097)**	**-**	**(153 634)**
NET CARRYING AMOUNT AT THE BEGINNING OF THE PERIOD	-	-	-	-	-	-	-	-
NET CARRYING AMOUNT AT THE END OF THE PERIOD	**455 687**	**1 015 988**	**161 083**	**30 076**	**4 361**	**100 047**	**6 256**	**1 773 498**

The Group has decided to apply the modified retrospective approach and the practical expedients allowed by IFRS 16 *Leases*, i.e. with the cumulative effect of initially applying this standard recognized at 1 January 2019. The Group decided not to restate the comparative information, as permitted by the Standard.

(in PLN thousand)

21. Goodwill

SELECTED ACCOUNTING PRINCIPLES

Goodwill is carried at its initial amount (determined in line with the accounting policy presented in Note 6) less accumulated impairment losses. Goodwill is not amortized but it is tested for impairment on an annual basis or more frequently if any indications of impairment occur.

As at the acquisition date, goodwill acquired is allocated to each cash-generating unit that may derive benefits from synergy effects. An operating segment is the lowest level in the Group with attributable goodwill and with goodwill monitored for internal management purposes in the Group (except the Generation segment).

PROFESSIONAL JUDGMENT AND ESTIMATES

Goodwill is tested for impairment on an annual basis and as at each reporting period end, if appropriate indications occur. Impairment tests for goodwill are performed in line with the accounting principles presented in Note 10.

Operating segment	As at 31 December 2019	As at 31 December 2018
Distribution	25 602	25 602
Other activity	581	581
Total	**26 183**	**26 183**

22. Energy certificates and CO_2 emission allowances

SELECTED ACCOUNTING PRINCIPLES

Energy certificates and CO_2 emission allowances classified as intangible assets include:

- certificates of energy generated using renewable sources and cogeneration, as well as energy efficiency certificates acquired or received for surrendering purposes due to the sale of electricity to end buyers;
- CO_2 emission allowances received or acquired with the intention to fulfil the obligation resulting from emission of CO_2.

Energy certificates and CO_2 emission allowances are classified considering the Group's intention to use them as at the acquisition date (possible subsequent reclassification) as:

- current intangible assets - energy certificates and CO_2 emission allowances designated for internal purposes, where the Group has the intention to surrender them so as to fulfil the obligation for the current year;
- non-current intangible assets - energy certificates and CO_2 emission allowances designated for internal purposes, where they are intended to be used for purposes of the fulfilment of the surrendering obligation for the following years.

At initial recognition, the said assets are measured in accordance with the following principles:

	Acquired	Granted/Received free of charge	Release
Energy certificates	Acquisition cost	Fair value as at the receipt date	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 being redeemed. The principles applicable to the recognition of provisions relating to the energy certificate surrendering obligation and for liabilities arising from CO_2 emissions have been presented in Note 35.

22.1. Long-term energy certificates and CO_2 emission allowances

	Year ended 31 December 2019			Year ended 31 December 2018		
	Energy certificates	CO_2 emission allowances	Total	Energy certificates	CO_2 emission allowances	Total
Opening balance	**208 585**	**453 018**	**661 603**	**95 795**	**207 335**	**303 130**
Direct purchase	234 252	100 949	**335 201**	194 948	381 116	**576 064**
Reclassification	(136 616)	(391 991)	**(528 607)**	(82 158)	(135 433)	**(217 591)**
Closing balance	**306 221**	**161 976**	**468 197**	**208 585**	**453 018**	**661 603**

(in PLN thousand)

22.2. Short-term energy certificates and CO_2 emission allowances

	Year ended 31 December 2019			Year ended 31 December 2018		
	Energy certificates	CO_2 emission allowances	Total	Energy certificates	CO_2 emission allowances	Total
Opening balance	**90 267**	**111 396**	**201 663**	**327 324**	**324 936**	**652 260**
Direct purchase	379 664	300 484	**680 148**	327 991	476 145	**804 136**
Generated internally	143 644	-	**143 644**	86 531	-	**86 531**
Business acquisition	10 579	-	**10 579**	-	-	**-**
Cancellation	(165 802)	(113 646)	**(279 448)**	(733 256)	(825 118)	**(1 558 374)**
Reclassification	136 616	391 991	**528 607**	81 677	135 433	**217 110**
Closing balance	**594 968**	**690 225**	**1 285 193**	**90 267**	**111 396**	**201 663**

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

Balance of emission allowances	Year ended 31 December 2019	Year ended 31 December 2018
Allowances recorded at the beginning of the financial year	**11 469 679**	**24 649 436**
Allowances surrendered:		
in the installations of TAURON Wytwarzanie S.A. (previous year's emissions)	(1 172 702)	(14 656 752)
in the installations of TAURON Ciepło Sp. z o.o. (previous year's emissions)	(1 914 237)	(1 878 114)
in the installations of TAURON Wytwarzanie S.A. (current year's emissions)	-	(11 494 000)
Allocation of free-of-charge allowances	302 651	379 609
Allowances purchased on the secondary market	11 047 500	17 547 000
Allowances sold on the secondary market	(5 948 000)	(3 077 500)
Allowances recorded at the end of the financial year, *of which:*	**13 784 891**	**11 469 679**
Allowances intended for surrender for a given year:	(11 413 633)	(3 048 547)
in the installations of TAURON Wytwarzanie S.A.	(9 815 035)	(1 132 025)
in the installations of TAURON Ciepło Sp. z o.o.	(1 598 598)	(1 916 522)

In 2019 the TAURON Group companies received free-of-charge emission allowances pursuant to Article 10a of Directive of the European Parliament and the Council 2009/29/EC of 23 April 2009, in the amount of 302 651 EUA for heat production. The other allowances, necessary to balance the emission needs in 2019, were purchased and contracted for purchase on the secondary market.

In order to secure the liabilities of TAURON Polska Energia S.A. resulting from the transactions concluded by the Company on the Polish Power Exchange S.A. agreements on transfer of CO_2 emission allowances to the Warsaw Commodity Clearing House have been concluded, what is more detailed in note 51 hereto.

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 cost less accumulated amortization and impairment losses.

Other intangible assets, except those which have not been made available for use, are amortized over their estimated useful lives. Amortization is calculated by reference to the initial value less the residual value. Residual value is included in determining the basis for calculation of depreciation 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 JUDGMENT AND ESTIMATES

Impairment

As at each reporting period end, 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 10.

Amortization method and rate, as well as the residual value are verified at least at the end of each financial year. Any changes arising from the verification are recognized as changes in estimates, with adjustments to amortization charges (if any) effective as of the beginning of the reporting period when the verification was completed.

(in PLN thousand)

Useful lives

Average residual useful lives by other intangible asset group:

Asset group	Average remaining amortization period (number of years)
Software, concessions, patents, licenses and similar items	3 years
Other	7 years

Year ended 31 December 2019

	Development expenses	Perpetual usufruct right	Software, concessions, patents, licenses and similar items	Other intangible assets	Intangible assets not made available for use	Intangible assets, total
COST						
Opening balance	**6 403**	**774 682**	**776 434**	**271 336**	**85 486**	**1 914 341**
Impact of IFRS 16 *Leases*	-	(758 941)	-	(94 809)	(12 931)	(866 681)
Restated opening balance	**6 403**	**15 741**	**776 434**	**176 527**	**72 555**	**1 047 660**
Direct purchase	-	-	-	-	120 034	**120 034**
Transfer of intangible assets not made available for use	2 543	-	65 962	9 041	(77 546)	**-**
Sale/ Liquidation	-	-	(19 938)	(562)	(469)	**(20 969)**
Other movements	-	(136)	(391)	(1 039)	(321)	**(1 887)**
Foreign exchange differences from translation of foreign entities	-	-	2	-	-	**2**
Closing balance	**8 946**	**15 605**	**822 069**	**183 967**	**114 253**	**1 144 840**
ACCUMULATED AMORTIZATION						
Opening balance	**(5 744)**	**(25 387)**	**(493 665)**	**(101 835)**	**(7)**	**(626 638)**
Impact of IFRS 16 *Leases*	**-**	**25 387**	**-**	**15 987**	**-**	**41 374**
Restated opening balance	**(5 744)**	**-**	**(493 665)**	**(85 848)**	**(7)**	**(585 264)**
Amortization for the period	(349)	-	(87 833)	(12 403)	-	**(100 585)**
Increase of impairment	(157)	-	(1 000)	(59)	(23)	**(1 239)**
Decrease of impairment	-	-	30	-	-	**30**
Sale/ Liquidation	-	-	19 936	545	-	**20 481**
Foreign exchange differences from translation of foreign entities	-	-	(2)	-	-	**(2)**
Closing balance	**(6 250)**	**-**	**(562 534)**	**(97 765)**	**(30)**	**(666 579)**
NET CARRYING AMOUNT AT THE BEGINNING OF THE PERI(	**659**	**749 295**	**282 769**	**169 501**	**85 479**	**1 287 703**
NET CARRYING AMOUNT AT THE END OF THE PERIOD	**2 696**	**15 605**	**259 535**	**86 202**	**114 223**	**478 261**

Year ended 31 December 2018

	Development expenses	Perpetual usufruct right	Software, concessions, patents, licenses and similar items	Other intangible assets	Intangible assets not made available for use	Intangible assets, total
COST						
Opening balance	**6 403**	**773 287**	**644 480**	**236 548**	**148 502**	**1 809 220**
Direct purchase	-	3 926	-	-	119 121	**123 047**
Transfer of intangible assets not made available for use	-	1 341	154 045	32 545	(187 931)	**-**
Sale/ Liquidation	-	(863)	(22 363)	(1 102)	(4)	**(24 332)**
Other movements	-	(3 009)	242	3 345	5 798	**6 376**
Foreign exchange differences from translation of foreign entities	-	-	30	-	-	**30**
Closing balance	**6 403**	**774 682**	**776 434**	**271 336**	**85 486**	**1 914 341**
ACCUMULATED AMORTIZATION						
Opening balance	**(5 265)**	**(25 371)**	**(439 639)**	**(84 861)**	**(7)**	**(555 143)**
Amortization for the period	(257)	-	(75 408)	(17 669)	-	**(93 334)**
Increase of impairment	(375)	(43)	(1 313)	(121)	(58)	**(1 910)**
Decrease of impairment	153	27	331	21	58	**590**
Sale/Liquidation	-	-	22 361	795	-	**23 156**
Other movements	-	-	32	-	-	**32**
Foreign exchange differences from translation of foreign entities	-	-	(29)	-	-	**(29)**
Closing balance	**(5 744)**	**(25 387)**	**(493 665)**	**(101 835)**	**(7)**	**(626 638)**
NET CARRYING AMOUNT AT THE BEGINNING OF THE PERI(	**1 138**	**747 916**	**204 841**	**151 687**	**148 495**	**1 254 077**
NET CARRYING AMOUNT AT THE END OF THE PERIOD	**659**	**749 295**	**282 769**	**169 501**	**85 479**	**1 287 703**

(in PLN thousand)

The Group has decided to apply the modified retrospective approach and the practical expedients allowed by IFRS 16 *Leases*, i.e. with the cumulative effect of initially applying this Standard recognized at the date of 1 January 2019. The Group decided not to restate the comparative information, as permitted by the Standard. Therefore, the perpetual usufruct of land and easements in 2018 are classified as other intangible assets. As at 1 January 2019, the Group reclassified rights of perpetual usufruct of land, other intangible assets (easements) and expenditures on other intangible assets (easements) not put to use, whose total value as at 1 January 2019 amounts to PLN 825 307 thousand, within the scope of IFRS 16 *Leases* from other intangible assets to right-of-use assets.

Under other intangible assets, the Group presents rights of perpetual usufruct of land in the amount of PLN 15 605 thousand, which refer to the limestone mine belonging to the subsidiary, excluded from IFRS 16 *Leases.*

24. Investments in joint ventures

SELECTED ACCOUNTING PRINCIPLES

Joint arrangements of the Group classified as joint ventures are recognized 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 (recognized in profit or loss or in other comprehensive income of the Group, as appropriate).

PROFESSIONAL JUDGMENT AND ESTIMATES

The Group determines the type of a joint arrangement it is a party to depending on contractual rights and obligations. 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 if indications of impairment or reversal of impairment losses recognized before are identified.

	As at 31 December 2019 and for the year ended 31 December 2019			As at 31 December 2018 and for the year ended 31 December 2018 *(restated figures)*		
	Elektrociepłownia Stalowa Wola S.A.	TAMEH HOLDING Sp. z o.o. *	As at 31 December 2019	Elektrociepłownia Stalowa Wola S.A. *(restated figures)*	TAMEH HOLDING Sp. z o.o. *	As at 31 December 2018 *(restated figures)*
Non-current assets	1 623 476	2 186 422	**3 809 898**	1 362 534	2 027 410	**3 389 944**
Current assets, *including:*	136 404	644 722	**781 126**	11 625	775 825	**787 450**
cash and cash equivalents	*90 830*	*284 503*	***375 333***	*3 376*	*336 462*	***339 838***
Non-current liabilities (-) *including:*	(1 719 704)	(922 262)	**(2 641 966)**	(1 399 226)	(849 842)	**(2 249 068)**
debt	*(1 716 142)*	*(827 878)*	***(2 544 020)***	*(1 343 897)*	*(768 011)*	***(2 111 908)***
Current liabilities (-) *including:*	(519 395)	(709 111)	**(1 228 506)**	(416 860)	(783 951)	**(1 200 811)**
debt	*(34 961)*	*(184 095)*	***(219 056)***	*(6 437)*	*(122 628)*	***(129 065)***
Total net assets	(479 219)	1 199 771	**720 552**	(441 927)	1 169 442	**727 515**
Share in net assets	(239 610)	599 886	**360 276**	(220 964)	584 721	**363 757**
Investment in joint ventures	**-**	**559 144**	**559 144**	**-**	**543 913**	**543 913**
Share in revenue of joint ventures	425	959 938	**960 363**	86	861 206	**861 292**
Share in profit/(loss) of joint ventures	**-**	**47 947**	**47 947**	**-**	**54 890**	**54 890**
Share in other comprehensive income of joint ventures	**-**	**(987)**	**(987)**	**-**	**(71)**	**(71)**

** The data presented concern the TAMEH HOLDING Sp. z o.o. 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 on the initiative of TAURON Polska Energia S.A. and PGNiG S.A. The entity was registered to carry out an investment project, i.e. construction of a gas and steam unit fuelled with natural gas in Stalowa Wola with the gross maximum electrical capacity of 450 MWe and the net heat capability of 240 MWt.

TAURON Polska Energia S.A. indirectly holds 50% interest in the company's issued capital and in its 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 recognize its share of any further losses of the joint venture.

In addition, the Company has receivables arising from loans granted to Elektrociepłownia Stalowa Wola S.A. with the carrying amount of PLN 243 034 thousand, which has been discussed in more detail in Note 25 to these consolidated financial statements.

Judgment of the Court of Arbitration at the Polish Chamber of Commerce on the claims of Abener Energia S.A. against Elektrociepłownia Stalowa Wola S.A.

On 25 April 2019, a judgement of the Court of Arbitration at the Polish Chamber of Commerce in Warsaw 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 the TAURON Group, in which the Company holds, indirectly through its subsidiary TAURON Wytwarzanie S.A., 50% of shares in the issued capital.

The case pending at the Court of Arbitration concerned a 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 gas and steam unit in Stalowa Wola. Under the judgement of the Court of Arbitration, ECSW was obligated to pay to Abener the amount of PLN 333 793 thousand along with statutory interest for delay and costs of the arbitration proceedings. On 24 June 2019, ECSW filed a complaint with the Court of Appeal in Rzeszów against the judgement. The proceedings of complaint is pending.

On 15 July 2019, the ECSW received a request from Abener addressed to the Court of Appeal in Rzeszów to declare the judgement enforceable. By order of 5 August 2019, the Court of Appeal in Rzeszów postponed consideration of the case from the application for a declaration of enforceability until the end of the proceedings on the complaint.

On 20 December 2019, ECSW received a new case filed by Abener with the Court of Arbitration. The subject matter of the claim is the payment by the ECSW to Abener of the total amount of PLN 156 447 thousand and EUR 537 thousand together with statutory interest for delay on account of damages resulting from demanding and obtaining by the ECSW, at Abener's expense, payment from the performance bond or, alternatively, reimbursement of unjustified enrichment obtained by the ECSW at Abener's expense in connection with obtaining payment from the performance bond. The guarantee was granted to ECSW by Abener in accordance with the contract concluded between the parties for the construction of the CCGT unit in Stalowa Wola. The respond to it was filed by ECSW on 20 March 2020. Assessment of the claims and the grounds on which they are based indicates that they are unfounded. The arbitration case is pending.

On 30 December 2019, ECSW submitted a call for arbitration for Abener to pay the amount of PLN 177 853 thousand and EUR 461 thousand, plus interest, as compensation for the damage corresponding to the costs of rectifying defects, faults and inadequate works, supplies and services improperly performed by Abener under the contract for the construction of the CCGT unit in Stalowa Wola. The case is pending.

In connection with the above judgement Elektrociepłownia Stalowa Wola S.A. recognized in the statement of financial position for 2018 a provision in the amount of PLN 397 965 thousand, which reduced the share in net assets attributable to the TAURON Group. The Group presented comparable data on investments in joint ventures as at 31 December 2018, taking into account the impact of the above provision.

The CCGT unit construction contract concluded between ECSW and Abener does not contain any regulations obliging the Company to pay remuneration to Abener in any form for ECSW.

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 related to the industrial power sector. The duration of the agreement is 15 years and may be extended. Each capital group holds 50% of shares in TAMEH HOLDING Sp. z o.o.

TAMEH HOLDING Sp. z o.o. holds 100% of shares in TAMEH POLSKA Sp. z o.o., incorporated by the following entities contributed by the TAURON Group: Zakład Wytwarzania Nowa and Elektrownia Blachownia along with Kraków Heat and Power Plant contributed by the ArcelorMittal Group. Moreover, TAMEH HOLDING Sp. z o.o. holds 100% of shares in TAMEH Czech s.r.o., based on the Ostrava Heat and Power Plant..

On 28 June 2019, the General Shareholders' Meeting of TAMEH Holding Sp. z o.o. decided to allocate PLN 64 356 thousand to pay dividends to the shareholders. The Group's interest in the joint venture TAMEH Holding Sp. z o.o. was reduced by the value of the dividend payable to the Group in the amount of PLN 32 178 thousand.

(in PLN thousand)

25. Loans granted to joint ventures

SELECTED ACCOUNTING PRINCIPLES

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

PROFESSIONAL JUDGMENT AND ESTIMATES

Pursuant to IFRS 9 *Financial Instruments*, the Group classifies and measures loans, estimating allowances for expected credit losses for items classified as assets measured at amortized cost.

As at the reporting period end, the loan granted under a debt consolidation agreement of 28 February 2018 was classified as a financial asset measured at fair value through profit or loss, since its cash flows are not limited to principal and interest repayment. Fair value was estimated accordingly. The fair value calculation methodology is presented in Note 47 hereto.

Other loans are measured at amortized cost, with expected credit losses estimated as at each reporting period end. Calculation methodology and amounts of expected credit losses are presented below in Notes 48.1.4 hereto.

	Agreement date	Loan amount	As at 31 December 2019			As at 31 December 2018			Maturity date	Interest rate
			Gross value	Impairment allowance	Total	Gross value	Impairment allowance	Total		
Loans measured at fair value										
Debt consolidation agreement	28.02.2018	609 951	216 018		**216 018**	199 256		**199 256**	30.06.2033	fixed
Loans measured at amortized cost										
VAT loan	11.04.2018	15 000	5 109	(110)	**4 999**	2 655	(68)	**2 587**	30.09.2020	WIBOR 1M+mark-up
Other loans	30.03.2018	7 290	7 955	(218)	**7 737**	7 400	(182)	**7 218**	30.06.2033	fixed
	19.12.2018	9 500	9 197	(252)	**8 945**	8 556	(210)	**8 346**		
	12.03.2019	5 175	5 485	(150)	**5 335**	-	-	**-**		
Total			**243 764**	**(730)**	**243 034**	**217 867**	**(460)**	**217 407**		
Non-current			238 655	(620)	**238 035**	217 862	(460)	**217 402**		
Current			5 109	(110)	**4 999**	5	-	**5**		

The above loans regard the loans granted to a joint venture Elektrociepłownia Stalowa Wola S.A. The most significant item is the agreement consolidating the borrower's debt of 28 February 2018 for the total amount of PLN 609 951 thousand, under which all existing liabilities of Elektrociepłownia Stalowa Wola S.A. towards the Company resulting from loans granted and not repaid by 28 February 2018 were renewed. As at the balance sheet date, the par value of the loan, constituting subordinated debt owed to the Company, was PLN 310 851 thousand. The principal of PLN 299 100 thousand was repaid on 30 April 2018. The debt in question is subordinated debt, measured as at the balance sheet date at the fair value of PLN 216 018 thousand.

26. Other financial assets

SELECTED ACCOUNTING PRINCIPLES

Other financial assets include e.g. shares, units in investment funds, bid bonds, deposits and collateral, derivatives and loans to unrelated entities.

Upon initial recognition, financial assets are classified to an appropriate class and measured accordingly. Financial assets classification and measurement principles under IFRS 9 *Financial Instruments* are presented in Note 47 hereto.

PROFESSIONAL JUDGMENT AND ESTIMATES

To measure financial assets at fair value, the Group must estimate their fair value at each reporting period end. The fair value calculation methodology is presented in Note 44 hereto.

To measure financial assets at amortized cost, the Group must estimate expected credit losses as at each reporting period end. Expected credit losses estimating methodology and amounts of expected credit losses for loans granted are presented in Note 48.1.4 hereto.

(in PLN thousand)

	As at 31 December 2019	As at 31 December 2018
Receivables due to financial compensation for traiding companies	151 114	-
Initial and variation margin deposits arising from stock exchange transactior	209 466	163 495
Derivative instruments	105 529	220 343
Shares	140 508	138 492
Bid bonds, deposits and collateral transferred	131 192	89 498
Deposits and term deposits for Mining Decommissioning Fund	50 228	47 126
Investment fund units	26 622	26 063
Loans granted	12 451	10 145
Other	7 447	2 548
Total	**834 557**	**697 710**
Non-current	235 522	254 677
Current	599 035	443 033

The receivables on account of compensation for trading companies relate to receivables on account of Financial Compensation for the fourth quarter of 2019, which is discussed in more detail in Note 12 hereto.

Initial and variation margins on account of exchange settlements is mainly related to futures transactions on the CO_2 emission allowances concluded on foreign exchange markets.

The asset resulting from a positive valuation of derivatives relates mainly to forward instruments on account of transactions for which the underlying commodity is CO_2 emission allowances.

Collaterals, deposits and transferred collaterals concern mainly the collaterals transferred within the framework of the clearing guarantee system with the Warsaw Commodity Clearing House. As at 31 December 2019 the collateral amounted to PLN 82 607 thousand and as at 31 December 2018 to PLN 44 538 thousand.

As at 31 December 2019 the shares held by the Group are mainly shares in the following entities:

- SCE Jaworzno III Sp. z o.o., in the amount of PLN 30 386 thousand;
- Przedsiębiorstwo Energetyki Cieplnej Sp. z o.o., in the amount of PLN 23 801 thousand;
- PGE EJ 1 Sp. z o.o., in the amount of PLN 14 402 thousand;
- Energetyka Cieszyńska Sp. z o.o., in the amount of PLN 13 773 thousand;
- ElectroMobility Poland S.A., in the amount of PLN 11 847 thousand;
- ECC Magenta Sp. z o.o. 2 ASI SKA, in the amount of PLN 10 950 thousand;

27. 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. Costs of acquiring new contracts are capitalized if the Group expects them to be refunded. Such costs 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 when the goods are transferred or services provided. If the costs are related to more than one contract, depreciation should include both current and projected contracts.

27.1. Other non-current non-financial assets

	As at 31 December 2019	As at 31 December 2018 *(restated figures)*
Prepayments for assets under construction and intangible assets *including:*	79 296	101 755
related to project realization: Construction of 910 MW Power Unit in Jaworzno	*74 774*	*98 114*
Prepayments for debt charges	10 767	14 307
Contract acquisition costs and costs of discounts	3 365	9 641
Other prepayments	58 860	42 348
Total	**152 288**	**168 051**

(in PLN thousand)

27.2. Other current non-financial assets

	As at 31 December 2019	As at 31 December 2018 *(restated figures)*
Costs settled over time	**87 416**	**50 421**
IT, telecom and postal services	24 449	21 062
Property and tort insurance	45 222	8 012
Contract acquisition costs and costs of discounts	8 399	7 632
Prepayments for debt charges	3 796	3 414
Other prepayments	5 550	10 301
Other current non-financial assets	**12 859**	**5 208**
Advance payments for deliveries	3 521	3 218
Other current assets	9 338	1 990
Total	**100 275**	**55 629**

Social Benefit Fund

The Group entities offset the Fund assets with their liabilities to the Fund as the assets are not classified as separate assets of the Group. As at 31 December 2019, the surplus of assets over liabilities to the Social Benefits Fund was PLN 825 thousand (presented in the following table under other current assets). Presented below is an analysis of the fund.

	As at 31 December 2019	As at 31 December 2018
Loans granted to employees	25 251	28 181
Cash	20 861	17 364
Other Fund assets and liabilities	(3 511)	(3 209)
Social Fund liabilities	(41 776)	(42 333)
Net balance	**825**	**3**
Transfers made to the Social Fund during the period	(59 217)	(55 101)

28. Inventories

SELECTED ACCOUNTING PRINCIPLES

Inventories are measured at the lower of cost and net realizable value. CO_2 emission allowances purchased for resale and generation of profit in the short term due to volatility of market prices are measured at fair value at the end of each reporting period.

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 include mainly the inventory of fuels.

PROFESSIONAL JUDGMENT AND ESTIMATES

Measurement of inventories requires estimation of net realizable value. Net realizable value is the difference between the estimated sale price in the ordinary course of business and the estimated costs of completion with the estimated costs necessary to make the sale. Fair value measurement of the CO_2 emission allowances held as described above is based on prices quoted on active markets.

(in PLN thousand)

	As at 31 December 2018	As at 31 December 2017
Gross value		
Coal, of which:	557 472	377 119
Raw materials	*253 514*	*188 876*
Semi-finished goods and work-in-progress	*295 471*	*184 833*
CO_2 emission allowances	-	2 762
Other inventories	137 906	138 920
Total	**695 378**	**518 801**
Measurement to fair value		
CO_2 emission allowances	-	46
Measurement to net realisable value		
Other inventories	(11 226)	(9 046)
Total	**(11 226)**	**(9 000)**
Fair value		
CO_2 emission allowances	-	2 808
Net realisable value		
Coal, of which:	557 472	377 119
Raw materials	*253 514*	*188 876*
Semi-finished goods and work-in-progress	*295 471*	*184 833*
Other inventories	126 680	129 874
Total	**684 152**	**509 801**

29. Receivables from buyers

SELECTED ACCOUNTING PRINCIPLES

Receivables from buyers include amounts due which have been billed and those which have been recognized on account of revenue but have not been measured and billed due to the buyer settlement system used. The accounting policy applicable to accrued revenue has been presented in Note 11.

Receivables from buyers are measured at the originally billed amounts (including the effect of discounting, if material), less allowances/write-downs.

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

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

Amounts receivable from buyers are divided into the portfolios of strategic and other counterparties.

For the portfolio of strategic counterparties, the risk of insolvency on the part 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 have been estimated through an analysis of ageing of receivables and percentage ratios assigned to individual ranges and groups (such as receivables claimed at court, receivables from counterparties in bankruptcy) which help estimate the value of receivables from buyers which are not expected to be paid.

In order to consider future factors, the Company adjusts the historical probability of default using the probability level implied by quotings of annual Credit Default Swap (CDS) instruments for each rating.

Impairment of receivables is recognized in classes of expenses corresponding to each asset's function, i.e. as operating or financial expenses, depending on the related type of amount receivable.

PROFESSIONAL JUDGMENT AND ESTIMATES

Under IFRS 9 *Financial Instruments*, the Group estimates impairment losses on receivables from buyers attributable to expected credit losses. The allowance calculation methodology is presented above.

(in PLN thousand)

	As at 31 December 2019	As at 31 December 2018
Value of items before allowance/write-down		
Receivables from buyers	1 616 813	1 586 686
Receivables from buyers – additional assessment of revenue from sales of electricity and distribution services	689 395	657 352
Receivables claimed at court	213 900	207 121
Total	**2 520 108**	**2 451 159**
Allowance/write-down		
Receivables from buyers	(39 655)	(38 833)
Receivables claimed at court	(189 707)	(182 926)
Total	**(229 362)**	**(221 759)**
Value of item net of allowance (carrying amount)		
Receivables from buyers	1 577 158	1 547 853
Receivables from buyers – additional assessment of revenue from sales of electricity and distribution services	689 395	657 352
Receivables claimed at court	24 193	24 195
Total, *of which:*	**2 290 746**	**2 229 400**
Current	2 290 746	2 229 363

According to the described above model the Group estimates allowances for expected credit losses.

Aging of receivables from buyers as at 31 December 2019

	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	2 039 689	216 273	33 588	18 031	31 981	180 546	**2 520 108**
Percentage of allowance/write-down	0%	3%	31%	85%	98%	87%	-
Allowance/write-down	(9 541)	(6 252)	(10 534)	(15 329)	(31 356)	(156 350)	**(229 362)**
Net Value	**2 030 148**	**210 021**	**23 054**	**2 702**	**625**	**24 196**	**2 290 746**

Aging of receivables from buyers as at 31 December 2018

	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	2 016 850	174 830	34 120	17 093	24 989	183 277	**2 451 159**
Percentage of allowance/write-down	1%	3%	24%	76%	94%	87%	-
Allowance/write-down	(12 292)	(5 008)	(8 255)	(12 980)	(23 564)	(159 660)	**(221 759)**
Net Value	**2 004 558**	**169 822**	**25 865**	**4 113**	**1 425**	**23 617**	**2 229 400**

As at the end of the reporting period, the Group did not have any material non-collectible items not covered with an allowance.

Impairment allowances on receivables from buyers

	Year ended 31 December 2019	Year ended 31 December 2018
Opening balance	**(221 759)**	**(193 367)**
Effects of implementing IFRS 9	-	(31 471)
Restated opening balance	**(221 759)**	**(224 838)**
Recognised	(13 931)	(3 815)
Utilized	5 101	2 553
Reversed	1 221	2 539
Other movements	6	1 802
Closing balance	**(229 362)**	**(221 759)**

30. Income tax receivables

Income tax receivables of PLN 255 702 thousand include mostly receivables of the Tax Capital Group in the amount of PLN 255 459 thousand. The amount due relates entirely to 2019 and constitutes a surplus of advance income tax payments of PLN 442 514 thousand over the tax charge of the Tax Capital Group in the amount of PLN 187 055 thousand.

The articles of association of the Tax Capital Group for the years 2018–2020 were registered on 30 October 2017. Pursuant to the previous agreement, TGC was registered for the period of three fiscal years from 2015 to 2017.

(in PLN thousand)

Since 1 January 2018 the Tax Capital Group has comprised the following companies: TAURON Polska Energia S.A., TAURON Wytwarzanie S.A., TAURON Dystrybucja S.A., TAURON Ciepło Sp. z o.o., 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., TAURON Wydobycie S.A. and Kopalnia Wapienia Czatkowice Sp. z o.o.

31. Receivables arising from other taxes and charges

SELECTED ACCOUNTING PRINCIPLES

Settlements due to other taxes and charges presented in the statement of financial position comprise:
- VAT and excise duty settlements;
- PIT and social insurance;
- Environmental fees and other regulatory settlements.

	As at 31 December 2019	As at 31 December 2018
VAT receivables	362 745	165 310
Excise duty receivables	10 974	39 764
Other	10 995	4 672
Total	**384 714**	**209 746**

The increase in VAT amounts due relates mainly to companies in the Generation segment and results from the following:

- amendments to the rules on taxation of the acquisition of CO2 emission allowances. Under the amended regulations, as of November 2019, the purchase of CO_2 emission allowances was subject to a 23% VAT rate, which resulted in an increase in the tax payable in manufacturing companies,
- increased investment purchases and fuel purchases in connection with the test start-up of the 910 MW unit.

32. Cash and cash equivalents

SELECTED ACCOUNTING PRINCIPLES

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

Cash is recognized at face value. At the end of the reporting period, the face value of cash deposited in bank accounts includes also accrued bank interest or interest calculated by the entity itself.

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 in debt liabilities.

	As at 31 December 2019	As at 31 December 2018
Cash at bank and in hand	1 231 112	602 592
Short-term deposits (up to 3 months)	4 898	178 132
Other	1 942	43 000
Total cash and cash equivalents presented in the statement of financial position, *of which*:	**1 237 952**	**823 724**
restricted cash, *including:*	729 450	231 987
collateral of settlements with Izba Rozliczeniowa Giełd Towarowych S.A.	*599 059*	*84 431*
bank accounts related to subsidies received	*71 606*	*80 060*
cash on VAT bank accounts (split payment)	*58 428*	*67 149*
Bank overdraft	(23 339)	(767)
Cash pool	(10 973)	(14 690)
Foreign exchange	(39)	(295)
Total cash and cash equivalents presented in the statement of cash flows	**1 203 601**	**807 972**

The difference between the balance of cash presented in the statement of financial position and the one 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 currency accounts.

(in PLN thousand)

33. Equity

SELECTED ACCOUNTING PRINCIPLES

Issued capital

Issued capital is recognized at the amount determined in the articles of association of the Parent and recorded in the court register.

Reserve capital

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

Revaluation reserve from valuation of hedging instruments

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

Exchange differences from translation of a foreign entities

Individual items of the financial statements of foreign operations (TAURON Czech Energy s.r.o. and TAURON Sweden Energy AB (publ) - until the date of acquasition by the Company Finanse Grupa TAURON Sp. z o.o) have been translated to the presentation currency in the following manner:

- 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 reporting period;
- 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;

Exchange differences from translation have been recognized in other comprehensive income.

Retained earnings / (accumulated losses)

Retained earnings / (accumulated losses) include:

- prior years' retained earnings/uncovered losses;
- reserve and supplementary capital of subsidiaries that occurred after the control assuming date;
- acquisition/business combination of entities being under common control, accounted for using the pooling of interests method;
- actuarial gains and losses regarding provisions for post-employment benefits recognized 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 deemed cost at the date of adoption of IFRS or application of exemptions from IFRS 1 *Adoption of International Financial Reporting Standards* for the first time.

Non-controlling interest

Non-controlling interests are 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.

33.1. Issued capital

Issued capital as at 31 December 2019

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	7 947 194	cash/in-kind contribution
BB	registered shares	163 110 632	5	815 553	in-kind contribution
	Total	**1 752 549 394**		**8 762 747**	

Shareholding structure as at 31 December 2019 ***(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	2 634 242	30.06%	30.06%
KGHM Polska Miedź S.A.	182 110 566	910 553	10.39%	10.39%
Nationale - Nederlanden Otwarty Fundusz Emerytalny	88 742 929	443 715	5.06%	5.06%
Other shareholders	954 847 515	4 774 237	54.49%	54.49%
Total	**1 752 549 394**	**8 762 747**	**100%**	**100%**

(in PLN thousand)

As at 31 December 2019, the value of issued capital, the number of shares, the nominal value of shares and the shareholding structure, to the best of the Company's knowledge, had not changed since 31 December 2018.

33.2. 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 Shareholders' Meeting of the Company. The limitation mentioned above 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 entitling to not less than 25% of the total votes in the Company.

Detailed information regarding the voting right limitations is presented in Note 9.6. Management Board's reports on the activities of TAURON Polska Energia S.A. and of the TAURON Polska Energia S.A. Capital Group for the financial year 2019.

33.3. Reserve capital

On 8 May 2019, the Ordinary General Meeting of Shareholders of the Company adopted a resolution on covering the Company's net loss for the financial year 2018 in the amount of PLN 1 709 853 thousand from the Company's reserve capital.

33.4. Retained earnings and accumulated losses and restrictions on dividend payment

Prior year profit/loss arising from settlement of business combinations with subsidiaries and actuarial gains and losses related to provisions for post-employment benefits recognized through other comprehensive income are not distributable.

As at 31 December 2019 and as at the date of approving these consolidated financial statements for publication no other dividend restriction occurred.

33.5. Revaluation reserve from valuation of hedging instruments

	Year ended 31 December 2019	Year ended 31 December 2018
Opening balance	**3 371**	**23 051**
Remeasurement of hedging instruments	15 074	(24 290)
Remeasurement of hedging instruments charged to profit or loss	105	(7)
Deferred income tax	(2 884)	4 617
Closing balance	**15 666**	**3 371**

The revaluation reserve from valuation of hedging instruments results from valuation of Interest Rate Swaps (IRS) hedging the interest rate risk arising from debt, which has been discussed in more detail in Note 47.3 hereto.

As at 31 December 2019 the Company recognized PLN 15 666 thousand of revaluation reserve from valuation of hedging instruments. It represents an asset arising from valuation of interest rate swaps (IRS) as at the end of the reporting period, totaling PLN 19 462 thousand, adjusted by a portion of valuation relating to interest accrued on debt as at the end of the reporting period, including deferred tax.

33.6. Non-controlling interest

	Year ended 31 December 2019	Year ended 31 December 2018
Opening balance	**132 657**	**31 367**
Effects of implementing IFRS 9 and IFRS 15	-	397
Restated opening balance	**132 657**	**31 764**
Shareholder contributions related to the assumption of shares	771 157	100 000
Share in subsidiaries' net profit or loss	(775)	2 165
Dividends for non-controlling interests	(1 932)	(879)
Acquisition of non-controlling interests by the Group and mandatory squeeze-out	(442)	(353)
Share in actuarial gains/(losses) related to provisions for post-employment benefits	(231)	(40)
Closing balance	**900 434**	**132 657**

During the year ended 31 December 2019 the value of non-controlling interests increased as a result of the acquisition by Fundusz Inwestycji Infrastrukturalnych - Kapitałowy Fundusz Inwestycyjny Zamknięty Aktywów Niepublicznych and PFR Inwestycje Fundusz Inwestycji Zamkniętych of shares in the increased issued capital of the subsidiary Nowe Jaworzno Grupa TAURON Sp. z o.o. for the total amount of PLN 780 000 thousand, which is described in detail in Note

(in PLN thousand)

2.2 hereto. Condensed financial information of the subsidiary Nowe Jaworzno Grupa TAURON Sp. z o.o. is presented in the table below:

	Year ended 31 December 2019	Year ended 31 December 2018
Total assets	6 219 329	4 944 164
Total liabilities	525 173	257 198
Net loss	(22 670)	(11 655)
Net increase in cash and cash equivalents	149 993	207 584

34. Dividends paid

	Year ended 31 December 2019	Year ended 31 December 2018
Dividends paid by subsidiaries	(1 932)	(817)

In the year ended 31 December 2019 and in the year ended 31 December 2018 the Parent did not pay dividends.

35. Debt

SELECTED ACCOUNTING PRINCIPLES

Debt comprises bank loans, borrowings, debt securities and lease liabilities.

- Bank loans, borrowings, bonds issued

Initially, bank loans, borrowings, bonds issued are measured at fair value less transaction costs and discounts or premiums. After initial recognition it is measured at amortized cost using the effective interest method.

- Leases

An agreement or part of a lease agreement, or other agreement or part of an agreement of a similar nature, under which the right to control the use of an asset (an 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 at the lease interest rate specified in the agreement (if determinable) or the marginal interest rate. Lease payments included in the valuation of the lease liability include:

- fixed lease payments less any applicable lease incentives,

- variable lease payments that depend on an index or rate, valued initially using that index or rate at their starting date,

- the amounts expected to be paid by the lessee under the underlying asset's residual value guarantee,

- the exercise price of the call option, if it can be assumed that the lessee will exercise it,

- fines for termination of the lease.

PROFESSIONAL JUDGMENT AND ESTIMATES

When measuring liabilities at amortized 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 the maximum term of individual credit tranches up to 1 year, where 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 marginal interest rate of lease is estimated as a weighted average cost of TAURON Group's debt adjusted for the individual rating of the companies taking into account the division into lease periods.

	As at 31 December 2019	As at 31 December 2018
Loans and borrowings	7 050 651	886 285
Bonds issued	6 257 022	10 077 067
Lease	1 006 603	25
Total	**14 314 276**	**10 963 377**
Non-current	11 830 183	8 488 210
Current	2 484 093	2 475 167

(in PLN thousand)

35.1. Loans and borrowings

Loans and borrowings taken out as at 31 December 2019

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	6 313 602	6 313 602	1 617 085	503 014	4 135	3 191 792	99 806	897 770
	fixed	690 834	690 834	34 590	122 114	156 704	108 082	196 712	72 632
Total PLN		**7 004 436**	**7 004 436**	**1 651 675**	**625 128**	**160 839**	**3 299 874**	**296 518**	**970 402**
EUR	floating	**5 304**	**22 585**	**22 585**	**-**	**-**	**-**	**-**	**-**
Total EUR		**5 304**	**22 585**	**22 585**	**-**	**-**	**-**	**-**	**-**
USD	floating	198	754	754	-	-	-	-	-
Total USD		**198**	**754**	**754**	**-**	**-**	**-**	**-**	**-**
Total			**7 027 775**	**1 675 014**	**625 128**	**160 839**	**3 299 874**	**296 518**	**970 402**
Interest increasing carrying amount			22 876						
Total			**7 050 651**						

Loans and borrowings taken out as at 31 December 2018

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	34 832	34 832	19 159	3 183	4 243	4 135	4 112	-
	fixed	845 983	845 983	53 557	102 298	140 678	140 678	233 495	175 277
Total PLN		**880 815**	**880 815**	**72 716**	**105 481**	**144 921**	**144 813**	**237 607**	**175 277**
USD	floating	204	767	767	-	-	-	-	-
Total USD		**204**	**767**	**767**	**-**	**-**	**-**	**-**	**-**
Total			**881 582**	**73 483**	**105 481**	**144 921**	**144 813**	**237 607**	**175 277**
Interest increasing carrying amount			4 703						
Total			**886 285**						

The major liabilities due to loans and borrowings have been presented in the table below:

Loans/ borrowings	Borrowing institution	Purpose	Interest rate	Maturity date	As at 31 December 2019	As at 31 December 2018
Loans	Consortium of banks	Redemption of bonds, investment expenditures and general expenses of the Group	Floating	28.06.2020 *	1 839 159	-
				02.09.2020 *	151 376	-
				10.09.2020 *	302 555	-
				01.10.2020 *	604 070	-
				14.10.2020 *	301 714	-
				31.01.2020	502 358	-
				30.04.2020	502 330	-
				28.02.2020	501 195	-
				13.01.2020	600 868	-
Loans	Bank Gospodarstwa Krajowego	Group's capital expenditures and refinancing of a portion of debt	Floating	20.12.2033	998 458	-
Loans	European Investment Bank	Construction of a boiler fired with biomass at Jaworzno III Power Plant and renovation of a steam turbine	Fixed	15.12.2021	40 047	59 116
		Construction and start-up of a co-generation unit at EC Bielsko Biała	Fixed	15.12.2021	57 294	84 613
		Modernization and extension of power grid	Fixed	15.06.2024	175 298	212 219
			Fixed	15.09.2024	89 820	107 353
			Fixed	15.09.2024	112 661	134 738
		Modernization and extension of power grid and improvement of hydropower plants	Fixed	15.03.2027	219 415	252 637
Overdraft facility	Bank Gospodarstwa Krajowego	financing of CO_2 emission allowance, electricity and gas transactions on EU stock exchanges	Floating	31.12.2020	20 456	-
Borrowings	Regional Fund for Environmental Protection and Water Management	Construction of renewable power unit at Jaworzno III Power Plant	Floating	15.12.2022	12 000	16 000
Other loans and borrowings					19 577	19 609
Total					**7 050 651**	**886 285**

* *Tranche classified as a long-term liability*

(in PLN thousand)

Pursuant to the provisions of the loan agreement of 19 June 2019 concluded with the bank consortium, the maximum period for drawing individual credit tranches is 12 months. However, the financing available under the agreement is renewable and the deadline for its availability is end 2022. Some of the tranches contracted as at 31 December 2019 have a 12-month maturity, falling in 2020. Due to the intention and ability to maintain financing under the said agreement for a period exceeding 12 months from the balance sheet date with respect to credit tranches with a 12-month repayment term, this liability is presented as a long-term liability. The remaining tranches with an original maturity of less than 1 year are classified as current liabilities, according to their contractual maturity.

Changes in the balance of bank loans and borrowings, excluding interest increasing their carrying amount, in the year ended 31 December 2019 and in the comparative period, have been presented below.

	Year ended 31 December 2019	Year ended 31 December 2018
Opening balance	**881 582**	**1 185 231**
Effects of implementing IFRS 9	-	(33 055)
Restated opening balance	**881 582**	**1 152 176**
Movement in bank overdrafts and cash pool loans received	**21 453**	**(96 683)**
Movement in other loans:	**6 124 740**	**(173 911)**
Repaid	(1 367 360)	(168 874)
Taken*	5 646 173	293
Replacing bond issue scheme with loan arrangement*	1 837 822	-
Forgiveness	-	(11 138)
Change in valuation	8 105	5 808
Closing balance	**7 027 775**	**881 582**

** Inclusive of the borrowing costs*

In the year ended 31 December 2019, the Group carried out the following transactions relating to bank loans and borrowings (in nominal value), excluding overdraft facilities:

Lender	Description	Year ended 31 December 2019	
		Drawdown	Repayment
Consortium of banks	Tranche 1 - replacement of bond issue scheme with credit agreement	1 839 600	
	Drawdown of tranches 2-12	4 650 000	(1 200 000)
Bank Gospodarstwa Krajowego	Drawdown of tranches 1-4 (all available funding)	1 000 000	
Europejski Bank Inwestycyjny	Repayment of capital instalments according to schedule		(162 318)
Other borrowings			(5 042)
Total, *including:*		**7 489 600**	**(1 367 360)**
Cash flows		5 150 000	(867 360)
Net settlement (without cash flow)		2 339 600	(500 000)

Loan agreement with a bank consortium (replacement of the bond issue scheme)

On 19 June 2019, a credit agreement was concluded for the amount of PLN 6 070 000 thousand, to which the Company as the borrower and 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. as lenders.

The credit agreement essentially replaces the bond issue scheme up to PLN 6 270 000 thousand concluded on 24 November 2015, as amended, with banks that are parties to the credit agreement concluded on 19 June 2019 and with BNP Paribas Bank Polska S.A., which will continue to finance the Company under the bond issue scheme.

The key financing parameters specified in the loan agreement, including the level of margin, the duration of financing and the level of financial exposure of individual lenders do not change with respect to the bond issue scheme. The Company has available financing under the credit agreement:

- until 31 December 2021 in the amount of PLN 6 070 000 thousand,
- until 31 December 2022 in the amount of PLN 5 820 000 thousand.

According to the agreement, the funds in the first place, i.e. the funds from the first credit tranche disbursed on 28 June 2019 were allocated for the redemption of bonds with a nominal value of PLN 1 839 600 thousand issued so far under the bond issue scheme. The settlement was made in net amounts, i.e. without physical transfer of cash. Moreover, the financing is earmarked, among others, for the implementation of activities resulting from the update of strategic directions, which are complementary to the Strategy of the TAURON Group for the years 2016-2025, assuming an increased share of renewable sources in the generation assets of the TAURON Group.

By the end of 2019, the Company has released further tranches. As at 31 December 2019, the balance of liability at par value under the agreement in question outstanding totalled PLN 5 289 600 thousand.

After the reporting period end, TAURON Polska Energia S.A. took further tranches under the loan agreement with a consortium of banks dated 19 June 2019 and repaid part of the funds released. As at the date of approval for publication of these consolidated financial statements, the total debt of the Company under the agreement amounts to PLN 4 989 600 thousand.

Concluding a loan agreement with Intesa Sanpaolo S.P.A.

On 19 December 2019, TAURON Polska Energia S.A. concluded with the bank Intesa Sanpaolo S.P.A., acting through Intesa Sanpaolo S.P.A. S.A. Branch in Poland, a loan agreement for the amount of PLN 750 000 thousand, from which funds may be used to cover the Group's investment expenditure, including, in particular, for:

- broadly understood renewable energy,
- distribution of electricity, including extension and modernisation of the network,
- refinancing of the existing financial debt of the Company,

provided that the financing in question will not be used to finance or refinance coal asset projects.

The loan will be repaid after five years from the date of the agreement. The interest rate will be calculated on the basis of a variable interest rate (WIBOR) increased by the bank's margin.

As at 31 December 2019, the Company did not incur any debt under the said agreement.

After the reporting period, in January and February 2020, the Company launched all available financing.

Concluding a loan agreement with SMBC BANK EU AG and syndicated loan agreements

After the reporting period end, on 16 March 2020 TAURON Polska Energia S.A. concluded with SMC BANK EU AG loan agreement for the amount of PLN 500 000 thousand, and on 25 March 2020 syndicated loan agreements concluded with Banca IMI S.P.A., London Branch, Banca IMI S.A.P., Intesa Sanpaolo S.P.A. acting through intermediation of Intesa Sanpaolo S.P.A. S.A. Branch in Poland and China Construction Bank (Europe) S.A. acting through intermediation of China Construction Bank (Europe) S.A. Branch in Poland, which have been discussed in detail in Note 56 hereto.

Bank overdrafts

As at 31 December 2019 the balance of overdraft facilities amounted to 23 339 thousand (as at 31 December 2018 PLN 767 thouand). Available financing and the balance of bank overdrafts of TAURON Polska Energia S.A. as at individual loan agreements are presented in Note 48.2 hereto.

(in PLN thousand)

35.2. Bonds issued

Bonds issued as at 31 December 2019

Issuer	Tranche/ Bank	Interest	Currency	Bonds at nominal value in currency	Maturity date	As at balance sheet date		of which maturing within *(after the balance sheet date):*			
						Interest accrued	Principal at amortised cost	up to 1 year	1-2 years	2-5 years	Over 5 years
Unsubordinated bonds											
TAURON Polska Energia S.A.	Bank Gospodarstwa Krajowego	floating, based on WIBOR 6M	PLN	800 000	2021-2028	856	798 695	-	99 906	299 568	399 221
				630 000	2021-2029	657	629 711	-	69 980	209 914	349 817
	BNP Paribas Bank Polska S.A.[1]	floating, based on WIBOR 6M	PLN	3 100	25.03.2020	24	3 099	3 099	-	-	-
				6 300	9.11.2020	27	6 296	6 296	-	-	-
				51 000	29.12.2020	13	50 966	50 966	-	-	-
	Eurobonds	fixed	EUR	500 000	5.07.2027	24 870	2 115 830	-	-	-	2 115 830
Finanse Grupa TAURON Sp. z o.o.	German market investors	fixed	EUR	168 000	3.12.2029	2 127	710 424	-	-	-	710 424
Subordinated hybrid bonds											
TAURON Polska Energia S.A.	Bank Gospodarstwa Krajowego	floating, based on WIBOR 6M	PLN	400 000	29.03.2031[3]	761	399 362	-	-	-	399 362
	European Investment Bank	fixed[2]	EUR	190 000	16.12.2034[3]	1 630	769 531	-	-	769 531	-
			PLN	400 000	17.12.2030[3]	1 243	394 658	-	-	-	394 658
			PLN	350 000	19.12.2030[3]	922	345 320	-	-	-	345 320
				-		**33 130**	**6 223 892**	**60 361**	**169 886**	**1 279 013**	**4 714 632**

[1]Bond Issue Scheme dated 24 November 2015.
[2]In relation to hybrid (subordinate) financing - bonds taken over by European Investment Bank - two periods occur. 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.
[3] 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 maturity dates resulting from the contract, after two financing periods. The valuation of bonds as at the balance sheet date includes earlier redemption, due to the intention to redeem the bonds after the end of the first financing period. Aging includes an estimate of repayment after the first financing period.

Bonds issued as at 31 December 2018

Issuer	Tranche/ Bank	Interest	Currency	Bonds at nominal value in currency	Maturity date	As at balance sheet date		of which maturing within *(after the balance sheet date):*			
						Interest accrued	Principal at amortised cost	up to 1 year	1-2 years	2-5 years	Over 5 years
Unsubordinated bonds											
TAURON Polska Energia S.A.	Bank Gospodarstwa Krajowego	floating, based on WIBOR 6M	PLN	1 000 000	2019-2028	1 070	998 281	99 935	99 891	299 519	498 936
				700 000	2020-2029	730	699 635	-	69 975	209 901	419 759
	Banks (issue scheme underwriters)[1]	floating, based on WIBOR 6M	PLN	400 000	14.03.2019	566	400 000	400 000	-	-	-
				200 000	9.11.2020	854	199 764	-	199 764	-	-
				1 600 000	29.12.2020	387	1 598 100	-	1 598 100	-	-
	Domestic investors TPEA1119	floating, based on WIBOR 6M	PLN	1 750 000	4.11.2019	7 555	1 749 400	1 749 400	-	-	-
	Eurobonds	fixed	EUR	500 000	5.07.2027	25 181	2 134 826	-	-	-	2 134 826
Finanse Grupa TAURON Sp. z o.o.	German market investors	fixed	EUR	168 000	3.12.2029	2 009	717 050	-	-	-	717 050
Subordinated hybrid bonds											
TAURON Polska Energia S.A.	European Investment Bank	fixed[2]	EUR	190 000	16.12.2034[3]	1 646	790 136	-	-	-	790 136
			PLN	400 000	17.12.2030[3]	1 243	398 781	-	-	-	398 781
			PLN	350 000	19.12.2030[3]	922	348 931	-	-	-	348 931
				-		**42 163**	**10 034 904**	**2 249 335**	**1 967 730**	**509 420**	**5 308 419**

[1]Bond Issue Scheme dated 24 November 2015.
[2]In relation to hybrid (subordinate) financing - bonds taken over by European Investment Bank - two periods occur. 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.
[3] 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 maturity dates resulting from the contract, after two financing periods. The valuation of bonds as at the balance sheet date includes earlier redemption, due to the intention to redeem the bonds after the end of the first financing period. Aging includes an estimate of repayment after the first financing period.

The bonds issued by the Company are unsecured, coupon bonds. They were issued at the nominal value, except for Eurobonds which were issued at the issue price accounting for 99.438% of the nominal value.

The Eurobonds have been admitted to trading on the London Stock Exchange. They were rated “BBB” by the Fitch rating agency.

Bonds subscribed for by the European Investment Bank are subordinated, which means that they have priority interest only over the liabilities to the Company’s shareholders in the event of the issuer’s bankruptcy or liquidation. This in turn has a positive effect on the Company’s financial stability, since the bonds are excluded from the net debt / EBITDA calculation, a covenant underlying domestic funding arrangements 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 positive effect on the rating of the TAURON Group.

(in PLN thousand)

Two financing periods for bonds subscribed for by the European Investment Bank. In the first period early redemption of bonds by the Company (non-call) and early sales of bonds by EIB to third parties are not possible (in both cases, unless so provided in the subscription agreement). In this period, the interest rate is fixed, while after the non-call period, it is floating and is linked to the base rate (WIBOR for bonds issued in PLN and EURIBOR for bonds issued in EUR) increased by an agreed margin. The redemption date for bonds issued in PLN is 12 years of the issue date, i.e. 17 and 19 December 2030 and, pursuant to the rules of hybrid financing, the first financing period is 7 years and the next — 5 years. The redemption date for bonds issued in EUR is 18 years of the issue date, i.e. 16 December 2034 and, pursuant to the rules of hybrid financing, the first financing period is eight years and the next — 10 years.

Bonds issued under the arrangement of 6 September 2017 concluded with Bank Gospodarstwa Krajowego with the par value of PLN 400 000 thousand are also subordinated. In this case also two period are distinguished. In the first period of seven years early redemption of bonds by the Company (non-call) and early sales of bonds by BGK to third parties are not possible (in both cases, unless so provided in the documentation). The interest rate is floating and is linked to 6M WIBOR increased by an agreed margin and in the period following the 7 years the margin is additionally increased.

Changes in the balance of bonds, excluding interest which increase their carrying amount

	Year ended 31 December 2019	Year ended 31 December 2018
Opening balance	**10 034 904**	**8 599 655**
Issue*	499 312	1 347 943
Redemption	(2 420 000)	-
Replacing bond issue scheme with loan arrangement	(1 839 600)	-
Change in valuation	(50 724)	87 306
Closing balance	**6 223 892**	**10 034 904**

** Costs of issue have been included.*

In the year ended 31 December 2019, the Company carried out the following bond issue and redemption transactions:

Date of issue	Agreement/ Scheme	Description	Year ended 31 December 2019	
			Par value of issue	Redemption
14.03.2019	Bond Issue Scheme dated 24 November 2015	Redemption of bonds according to the maturity date	-	(400 000)
25.03.2019		Issue of bonds maturing on 25 March 2020	100 000	-
29.03.2019	Subordinated bonds, contract with BGK dated 6 September 2017	Issue of bonds maturing on 29 March 2031	400 000	-
21.06.2019	Agreement concluded with BGK on 31 July 2013	Premature redemption of bonds with the following par value: - PLN 100 000 thousand and initial maturity date of 20 December 2019; - PLN 100 000 thousand and initial maturity date of 20 December 2020; - PLN 70 000 thousand and initial maturity date of 20 December 2020. The redemption was financed with funds originating from the loan contracted on 21 June 2019 from Bank Gospodarstwa Krajowego pursuant to an arrangement of 19 December 2018.	-	(270 000)
28.06.2019	Bond Issue Scheme dated 24 November 2015	Redemption of bonds assumed by bondholders being a party to the loan agreement (offset).	-	(1 839 600)
04.11.2019	Market Scheme TPEA1119	Redemption of bonds according to the maturity date		(1 750 000)
		Total	**500 000**	**(4 259 600)**

Replacement of the bond issue scheme by credit agreement

On 19 June 2019, a loan arrangement was concluded for PLN 6 070 000 thousand, described in detail in Note 35.1 hereto.

This arrangement has replaced the bond issue scheme up to PLN 6 270 000 thousand, concluded on 24 November 2015 (with subsequent amendments) with banks being a party to a loan arrangement concluded on 19 June 2019 and with

BNP Paribas Bank Polska S.A., which shall continue the provision of funding for the Company under the bond scheme, maintaining its exposure arising from the bonds assumed to date, with the redemption date as set in the issue terms falling at the end of 2020 at the latest.

Under the arrangement, the first portion of the funds, i.e. the first loan tranche of 28 June 2019, was used to redeem the bonds with the par value of PLN 1 839 600 thousand, issued to date under the bond issue scheme and assumed by the banks acting as a party to the loan arrangement. The settlement was performed in net amounts, i.e. without actual cash transfer.

Following the conclusion of the loan arrangement, the obligation of the banks to assume the bonds issued by the Company was canceled. Thus, the Company shall not issue any new bonds under the scheme.

Establishment of bond issue scheme

After the reporting period end, on 6 February 2020, TAURON Polska Energia S.A. concluded a programme agreement with Santander Bank Polska S.A. under which a bond issue scheme was established (the “Scheme"), as described in detail in Note 56 hereto.

35.3. Debt agreement covenants

The agreements signed by the Company with the banks include legal and financial covenants which are commonly used in such transactions. The key covenant is the net debt to EBITDA ratio (for domestic long-term loans agreements and domestic bond issue schemes) which sets the debt less cash in relation to generated EBITDA. The maximum permissible value of the net debt/EBITDA ratio is 3.5 Net debt/EBITDA ratio is calculated on the basis of consolidated data.

As at 31 December 2019, the net debt/EBITDA ratio, being a covenant in the national long-term loan agreements and national bond issue schemes in force as at 31 December 2019, was 2.81 thus, the covenant was not exceeded.

In November 2019, the Company redeemed TPEA1119 bonds, whose terms of issue defined an acceptable net debt/EBITDA ratio of 3.0x with a slightly different definition of this covenant. The main difference compared to the definitions contained in the applicable financing agreements, the terms and conditions of issue of TPEA1119 included a definition of the ratio including in the Group's debt the liabilities resulting from subordinated bonds issued and the impact of IFRS 16 *Leases*.

In November 2019, the Company redeemed TPEA1119 bonds, whose terms of issue defined an acceptable net debt/EBITDA ratio of 3.0x with a slightly different definition of this covenant. The main difference compared to the definitions contained in the applicable financing agreements, the terms and conditions of issue of TPEA1119 included a definition of the ratio including in the Group's debt the liabilities resulting from subordinated bonds issued and the impact of IFRS 16 *Leases*.

As at 30 June 2019, the net debt/EBITDA ratio calculated in line with the definition included in the issue terms regarding TPEA1119 series bearer bonds issued on 4 November 2014 for the total amount of PLN 1 750 000 thousand reached the level of 3.04, thus exceeding the maximum permissible level of 3.0 as determined in the issue terms regarding TPEA1119 series. This event could provide the basis to demand early buyback of the TPEA1119 series bonds, provided the bondholders’ meeting approves such an action. Until the redemption date of TPEA1119 series bonds, which took place on 4 November 2019, there was no demand for early redemption of the bonds by the bondholders. The fact that the net debt/EBITDA ratio (calculated in line with the definition included in the TPEA1119 series issue terms) exceeded 3.0 did not resulted and does not result in a breach of other financing agreements concluded by the Company, nor does it bring any other adverse effects related to these agreements.

Other terms and conditions of financing agreements also does not result in breach.

35.4. Lease liabilities

In connection with the come into force of IFRS 16 *Leases*, as at 1 January 2019, the Company recognised a lease liability in the amount of PLN 918 115 thousand, as described in detail in Note 8.1 hereto.

As at 31 December 2019 the Company had a lease liability in the amount of PLN 1 006 603 thousand. The liability concerns primarily to the right of perpetual usufruct of land, agreements for the occupation of the road lane, agreements for the lease and tenancy of land, easement of transmission and lease of office and warehouse premises.

(in PLN thousand)

Ageing of the lease liability as at 31 December 2019

	As at 31 December 2019	As at 31 December 2018
Within 1 year	110 893	2
Within 1 to 5 years	309 789	8
Within 5 to 10 years	298 093	10
Within 10 to 20 years	500 368	8
More than 20 years	708 324	-
Gross lease liabilities	**1 927 467**	**28**
Discount	(920 864)	(3)
Present value of lease payments	**1 006 603**	**25**
Lease agreements that do not meet the conditions for recognition as a finance lease as defined in the financing agreements	1 006 603	-
Lease contracts included in the covenant calculation (as defined in financing contracts)	**-**	**25**

The undiscounted and present value of lease payments in the table above was presented as at 31 December 2019 in accordance with IFRS 16 *Leases* and as at 31 December 2018 in accordance with IAS 17 *Leases*.

The Group decided to apply IFRS 16 *Leases* with effect from 1 January 2019. The Group decided not to restate the comparative information, as permitted by the Standard. The data as at 31 December 2018 have been presented based on IAS 17 *Leases*, IFRIC 4 *Determining whether an Arrangement Contains a Lease* and SIC 15 *Operating Lease - Incentives*.

36. Provisions for employee benefits

SELECTED ACCOUNTING PRINCIPLES

In accordance with 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;
- cash equivalent resulting from special tariff for energy sector employees;
- benefits from the Company's 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.

At the end of the reporting period the present value of provisions for post-employment benefits and provisions for jubilee benefits is calculated by an independent actuary using actuarial methods. The provisions are calculated on a case-by-case basis for each employee. 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 and employee turnover data are based on historical information.

Actuarial gains and losses on measurement of liabilities arising from post-employment benefits are recognized in whole in other comprehensive income (with the accumulated amount recognized in retained earnings), while actuarial gains and losses on jubilee bonuses are recognized 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 recognizes provisions for termination benefits under 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 JUDGMENT AND ESTIMATES

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

	31 December 2019	31 December 2018
Discount rate (%)	2.10%	3.00%
Estimated inflation rate (%)	2.50%	2.50%
Employee rotation rate (%)	0.93% - 8.98%	1.13% - 8.69%
Estimated salary increase rate (%)	2.50%*	2.50%
Estimated electricity price increase rate (%)	3.50%	3.50%
Estimated increase rate for contribution to the Social Fund (%)	3.50%	3.50%
Remaining average employment period	12.18 – 22.67	11.06 – 20.67

** Remuneration growth rate 2.5% since 2021. In 2020, the adopted remuneration growth rate for some companies differs from that adopted for the following years.*

(in PLN thousand)

	As at 31 December 2019	As at 31 December 2018
Provision for post-employment benefits and jubilee bonuses	1 397 489	1 188 829
Provision for employment termination benefits and other provisions for employee benefits	34 409	42 649
Total	**1 431 898**	**1 231 478**
Non-current	1 313 480	1 114 191
Current	118 418	117 287

36.1. Provisions for post-employment benefits and jubilee bonuses

Change in provisions for employee benefits for the year ended 31 December 2019

	Provision for retirement, disability and similar benefits	Employee electricity rates	Social Fund	Jubilee bonuses	Provisions, total
Opening balance	**331 270**	**370 267**	**91 720**	**395 572**	**1 188 829**
Current service costs	16 501	9 066	2 736	22 734	**51 037**
Actuarial gains and losses, *of which:*	42 973	71 633	25 714	66 773	**207 093**
arising from changes in financial assumptions	40 623	60 007	16 016	37 262	**153 908**
arising from changes in demographic assumptions	4 843	7 097	1 892	4 983	**18 815**
arising from other changes	(2 493)	4 529	7 806	24 528	**34 370**
Benefits paid	(21 299)	(11 524)	(3 325)	(46 070)	**(82 218)**
Past service costs	56	-	-	-	**56**
Interest expense	8 922	10 712	2 565	10 493	**32 692**
Closing balance	**378 423**	**450 154**	**119 410**	**449 502**	**1 397 489**
Non-current	338 410	436 769	115 928	403 437	**1 294 544**
Current	40 013	13 385	3 482	46 065	**102 945**

Change in provisions for employee benefits for the year ended 31 December 2018

	Provision for retirement, disability and similar benefits	Employee electricity rates	Social Fund	Jubilee bonuses	Provisions, total
Opening balance	**321 894**	**530 215**	**106 321**	**510 678**	**1 469 108**
Current service costs	16 273	9 207	2 735	22 342	**50 557**
Actuarial gains and losses, *of which:*	5 961	8 297	572	19 068	**33 898**
arising from changes in financial assumptions	13	-	-	10	**23**
arising from other changes	5 948	8 297	572	19 058	**33 875**
Benefits paid	(21 867)	(12 242)	(3 237)	(45 486)	**(82 832)**
Past service costs	217	(176 322)	(17 332)	(121 859)	**(315 296)**
Interest expense	8 792	11 112	2 661	10 829	**33 394**
Closing balance	**331 270**	**370 267**	**91 720**	**395 572**	**1 188 829**
Non-current	297 363	357 052	88 587	349 732	**1 092 734**
Current	33 907	13 215	3 133	45 840	**96 095**

During the year ended 31 December 2019, the Group noted a significant increase in actuarial provisions due to a change in actuarial assumptions in the amount of PLN 207 093 thousand, mainly due to a decrease in the discount rate used in the calculation, of which PLN 66 773 thousand caused an increase in the Group's operating expenses, and PLN 140 320 thousand was presented in other comprehensive income.

The past service costs, which decreased provisions in the year ended 31 December 2018 in the amount of PLN 315 296 thousand, relate mainly to the release of provisions for employee tariffs and the Company Social Benefits Fund in the total amount of PLN 194 209 thousand and provisions for jubilee bonuses in the amount of PLN 121 172 thousand (at the same time, compensation of PLN 79 316 thousand was paid to employees, which increased the Group's operating costs).

Sensitivity analysis

As at 31 December 2019 the Group analyzed sensitivity of measurement results to changes in the financial discounting rates and changes in the planned increases in the base amounts in the range of -0.5 p.p./+0.5 p.p.

(in PLN thousand)

The table below presents the carrying amounts of individual provisions and provisions calculated based on the changed assumptions and how these carrying amounts would change with different assumptions applied:

Provision title	Carrying amount as at 31 December 2018	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 similar benefits	378 423	396 532	18 109	361 623	(16 800)	362 327	(16 096)	395 566	17 143
Employee electricity rates	450 154	489 805	39 651	415 200	(34 954)	415 453	(34 701)	489 069	38 915
Costs of appropriation to Social Benefits Fund	119 410	130 001	10 591	110 079	(9 331)	110 147	(9 263)	129 804	10 394
Jubilee bonuses	449 502	466 184	16 682	433 832	(15 670)	437 449	(12 053)	462 194	12 692
Total		**1 482 522**	**85 033**	**1 320 734**	**(76 755)**	**1 325 376**	**(72 113)**	**1 476 633**	**79 144**
effect on profit/loss			16 682		(15 670)		(12 053)		12 692
effect on other comprehensive income			68 351		(61 085)		(60 060)		66 452

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	Employee electricity rates	Social Fund	Jubilee bonuses	Provisions, total
2019	40 013	13 385	3 482	46 065	**102 945**
2020	22 597	14 208	3 767	41 379	**81 951**
2021	25 823	14 355	3 828	37 349	**81 355**
2022	20 932	14 542	3 905	35 391	**74 770**
2023	20 675	14 742	3 979	33 278	**72 674**
Other years	248 383	378 922	100 449	256 040	**983 794**
Total	**378 423**	**450 154**	**119 410**	**449 502**	**1 397 489**

36.2. Provisions for employment termination benefits and other provisions for employee benefits

	Year ended 31 December 2019				Year ended 31 December 2018				
	Voluntary redundancy schemes		Other provisions	Total	Voluntary redundancy schemes			Other provisions	Total
	Segment Generation	Segment Distribution			Segment Generation	Segment Distribution	Other		
Opening balance	**26 891**	**5 100**	**10 658**	**42 649**	**29 567**	**10 542**	**5 706**	**-**	**45 815**
Recognition	23 044	-	10 877	**33 921**	10 198	5 100	-	18 619	**33 917**
Reversal	(9 602)	(4 087)	-	**(13 689)**	(2 245)	(7 917)	-	(338)	**(10 500)**
Utilization	(5 979)	(1 013)	(8 158)	**(15 150)**	(10 629)	(2 625)	(5 706)	(7 623)	**(26 583)**
Other changes	(13 322)	-	-	**(13 322)**	-	-	-	-	**-**
Closing balance	**21 032**	**-**	**13 377**	**34 409**	**26 891**	**5 100**	**-**	**10 658**	**42 649**
Non-current	13 128	-	5 808	**18 936**	21 457	-	-	-	**21 457**
Current	7 904	-	7 569	**15 473**	5 434	5 100	-	10 658	**21 192**

37. 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 mines for which it is required that the assets be removed and the land restored to its original condition.

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 capitalized future mine decommissioning costs. The unwinding of discount is recognized in 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.

(in PLN thousand)

PROFESSIONAL JUDGMENT AND ESTIMATES

The Group estimates the amount of provisions recognized based on 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 recognized if probability of spending funds that incorporate economic benefits is higher than 50%.

	Year ended 31 December 2019			Year ended 31 December 2018		
	Provision for mine decommissioning costs	Provision for restoration of land and dismantling and removal of fixed assets	Provisions, total	Provision for mine decommissioning costs	Provision for restoration of land and dismantling and removal of fixed assets	Provisions, total
Opening balance	**202 599**	**135 878**	**338 477**	**191 975**	**124 091**	**316 066**
Business acquisition	-	60 817	**60 817**	-	-	**-**
Interest cost (discounting)	6 078	3 651	**9 729**	5 759	3 711	**9 470**
Discount rate change	97 042	11 303	**108 345**	-	-	**-**
Recognition/(reversal), net	166	(25 522)	**(25 356)**	4 865	10 232	**15 097**
Utilisation	-	(5 367)	**(5 367)**	-	(2 156)	**(2 156)**
Other changes	-	13 322	**13 322**	-	-	**-**
Closing balance	**305 885**	**194 082**	**499 967**	**202 599**	**135 878**	**338 477**
Non-current	305 493	164 142	**469 635**	202 599	102 378	**304 977**
Current	392	29 940	**30 332**	-	33 500	**33 500**
Other provisions, long-term portion			**193 495**			**91 536**
Total			**663 130**			**396 513**

37.1. Provision for mine decommissioning costs

The provision is recognized for mines included in the Group based on estimated costs of liquidating buildings and reclaiming land after 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. Financial assets of the Fund are presented in the statement of financial position under non-current and current financial assets, while the balance of the Fund is recognized under the provision for future costs of mine decommissioning.

The provision balance as at 31 December 2019 was PLN 305 885 thousand. As at 31 December 2019, as a result of a change in the discount rate, the provision was updated, increasing it by PLN 97 042 thousand.

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

Mine Decommissioning Fund financial assets

	Year ended 31 December 2019	Year ended 31 December 2018
Assets as at 1 January	**47 126**	**42 475**
Contributions made	4 046	4 150
Interest	888	2 133
Use	(1 832)	(1 632)
Assets as at 31 December	**50 228**	**47 126**
Transfers made to the MDF in the period	(4 193)	(4 037)

Provision for mine decommissioning costs

	Year ended 31 December 2019	Year ended 31 December 2018
Mine Decommissioning Fund	53 962	50 931
Surplus of discounted estimated decommissioning costs	251 923	151 668
Total	**305 885**	**202 599**

(in PLN thousand)

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

	Year ended 31 December 2019				Year ended 31 December 2018			
	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	**42 150**	**60 033**	**33 695**	**135 878**	**40 990**	**57 887**	**25 214**	**124 091**
Business acquisition	-	60 817	-	**60 817**	-	-	-	-
Interest cost (discounting)	942	1 801	908	**3 651**	1 228	1 736	747	**3 711**
Discount rate adjustment	-	10 209	1 094	**11 303**		-	-	-
Recognition/(reversal), net	(12 116)	-	(13 406)	**(25 522)**	(68)	410	9 890	**10 232**
Utilisation	-	-	(5 367)	**(5 367)**	-	-	(2 156)	**(2 156)**
Other changes	-	-	13 322	**13 322**	-	-	-	-
Closing balance	**30 976**	**132 860**	**30 246**	**194 082**	**42 150**	**60 033**	**33 695**	**135 878**
Non-current	14 209	132 860	17 073	**164 142**	29 208	60 033	13 137	**102 378**
Current	16 767	-	13 173	**29 940**	12 942	-	20 558	**33 500**

The provision for restoration of land and dismantling and removal of fixed assets comprises the costs of liquidation of a chimney in Elektrownia Jaworzno as well as cooling towers and a unit in Elektrownia Łagisza.

38. Provisions for liabilities due to CO_2 emission allowances and energy certificates

The table below presents the provision for liabilities due to CO_2 emission allowances, described in detail in Note 38.1 hereto and the provision for obligation to submit energy certyficates, described in detail in Note 38.2 hereto.

	Year ended 31 December 2019			Year ended 31 December 2018		
	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	**111 406**	**384 066**	**495 472**	**324 937**	**624 009**	**948 946**
Recognition	774 614	599 113	**1 373 727**	611 668	676 682	**1 288 350**
Reversal	(75)	(3 841)	**(3 916)**	(81)	(8 984)	**(9 065)**
Utilisation	(113 646)	(373 404)	**(487 050)**	(825 118)	(907 641)	**(1 732 759)**
Closing balance	**772 299**	**605 934**	**1 378 233**	**111 406**	**384 066**	**495 472**

38.1. Provision for CO_2 emission liabilities

SELECTED ACCOUNTING PRINCIPLES

The Group creates a provision for the cost of surrending the CO_2 emission allowances. The provision for liabilities arising from emission of CO_2 covered by the emissions system is recognized only when the actual emission level in a given year indicates a shortage of CO_2 emission allowances awarded to the Group free of charge, including allocation of free-of-charge CO_2 emission allowances to facilities belonging to individual Generation companies. The Group companies included in the EU ETS are obliged to surrender CO_2 emission allowances for each emitted ton of carbon dioxide by 30 April in the following year.

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

- in the portion covered by allowances held at the end of the reporting period:
  - nil - for allowances received free of charge;
  - at cost - for allowances acquired;
- in the portion not covered by allowances held at the end of the reporting period:
  - first, at the amount resulting from futures and forwards for the purchase of emission allowances with the intention to fulfil the obligation for the current year;
  - then at the market value of allowances necessary to fulfil the obligation at the end of the reporting period or in the amount of a possible fine - in accordance with the intention concerning the method of fulfilling the obligation.

The condition for granting free CO_2 emission allowances to plants generating electricity between 2013 and 2020 is that they bear the financial outlay for the implementation of the investment tasks submitted in the National Investment Plan (NIP).

At the surrendering date, CO_2 emission allowances classified as current intangible assets are derecognized in correspondence with the provision for CO_2 emission liabilities.

(in PLN thousand)

A change in provision for liability arising from gas emissions in the year ended 31 December 2019 allocated to obligations pertaining to 2019 and 2018 is presented in the following table.

	Fulfill the obligation to surrender for 2019	Fulfill the obligation to surrender for 2018	Total provision for 2019
Opening balance	**-**	**111 406**	**111 406**
Recognition	772 299	2 315	**774 614**
Reversal	-	(75)	**(75)**
Utilisation	-	(113 646)	**(113 646)**
Closing balance	**772 299**	**-**	**772 299**
TAURON Wytwarzanie S.A.'s systems	668 343	-	**668 343**
TAURON Ciepło Sp. z o.o.'s systems	103 956	-	**103 956**

The increase in the cost of creating a provision for CO_2 emission liabilities in the year ended 31 December 2019 versus comparable period is described in detail in Note 13 hereto.

38.2. Provision for the obligation to surrender energy certificates

SELECTED ACCOUNTING PRINCIPLES

Energy companies trading in and selling electricity to end buyers are obliged to acquire property rights resulting from energy certificates and to surrender them or to pay a substitution fee. If in a given financial year the volume share of electricity specified in the energy certificates in the total annual sales of electricity to end buyers complies with limits provided for in regulations of the Minister of Economy - it is considered that the obligation has been satisfied.

At the end of each reporting period the Group recognizes a provision for costs of surrendering energy certificates or paying the substitution fee so as to fulfil the obligation.

The provision for the obligation to surrender energy certificates is recognized:

- in the portion corresponding to energy certificates held at the end of the reporting period - in the value of certificates held;
- in the portion not covered by energy certificates held at the end of the reporting period - first, at the amount resulting from futures and forwards for the purchase of certificates with the intention to fulfil the obligation for the current year; then at the market value of certificates necessary to fulfil the obligation at the end of the reporting period or at the amount of the substitution fee - in accordance with the Group's intention concerning the method of fulfilling the obligation.

The provision is charged to operating expenses.

The provision is settled and the certificates are surrendered when the President of the Energy Regulatory Office redeems the certificates or when the substitution fee has been paid.

As at 31 December 2019, the short-term provision for the obligation to surrender energy certificates for 2019 was estimated at PLN 605 934 thousand, including: PLN 594 968 thousand is covered by certificates held as at the end of the reporting period, PLN 10 966 thousand planned to be covered by the purchase of property rights.

In the year ended 31 December 2019, the Group fulfilled the obligation to surrender certificates of electricity generated using renewable sources, in CHP units and energy efficiency certificates for 2018. Therefore, a provision of PLN 373 404 thousand was used.

The decrease in the cost of recognition the provision for the obligation to surrender energy certificates in period ended on 31 December 2019 versus comparable period is mainly related to the fact that on the basis of the amended legal regulations there was no obligation to create provisions for certificates of origin of energy from cogeneration (red, yellow and violet certificates) in the current period. In the comparable period there was an obligation in this respect.

39. Other provisions

SELECTED ACCOUNTING PRINCIPLES

Other provisions include:

- A provision for use of real estate without contract
  The Group recognizes 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 (with accrued interest, if it can be reliably estimated). The Group does not establish a provision for possible claims of owners of land with unregulated status, which have not been lodged, including real and transmission easement. Recognition and reversal of the provision is charged to other operating revenue or other operating expenses and interest accrued is charged to finance income or finance costs.

(in PLN thousand)

- Provision for onerous contracts
  If the Group is a party to a contract pursuant to which unavoidable costs of fulfilling the contractual obligations exceed the expected contractual benefits, the present contractual obligation is recognized and measured as a provision. Unavoidable contractual costs include at least the net cost of contract closing, corresponding to the lower of the contract performance cost and the cost of all damages arising from a failure to perform the contract. Unavoidable obligation fulfilling costs are increased by due interest if it can be reliably estimated.
- Other provisions relate to court cases, counterparty claims or other claims, possible fines resulting from administrative proceedings carried out by the Energy Regulatory Office and the Office of Competition and Consumer Protection and tax settlements.

PROFESSIONAL JUDGMENT AND ESTIMATES

The Group estimates the amount of provisions recognized based on 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 recognized if probability of spending funds that incorporate economic benefits is higher than 50%.

	Year ended 31 December 2019				Year ended 31 December 2018			
	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	**92 110**	**213 996**	**311 295**	**617 401**	**92 030**	**-**	**296 313**	**388 343**
Unwinding of discount	-	-	2 425	**2 425**	-	-	3 213	**3 213**
Recognition/(reversal), net	(3 611)	298 057	82 305	**376 751**	937	213 996	25 880	**240 813**
Utilisation	(429)	(270 257)	(11 608)	**(282 294)**	(857)	-	(14 111)	**(14 968)**
Other movements	-	-	12 633	**12 633**	-	-	-	-
Closing balance	**88 070**	**241 796**	**397 050**	**726 916**	**92 110**	**213 996**	**311 295**	**617 401**
Non-current	-	48 815	144 680	**193 495**	-	11 759	79 777	**91 536**
Current	88 070	192 981	252 370	**533 421**	92 110	202 237	231 518	**525 865**
Current portion of provisions for the costs of disassembly of fixed assets and land restoration and other provisions				**30 332**				**33 500**
Total				**563 753**				**559 365**

39.1. Provision for use of real estate without contract

The Group companies recognize provisions for all claims filed by the owners of the real estate on which distribution systems and heat installations are located. As at 31 December 2019, the relevant provision amounted to PLN 88 070 thousand and was related to the following segments:

- Generation - PLN 50 702 thousand;
- Distribution - PLN 37 368 thousand.

In 2012, a third party lodged a claim against TAURON Ciepło S.A. (currently: TAURON Ciepło Sp. z o.o.) related to clarification 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 basis for offsetting their amounts against the current liabilities to the company arising from heat supplies. Consequently, the company went to court to recover its current receivables from the debtor. The amount of the potential claims of the aforesaid entity in respect of clarification of the legal status of the company's transmission equipment will be reviewed in the course of the proceedings. With regard to the dispute, in light of the adopted accounting policy, a provision has been recognized for the estimated cost of the above claim. Bearing in mind the pending litigation, in accordance with 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*.

39.2. Provisions for onerous contracts

Provisions for onerous contracts related to the Act Amending the Excise Duty Act and Certain Other Acts coming into effect

The Act on the amendment to the act on the excise tax and some other acts (“Act”) came into force on 28 December 2018. In accordance with the Act, in its version applicable as of 31 December 2018, energy companies (electric utilities) dealing with electricity trading were obligated to apply in 2019 gross prices and fee rates not higher than the gross prices and fee rates included in the tariff or electricity price list in force on 30 June 2018, taking into account the reduction of the excise tax rate for electricity.

Due to the Act coming into force the Group recognized a provision for onerous contracts in the consolidated financial statements prepared as at 31 December 2018 in the amount of PLN 213 756 thousand. In particular, the reserve was estimated with respect to the G tariff group customers, i.e. the difference between the sales price resulting from the tariff in force for 2019 and the estimated electricity purchase price based on the expected volume for 2019.

As a result of applying the tariff from the previous year, in 2019, the TAURON Group fully realised a loss in connection with energy supplies to the customers of tariff group G, therefore as at 31 December 2019 it fully used the provision for onerous contracts created as at 31 December 2018 for this customer segment.

In addition, in connection with the come into force of the amended Act, as more described in detail in Note 12 hereto, in 2019, the Group created a provision for onerous contracts in amount of PLN 68 260 thousand in relation to the expected volume of energy to be delivered in the period from July to December 2019 for end users belonging to the group: micro-enterprises, small entrepreneurs, hospitals, public finance sector entities or other state organisational units without legal personality, for which the price of 30 June 2018 applied in the second half of 2019, provided that a statement is made. As at 31 December 2019, as a result of the realisation of sales losses for this group of recipients, this provision was also fully utilized.

Provisions for onerous contracts in connection with the approval by the President of the Energy Regulatory Office ("ERO President") tariffs for the sale of electricity

As at 31 December 2019 the Group created the provision for onerous contracts in amount of PLN 237 445 thousand (of which PLN 225 686 thousand was charged to the costs of 2019). This provision relates primarily to households, including customers using tariff prices approved by the President of the Energy Regulatory Office ("G ERO tariff") in the amount of PLN 130 287 thousand and individual customers who have used the product price lists offered by the Company ("GD price lists") in the amount of PLN 99 570 thousand.

The need to create the above reserve for the G URE tariff results from the adoption of the parameters specified in the invitation of the President of the ERO to calculate the sales price for these customers for 2020, the approval of which in December 2019 results in the impossibility of obtaining revenue from the sale of electricity in a value covering the costs of conducting business in this respect.

The price level approved by the President of the ERO for tariff group G for 2020 was also an important reason for the losses incurred on GD price lists for which the provision was created. Some product agreements in the household segment tie the electricity rates to the price of the ERO G tariff, thus making it impossible to obtain revenue from sales in an amount ensuring coverage of full variable costs of the business.

At the same time, on 7 January 2020, the subsidiary TAURON Sp. z o.o. Sprzedaż submitted an application for the approval of the change of the electricity tariff for the consumers of tariff G-groups for 2020, which is to transfer all justified costs that were not accepted in the application approved in December 2019. As at the date of approval of these consolidated financial statements for publication, the proceedings pending before the President of ERO in connection with this application have not been completed.

Other provisions for onerous contracts

As at 31 December 2019, a provision was created for onerous contracts in the amount of PLN 4 213 thousand in connection with the partial acceptance by the Court of Appeal in Warsaw of the request for security by ordering the subsidiary Polska Energia - Pierwsza Kompania Handlowa Sp. z o.o. to execute in full the provisions of the contracts under the existing terms and conditions, in accordance with their contents, until the legal conclusion of the proceedings in the action brought by Pękanino Wind Invest Sp. z o.o. vs. Polska Energia - Pierwsza Kompania Handlowa Sp. z o.o., as further described in Note 50 hereto.

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

Material provisions recognized as other provisions have been discussed below:

(in PLN thousand)

Item	Operating segment	Description	As at 31 December 2019	As at 31 December 2018
Provisions for penalties fixed by the contracts	Generation	The provision concerned the risk of ensuring the sustainability of projects required under the contracts for co-financing the construction of a biomass-fired boiler in Jaworzno III Power Plant and the construction of an electricity generation installation in the Renewable Energy Sources in Stalowa Wola. In the year ended 31 December 2019 the required shelf life for the installation expired and the final settlement and closing of co-financing agreements took place. As a consequence, the established collateral for due performance of contracts was released and the provision was fully released.	-	58 493
Provision for counterparty claims	Generation	The provision relates to claims raised by contractors relating to the construction of 910 MW Block in Jaworzno. For additional, increased costs related toongoing contracts, in the year ended 31 December 2019 the company from the Generation segment created a provision in the amount of PLN 93 539 thousand. The cost of creating the provision was recognized for capital expenditures.	93 539	-
Provision for increased transmission easement charges	Distribution	The provision relates to the risk of increased periodical fees for transmission easement for energy infrastructure located in the areas of forest districts of the Regional Directorate of State Forests in Wrocław in connection with the change in the nature of land from forest areas to land related to business activities.	67 323	68 900
Provision for a fine to the Energy Regulatory Office	Distribution	The provision was recognized due to the risk of violation of the Energy Law of 10 April 1997 by misleading the President of the Energy Regulatory Office, following his demand for information.	6 000	6 000
Provision for real estate tax	Distribution	Provision for the business risk regarding tax on real property classified as power grid assets.	39 356	39 356
Provision for VAT	Sales	The provision was created in connection with the ongoing control proceedings initiated by the Director of the Tax Control Office in Warsaw ("Director of UKS") with respect to value added tax. The duration of control proceedings was repeatedly extended by the Director of UKS, and then by the Head of the Mazovian Customs and Tax Office. The current new deadlines for completion of the proceedings were set for 24 and 28 April 2020 and 22 May 2020. In the year ended 31 December 2019 the provision was increased by accrued interest of PLN 4 200 thousand.	77 094	72 894

40. Accruals, deferred income and government grants

SELECTED ACCOUNTING PRINCIPLES

Deferred income and government grants

The Group's deferred income and government grants include mainly grants and subsidies received to acquire property, plant and equipment, as well as subsidies to R&D activities.

Grants and subsidies received to acquire property, plant and equipment are recognized at the value of cash received as other operating revenue matching the corresponding depreciation expense related to items of property, plant and equipment. This regards in particular partly canceled debt and accounting treatment of preferential loans measurement.

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 sometimes the amount or maturity of accruals must be estimated, usually the uncertainty level is much lower than that regarding provisions.

(in PLN thousand)

40.1. Deferred income and government grants

	As at 31 December 2019	As at 31 December 2018
Deferred income	**48 623**	**56 822**
Donations, subsidies received for the purchase or fixed assets received free-of-charge	44 521	52 431
Other	4 102	4 391
Government grants	**443 433**	**415 162**
Subsidies obtained from EU funds	349 335	311 285
Forgiven loans from environmental funds	32 764	37 464
Measurement of preferential loans	32 567	34 053
Other	28 767	32 360
Total	**492 056**	**471 984**
Non-current	460 003	440 206
Current	32 053	31 778

40.2. Accrued expenses

	As at 31 December 2019	As at 31 December 2018
Bonuses	59 827	60 524
Unused holidays	46 612	51 445
Environmental protection charges	25 600	33 113
Other accrued expenses	21 452	23 340
Total	**153 491**	**168 422**
Non-current	-	103
Current	153 491	168 319

41. Liabilities to suppliers

SELECTED ACCOUNTING PRINCIPLES

The Group measures financial liabilities with simplified methods, usually at amortized cost, if this does not result in a misstatement of data presented in the financial statements, in particular if the time remaining to the date of payment is short. Liabilities to which the simplified approach is applied are measured upon initial recognition and in subsequent periods, including at the end of the reporting period, at amount due. Liabilities to suppliers, investment liabilities (Note 42) and selected other financial liabilities (Note 44) are therefore measured at amount due since the effect of discount is insignificant.

Current liabilities to suppliers as at 31 December 2019 and 31 December 2018 are presented in the table below:

Operating segment	As at 31 December 2019	As at 31 December 2018 *(restated figures)*
Sales	287 827	432 321
Distribution, *including:*	223 173	309 233
Polskie Sieci Elektroenergetyczne S.A.	*172 790*	*227 095*
Mining	122 602	168 076
Generation	137 609	150 731
Other	76 015	67 377
Total	**847 226**	**1 127 738**

42. Capital commitments

Short-term capital commitments as at 31 December 2019 and 31 December 2018 are presented in the table below:

(in PLN thousand)

Operating segment	As at 31 December 2019	As at 31 December 2018 *(restated figures)*
Distribution	182 150	452 047
Generation	429 007	219 849
Mining	62 059	88 001
Sales and other	84 727	35 020
Total	**757 943**	**794 917**

Long-term capital commitments have been presented in the consolidated statement of financial position within other financial liabilities. As at 31 December 2019, the related liability was PLN 7 414 thousand. As at 31 December 2018, the related liability was PLN 59 thousand.

Commitments to incur capital expenditure

As at 31 December 2019 and 31 December 2018, the Group committed to incur expenditure on property, plant and equipment and intangible assets of PLN 3 981 923 thousand and PLN 3 403 880 thousand, respectively, with the key items presented below:

Operating segment	Agreement/investment project	As at 31 December 2019	As at 31 December 2018
Generation	Construction of 910 MW Power Unit in Jaworzno	598 758	1 593 273
	Project of adjusting generation units to the BAT (Best Available Techniques) conclusions	388 282	1 398
Distribution	Construction of new electrical connections	1 227 019	497 276
	Modernization and reconstruction of existing networks	918 317	671 960
Mining	Construction of the "Grzegorz" shaft with the accompanying infrastructure and excavations	146 380	210 314
	Construction of the 800 m drift at "Janina" Mining Plant	30 681	102 134
	Investment Program in "Brzeszcze" Mining Plant	51 606	32 781

43. Liabilities arising from other taxes and charges

	As at 31 December 2019	As at 31 December 2018
VAT	297 343	81 227
Personal Income Tax	53 974	58 898
Excise	12 063	44 693
Social security	215 340	210 940
Other	10 281	9 896
Total	**589 001**	**405 654**

Regulations concerning VAT, corporate income tax and social insurance charges are frequently amended. The applicable regulations may also contain ambiguous issues, which lead to differences in opinions concerning the legal interpretation of tax legislation both among the tax authorities and between such authorities and enterprises.

Tax reports and other matters (e.g. customs or foreign currency transactions) may be audited by authorities competent to impose substantial penalties and fines, whereas any additional tax liabilities assessed during such audits have to be paid together with interest.

Consequently, the figures presented and disclosed in these consolidated financial statements may change in the future if a final decision is issued by tax inspection authorities.

44. Other financial liabilities

SELECTED ACCOUNTING PRINCIPLES

Other financial liabilities classified as measured at amortized cost are initially recognized at fair value adjusted by transaction costs. Following initial recognition, other financial liabilities are measured at amortized cost using an effective interest rate. If the discount effect is insignificant, they are measured at amount due.

(in PLN thousand)

Derivatives are financial liabilities measured at fair value.

PROFESSIONAL JUDGMENT AND ESTIMATES

As at each reporting period end, the Group estimates fair value of liabilities measured at fair value. The fair value calculation methodology is presented in Note 47.1 hereto.

	As at 31 December 2019	As at 31 December 2018
Liabilities due to obligation to repay overpaid amounts to customers due to come into force of the amended Act*	41 720	-
Wages, salaries	124 527	240 922
Bid bonds, deposits and collateral received	104	248 480
Derivative instruments	223 679	225 829
Margin deposits arising from stock exchange transactions	94 340	81 492
Other	155 502	84 618
Total	**639 872**	**881 341**
Non-current	79 417	107 770
Current	560 455	773 571

**The Act on the amendment to the Excise Duty Act and some other acts of 28 December 2018.*

The obligation to return overpaid amounts to customers relates to adjustments recognised by the Group reducing revenues from customers relating to 2019, resulting from the need to adjust prices in that period to the provisions of the amended *Act of 28 December 2018 on the amendment of the Excise Duty Act and certain other acts*, which is discussed in detail in Note 12 of this consolidated financial statements.

The liability on account of negative valuation of derivatives relates mainly to forward instruments on account of transactions for which the underlying commodity is CO_2 emission allowances.

Margin deposits states as cash received by the Company arising from current stock exchange transitions, due to change in valuation of futures contracts, open as at the end of reported period. The decrease in the value of variation margins in the amount of PLN 248 376 thousand relates mainly to transactions concluded on foreign exchange markets for the delivery of CO_2 emission allowances and results mainly from the settlement of CO_2 emission allowances futures contracts in December 2019 and the decrease in allowance prices compared to the comparable period.

45. Other current non-financial liabilities

SELECTED ACCOUNTING PRINCIPLES

Other non-financial liabilities include in particular overpayments received from clients and liabilities arising from advance payments received, which shall be offset with deliveries of goods, services or tangible assets. Other non-financial liabilities are recognized at amount due.

	As at 31 December 2019	As at 31 December 2018
Payments from customers relating to future periods	**360 602**	**335 483**
Amounts overpaid by customers	299 558	279 205
Prepayments for connection fees	21 085	17 583
Other	39 959	38 695
Other current non-financial liabilities	**3 774**	**1 565**
Total	**364 376**	**337 048**

EXPLANATORY NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

46. Significant items of the consolidated statement of cash flows

SELECTED ACCOUNTING PRINCIPLES

The statement of cash flows is prepared in line with the indirect method.

(in PLN thousand)

46.1. Cash flows from operating activities

Changes in working capital

	Year ended 31 December 2019	Year ended 31 December 2018
Change in receivables	**(298 156)**	**(402 821)**
Change in receivables from buyers in statement of financial position	(61 346)	(196 587)
Change in other financial receivables	(243 715)	(174 993)
Adjustment due to change in receivables due to disposal of property, plant and equipment and financial assets	1 092	(3 153)
Adjustment accounting for impairment allowances recognized in correspondence with retained earnings following the endorsement of IFRS 9 *Finanical Instruments*	-	(31 471)
Adjustment by the opening balance of the acquired business	3 802	-
Other adjustments	2 011	3 383
Change in inventories	**(175 408)**	**(222 443)**
Change in inventories in statement of financial position	(174 351)	(214 338)
Adjustment by the opening balance of the acquired business	10 579	-
Adjustment related to transfer of invetories to/from property, plant and equipment	(11 636)	(8 105)
Change in payables excluding loans and borrowings	**(213 341)**	**387 953**
Change in liabilities to suppliers in statement of financial position	(277 110)	85 311
Change in payroll, social security and other financial liabilities	(135 831)	279 451
Change in non-financial liabilities in statement of financial position	27 597	36 117
Change in liabilities arising from taxes excluding income tax	183 347	(6 060)
Adjustment by the opening balance of the acquired business	7 472	-
Adjustment of VAT change related to capital commitments	(8 732)	(2 563)
Other adjustments	(10 084)	(4 303)
Change in other non-current and current assets	**(1 121 021)**	**95 920**
Change in other current and non-current non-financial assets in statement of financial position	(28 883)	14 036
Change in receivables arising from taxes excluding income tax	(174 968)	32 252
Change in non-current and current gas emission allowances	(287 787)	(32 143)
Change in non-current and current energy certificates	(602 337)	124 267
Change in advance payments for property, plant and equipment and intangible assets	(22 460)	(62 394)
Adjustment accounting for costs of acquiring new contracts and bonuses capitalized in correspondence with retained earnings as a result of endorsement of IFRS 15 *Revenue from Contracts with Customers*	-	26 355
Adjustment by impairment losses on other non-financial assets	(5 577)	(6 847)
Adjustment by the opening balance of the acquired business	7 089	-
Other adjustments	(6 098)	394
Change in deferred income, government grants and accruals	**(70 938)**	**(130 315)**
Change in deferred income, government grants and accruals in statement of financial position	5 141	(197 488)
Adjustmet related to property, plant and equipment and intangible assets received free of charge	(19 460)	(26 351)
Adjustment related to subsidies received	(56 069)	(91 003)
Adjustment accounting for recognizing deferred income from connection fees in retained earnings following the endorsement of IFRS 15 *Revenue from Contracts with Customers*	-	195 666
Other adjustments	(550)	(11 139)
Change in provisions	**955 263**	**(512 139)**
Change of short term and long term provisions in statement of financial position	1 354 186	(489 893)
Adjustment related to actuarial gains/losses from provisions for post-employment benefits charged to other comprehensive income	(140 320)	(14 830)
Adjustment for the change in provisions for land reclamation and dismantling recognized under property, plant and equipment	(196 823)	(5 199)
Adjustment by the opening balance of the acquired business	(60 875)	-
Other adjustments	(905)	(2 217)
Total	**(923 601)**	**(783 845)**

Income tax paid

In the year ended 31 December 2019, the income tax paid was PLN 423 736 thousand. The Capital Group paid PLN 424 096 thousand of income tax, which results from the payment of income tax advances for 2019 in the amount of PLN 442 525 thousand and income tax settlements for previous years resulting in a net income of PLN 18 429 thousand.

In the year ended 31 December 2018, the income taxes paid totaled PLN 392 184 thousand and included PLN 389 078 thousand relating to the Tax Capital Group and resulting from payment by the Tax Capital Group income tax advance payments of PLN 342 734 thousand as well as the TGC's final settlement of income tax for 2017 in the amount of PLN 46 344 thousand.

(in PLN thousand)

The fact that in 2019 the Tax Capital Group has paid tax advances on a monthly basis, while in 2018 it had paid them on a quarterly basis resulted in a material increase of the income tax paid in the year 2019 versus the comparative period.

46.2. Cash from/used in investing activities

Purchase of property, plant and equipment and intangible assets

	Year ended 31 December 2019	Year ended 31 December 2018
Purchase of property, plant and equipment	(3 436 312)	(3 409 956)
Purchase of intangible assets	(120 034)	(123 047)
Change in the balance of VAT-adjusted capital commitments	(20 887)	(10 431)
Change in the balance of advance payments	22 460	62 394
Costs of overhaul and internal manufacturing	(478 006)	(269 280)
Other	(2 353)	8 754
Total	**(4 035 132)**	**(3 741 566)**

Cash transfer as part of wind farm acquisition (net of cash acquired)

The transfer of cash related to the wind farms acquisition (after the deduction of the acquired cash balance) in the amount of PLN 543 079 thousand is related to the acquisition of five wind farms from the in.ventus group, along with the debt owed by their operators to Hamburg Commercial Bank AG, as described in detail in Note 2.1 hereto. The cash transferred by the Group in this transaction amounted to PLN 579 661 thousand, and cash balance acquired as part of net assets amounted to PLN 36 582 thousand.

Loans granted

Payments to grant loans result from the loan disbursed by the Company to Elektrociepłownia Stalowa Wola S.A., a jointly-controlled entity, in the total amount of PLN 23 225 thousand.

46.3. Cash from/used in financing activities

Redemption of debt securities

Expenses related to the redemption of bonds in the amount of PLN 2 420 000 thousand, as described in detail in Note 35.2 hereto, included:

- bonds with par value of PLN 1 750 000 thousand, redeemed within the deadline determined in the TPEA 1119 scheme bonds;
- bonds with a nominal value of PLN 400 000 thousand, redeemed within the deadline determined in the bond issue scheme of 24 November 2015;
- premature redemption of three series of bonds subscribed by BGK, with the total par value of PLN 270 000 thousand.

Repayment of borrowings and loans

Expenses related to the repayment of loans and borrowings, as presented in the consolidated statement of cash flows in the amount of PLN 867 360 thousand, result mainly from the Parent's repayment during the year ended 31 December 2019 of the following:

- two credit tranches under the agreement concluded with the Consortium of Banks in the amount of PLN 700 000 thousand;
- instalments of the loan to the European Investment Bank in the amount of PLN 162 318 thousand.

(in PLN thousand)

Interest paid

	Year ended 31 December 2019	Year ended 31 December 2018
Interest paid in relation to debt securities	(315 954)	(258 358)
Interest paid in relation to loans and borrowings	(75 685)	(30 355)
Interest paid in relation to the finance lease	(5 129)	(196)
Total	**(396 768)**	**(288 909)**
investment expenditure	(184 212)	(128 739)
financial expenditure	(212 556)	(160 170)

The Group's consolidated statement of cash flows presents incurred borrowing costs which were capitalized in the current period in the value of assets as payments to acquire property, plant and equipment and intangible assets in cash flows from investing activities. In the year ended 31 December 2019, interest representing borrowing costs capitalized in the value of property, plant and equipment and intangible assets amounted to PLN 184 212 thousand.

Repayment of lease liabilities

The repayment of lease liabilities recognized by the Group in line with IFRS 16 *Leases* amounted to PLN 75 047 thousand. The total total cash outflow from leases (including short-term leases and leases of low-value assets, to which the Group applied a practical solution without recognizing them as at 1 January 2019 in line with IFRS 16 *Leases*) amounted to PLN 96 601 thousand.

Issue of debt securities

Proceeds related to the issue of debt securities in the amount of PLN 500 000 thousand, which is described in detail in Note 35.2 hereto, included:

- issue of subordinated bonds subscribed by BGK in the amount of PLN 400 000 thousand;
- issue bonds in the amount of PLN 100 000 thousand under the bond issue scheme of 24 November 2015.

Loans taken

Proceeds arising from contracted loans totaling PLN 5 150 000 thousand, as described in detail in Note 35.1 hereto, concerned;

- providing loan tranches of PLN 1 000 000 thousand based on the arrangement concluded with Bank Gospodarstwa Krajowego;
- providing loan tranches of PLN 4 150 000 thousand based on the arrangement concluded with the consortium of banks.

Proceeds from non-controlling interests

Proceeds from non-controlling interests of PLN 780 000 thousand are related to cash contribution paid by Fundusz Inwestycji Infrastrukturalnych — Kapitałowy Fundusz Inwestycyjny Zamknięty Aktywów Niepublicznych and PFR Inwestycje Fundusz Inwestycji Zamkniętych to assume shares in the increased capital of Nowe Jaworzno Grupa TAURON Sp. z o.o.

FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT

47. Financial instruments

SELECTED ACCOUNTING PRINCIPLES

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

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

As at the reporting period end, the Group had no financial assets measured at fair value through other comprehensive income.

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

(in PLN thousand)

The equity instruments are measured at fair value through profit or loss in line with IFRS 9 *Financial Instruments*.

Classes of financial liabilities in the TAURON Group:

- financial liabilities measured at fair value through profit or loss;
- other financial liabilities measured as at each subsequent reporting period end at amortized cost.

PROFESSIONAL JUDGMENT AND ESTIMATES

The Group makes judgments regarding classification of financial instruments.

As at each reporting period end, the Group measures the fair value of assets and liabilities classified as measured at fair value and discloses the fair value of other financial instruments. The methodology underlying fair value measurement is presented below.

The Group recognizes an impairment loss upon initial recognition of a financial asset and then remeasures the loss amount as at each reporting period end. The recognized allowance for expected credit losses on financial assets measured at amortized cost includes mostly receivables from buyers and originated loans. The measurement methodology is presented in Notes 29 and 48.1.4 hereof.

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

Categories and classes of financial assets	As at 31 December 2019		As at 31 December 2018	
	Carrying amount	Fair value	Carrying amount	Fair value
1 Financial assets measured at amortized cost	**2 582 793**		**2 337 094**	
Receivables from buyers	2 290 746	2 290 746	2 229 400	2 229 400
Deposits	50 228	50 228	47 126	47 126
Loans granted	39 467	39 467	28 296	28 296
Other financial receivables	202 352	202 352	32 272	32 272
2 Financial assets measured at fair value through profit or loss (FVTPL)	**2 004 034**		**1 626 932**	
Derivative instruments	86 067	86 067	216 165	216 165
Shares (non-current)	140 508	140 508	138 492	138 492
Loans granted	216 018	216 018	199 256	199 256
Other financial receivables	296 867	296 867	223 232	223 232
Investment fund units	26 622	26 622	26 063	26 063
Cash and cash equivalents	1 237 952	1 237 952	823 724	823 724
3 Derivative hedging instruments	**19 462**	**19 462**	**4 178**	**4 178**
4 Financial assets excluded from the scope of IFRS 9	**559 144**		**543 913**	
Investments in joint ventures	559 144		543 913	
Total financial assets, ***of which in the statement of financial position:***	**5 165 433**		**4 512 117**	
Non-current assets	**1 032 701**		**1 015 992**	
Investments in joint ventures	559 144		543 913	
Loans granted to joint ventures	238 035		217 402	
Other financial assets	235 522		254 677	
Current assets	**4 132 732**		**3 496 125**	
Receivables from buyers	2 290 746		2 229 363	
Loans granted to joint ventures	4 999		5	
Other financial assets	599 035		443 033	
Cash and cash equivalents	1 237 952		823 724	

Following an analysis, transferred collateral, amounting to PLN 296 867 thousand as at 31 December 2019, was classified as other financial receivables measured at fair value through profit or loss, since the classification provides the best reflection of the nature of these financial assets. The remaining other financial receivables are classified as measured at amortized cost.

The Group classifies a loan granted to Elektrociepłownia Stalowa Wola S.A. under an agreement of 28 February 2018 to assets measured at fair value though profit or loss, as discussed in detail in Note 25 to these consolidated financial statements.

(in PLN thousand)

Categories and classes of financial liabilities	As at 31 December 2019		As at 31 December 2017	
	Carrying amount	Fair value	Carrying amount	Fair value
1 Financial liabilities measured at amortized cost	**15 428 187**		**13 526 426**	**-**
Preferential loans	12 488	12 488	17 521	17 521
Arm's length loans	7 014 824	7 030 597	867 997	892 832
Bank overdrafts	23 339	23 339	767	767
Bonds issued	6 257 022	6 537 537	10 077 067	10 204 721
Liabilities to suppliers	850 628	850 628	1 127 738	1 127 738
Other financial liabilities	223 920	223 920	406 151	406 151
Capital commitments	765 357	765 357	794 976	794 976
Salaries and wages	223 679	223 679	225 829	225 829
Insurance contracts	56 930	56 930	8 380	8 380
2 Financial liabilities measured at fair value through profit or loss (FVTPL)	**124 527**		**240 922**	
Derivative instruments	124 527	124 527	240 922	240 922
3 Financial liabilities excluded from the scope of IFRS 9	**1 006 603**		**25**	
Leases liabilities	1 006 603		25	
Total financial liabilities, ***of which in the statement of financial position:***	**16 559 317**		**13 767 373**	
Non-current liabilities	**11 909 600**		**8 595 980**	
Debt	11 830 183		8 488 210	
Other financial liabilities	79 417		107 770	
Current liabilities	**4 649 717**		**5 171 393**	
Debt	2 484 093		2 475 167	
Liabilities to suppliers	847 226		1 127 738	
Capital commitments	757 943		794 917	
Other financial liabilities	560 455		773 571	

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 measurement level	Fair value measurement methodology
	Financial assets/liability measured at fair value	
Derivatives, *including:*		Derivatives have been measured in line with the methodology presented in Note 47.3 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 the discounted dividend method. 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.
Units in investment funds	1	Fair value measurement of units is referred to current quotings of the units.
	Financial liabilities whose fair value is disclosed	
Loans, borrowings and bonds issued	2	Liabilities arising from fixed interest debt, i.e. loans contracted from the European Investment Bank, issued subordinated bonds taken by the European Investment Bank and eurobonds, as well as bonds issued by a subsidiary 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.

The fair value of other financial instruments as at 31 December 2019 and 31 December 2018 (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.

(in PLN thousand)

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

	Year ended 31 December 2019		Year ended 31 December 2018	
	Not quoted shares	Loans granted	Not quoted shares	Loans granted
Opening balance	**138 492**	**199 256**	**141 698**	**-**
Effects of implementing IFRS 9 *Financial instruments*	-	-	(26 031)	150 960
Restated opening balance	**138 492**	**199 256**	**115 667**	**150 960**
Gains/(losses) for the period recognized in financial revenue/expenses	(10 044)	16 762	1 754	(11 581)
Purchased/contracted	12 072	-	21 083	-
Sold/repaid	(12)	-	(12)	(299 100)
Settlement of the debt consolidation arrangement	-	-	-	358 977
Closing balance	**140 508**	**216 018**	**138 492**	**199 256**

In the year ended 31 December 2019 and 31 December 2018 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.

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

Year ended 31 December 2019

	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	4 264	-	-	-	-	**4 264**
Interest income / (expense)	7 444	21 880	(204 794)	743	(44 800)	**(219 527)**
Currency translation differences	4 007	(3 128)	29 204	-	-	**30 083**
Impairment / revaluation	(27 827)	(637)	(3 271)	34	-	**(31 701)**
Commission relating to borrowings and debt securities	-	-	(20 338)	-	-	**(20 338)**
Gain/(loss) on disposal of investments	17	(1 974)	-	-	-	**(1 957)**
Gain/(loss) on exercised derivative instruments*	(18 144)	-	-	-	-	**(18 144)**
Net financial income (costs)	**(30 239)**	**16 141**	**(199 199)**	**777**	**(44 800)**	**(257 320)**
Revaluation	21 386	(27 818)	-	-	-	**(6 432)**
Gain/(loss) on exercised derivative instruments*	(34 054)	-	-	-	-	**(34 054)**
Net operating income/(costs)	**(12 668)**	**(27 818)**	**-**	**-**	**-**	**(40 486)**
Remeasurement	-	-	-	15 179	-	**15 179**
Other comprehensive income	**-**	**-**	**-**	**15 179**	**-**	**15 179**

**The Group recognizes revenue and expenses related to commodity instruments in operating activities. Revenue and expenses regarding other derivatives are recognized under financial revenue/expenses.*

Year ended 31 December 2018

	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	7 348	-	-	-	-	**7 348**
Interest income / (expense)	5 554	21 675	(147 521)	1 202	(196)	**(119 286)**
Currency translation differences	(7 416)	1 406	(77 445)	-	-	**(83 455)**
Impairment / revaluation	(7 815)	7 170	(11 994)	-	-	**(12 639)**
Commission relating to borrowings and debt securities	-	-	(22 945)	-	-	**(22 945)**
Gain/(loss) on disposal of investments	(25)	(1 243)	-	-	-	**(1 268)**
Gain/(loss) on exercised derivative instruments*	(6 078)	-	-	-	-	**(6 078)**
Net financial income (costs)	**(8 432)**	**29 008**	**(259 905)**	**1 202**	**(196)**	**(238 323)**
Revaluation	(17 534)	(20 079)	-	-	-	**(37 613)**
Gain/(loss) on exercised derivative instruments*	16 910	-	-	-	-	**16 910**
Net operating income/(costs)	**(624)**	**(20 079)**	**-**	**-**	**-**	**(20 703)**
Remeasurement	-	-	-	(24 297)	-	**(24 297)**
Other comprehensive income	**-**	**-**	**-**	**(24 297)**	**-**	**(24 297)**

The Group recognizes revenue and expenses related to commodity instruments in operating activities. Revenue and expenses regarding other derivatives are recognized under financial revenue/expenses.

(in PLN thousand)

47.3. Derivative instruments and hedge accounting

SELECTED ACCOUNTING PRINCIPLES

Derivative financial instruments within the scope of IFRS 9 *Financial Instruments* are classified as financial assets/financial liabilities measured at fair value through profit or loss, except derivatives constituting hedging which instruments and subject to hedge accounting. Derivative instruments for purchase and sales of non-financial assets acquired and held to secure own needs as excluded from IFRS 9 *Financial Instruments* are not measured at the end of the reporting period. Derivatives covered by the scope of IFRS 9 *Financial instruments* are classified as assets when their value is positive and as liabilities - when their value is negative.

At the end of the reporting period, the Group held the following derivative instruments included in IFRS 9 *Financial instruments*:

Classification	Instruments type	Recognition in consolidated statment of comprehensive income
Derivatives subject to hedge accounting	Interest Rate Swaps (IRS) concluded to hedge against interest rate risk related to borrowings. Subject to hedge accounting.	- measurement (effective portion of the hedge) in other comprehensive income, reclassified to profit or loss when the hedged item affects profit or loss for the period; - measurement (non-effective portion of the hedge) in profit or loss for the period
Derivatives not subject to hedge accounting, classified as “assets/liabilities measured at fair value through profit or loss”	• forward contracts concluded in order to hedge against risk related to foreign exchange rate fluctuations;	- finance income/ (costs)
	• forwards and futures for purchase and sales of CO_2 emission allowances, energy and other commodities, concluded and maintained for speculation purposes;	- operating income/ (costs)
	• Coupon Only Cross Currency Swap (fixed-fixed-CCIRS) entered into in order to hedge against currency risk.	- finance income/ (costs)

Hedge accounting

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

At the time of the hedge the hedging relationship is designated and the risk management objective and strategy for undertaking the hedge are documented formally.

A cash flow hedge is accounted for in the following manner:

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

Gain or loss from revaluation of the hedging instrument disclosed in other comprehensive income is recognized directly in profit or loss in the same period during which the hedged item affects profit or loss for the period. For IRS, interest costs arising from debt are adjusted accordingly.

PROFESSIONAL JUDGMENT AND ESTIMATES

As at each reporting period end, the Group carries out fair value estimation. The methodology is presented below.

Derivative instrument	Methodology of determining fair value hierarchy
IRS	Difference between the discounted interest cash flows based on the floating and fixed interest rates. Reuters' interest rate curve is the input data.
CCIRS	Difference between the discounted interest cash flows of the payable and receivables streams, in two various currencies, denominated in the measurement currency. Reuters' interest rate curve, basis spreads and NBP fixing for relevant currencies are the input data.
Forward currency contracts	Difference between the discounted future cash flows between the future price as at the valuation date and the transaction price multiplied by the par value of the FX contract. Reuter's NBP fixing and the interest rate curve implied from fx swap transaction for a relevant currency is the input data.
Commodity (forwards, futures)	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.

As at each reporting period end, the Group checks the hedge effectiveness.

Measurement of derivatives as at each reporting period end is presented in the following table.

	As at 31 December 2019				As at 31 December 2018			
	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
CCIRS	(12 885)	-	**-**	**(12 885)**	(5 140)	-	**-**	**(5 140)**
IRS	121	19 341	**19 462**	**-**	16	4 162	**4 178**	**-**
Commodity forwards/futures	4 248	-	**86 067**	**(81 819)**	(17 138)	-	**216 165**	**(233 303)**
Currency forwards	(29 823)	-	**-**	**(29 823)**	(2 479)	-	**-**	**(2 479)**
Total			**105 529**	**(124 527)**			**220 343**	**(240 922)**
Non-current			20 352	(16 848)			43 844	(37 930)
Current			85 177	(107 679)			176 499	(202 992)

(in PLN thousand)

The fair value hierarchy for derivative financial instruments was as follows:

	As at 31 December 2019		As at 31 December 2018	
	Level 1	Level 2	Level 1	Level 2
Assets				
Derivative instruments - commodity	86 067	-	216 165	-
Derivative instruments-IRS	-	19 462	-	4 178
Total	**86 067**	**19 462**	**216 165**	**4 178**
Liabilities				
Derivative instruments - commodity	81 819	-	233 303	-
Derivative instruments - currency	-	29 823	-	2 479
Derivative instruments-CCIRS	-	12 885	-	5 140
Total	**81 819**	**42 708**	**233 303**	**7 619**

Derivative instruments (subject to hedge accounting)

In the year ended 31 December 2019, the Company hedged a part of the interest rate risk in relation to the cash flows related to the exposure to WIBOR 6M determined under the dynamic risk management strategy, i.e:

- interest on bonds with a par value of PLN 490 000 thousand by concluding interest rate swap hedging transactions (IRS) for periods starting from 20 December 2019, expiring in turn from 2023 to 2028;
- interest on a loan with a nominal value of PLN 1 000 000 thousand by concluding interest rate swap hedging transactions (IRS) for periods starting from 20 December 2019, expiring on 20 June 2024 and until 20 June 2029.

The aforementioned transactions are subject to hedge accounting.

In 2016 the Company hedged a portion of its interest rate risk for cash flows relating to the exposure to WIBOR 6M, designated under the dynamic risk management strategy, i.e. interest on debt securities with the par value of PLN 2 100 000 thousand, through the entry into interest rate swap (IRS) transactions for a term of 4 to 5 years. The aforementioned transactions are subject to hedge accounting.

Effects of hedge accounting on revaluation reserve regarding hedging instruments are presented in Note 33.5 hereto.

In the year ended 31 December 2019, revaluation resulted in an increase by PLN 15 179 thousand in other comprehensive incomethe, and PLN 777 thousand was recognized in the current period's financial result.

Derivative instruments measured at fair value through profit or loss (FVTPL)

As at 31 December 2019, derivative instruments which did not fall within the scope of hedge accounting and were classified as financial assets or financial liabilities measured at fair value through profit or loss comprised:

- CCIRSs that hedge foreign currency cash flows resulting from the payment of interest on the issued eurobonds;
- commodity derivatives (futures, forward) including CO_2 emission allowances and other commodity purchase and sale transactions;
- FX forward transactions hedging foreign currency cash flows resulting from the Company's operations.

The CCIRSs have been used with respect to the Company's Coupon Only Cross Currency Swap fixed-fixed transactions concluded in 2017 and in January 2018 and involve an exchange of interest payments on the total par value of EUR 500 000 thousand. They mature in July 2027. In accordance with the terms and conditions, the Company pays interest at a fixed rate in PLN and receives fixed interest-rate payments in EUR. Hedge accounting principles do not apply to the transaction in question.

48. Principles and objectives 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:

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 is managed through the control of the credit exposure at the time when companies in the TAURON Group sign contracts. As a rule, before a contract is signed, every entity is examined in terms of their financial position and is assigned a limit which determines the maximum exposure allowed. The credit exposure in this case is understood as the amount which may be lost, if the counterparty defaults on their obligations at a given time (considering the value of security they have lodged). The credit exposure is calculated at a given day and comprises a default risk and replacement risk. The TAURON Group has a decentralized credit risk management system in place, however, the control, mitigation and reporting are managed centrally at a 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 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 TAURON Group's liquidity is reviewed on an ongoing basis to detect any deviation from plans and the availability of external sources of funds, in the case of which the amount materially exceeds the expected short-term demand, mitigates the liquidity risk. 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, including overdraft facilities. The Company 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 minimize the financing risk, the Company's policy assumes obtaining funding for the Group in advance of the planned time of use, i.e. up to 24 months prior to the planned demand. The key objective of the policy is to ensure flexible selection of funding source, use favorable market conditions and reduce the risk related to the necessity to contract new debt on adverse terms.	Liquidity management policy for the TAURON Group
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.	The TAURON Group manages the currency and interest rate risk based on the developed and approved Financial Risk Management Policy in the TAURON Group. The key objective of such risk management is to minimize the cash flow sensitivity of the TAURON Group to financial risks and to minimize finance cost and costs of hedging with the use of derivative instruments. Wherever possible and commercially viable, derivative instruments are used, whose nature 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 operating profit/loss of the TAURON Group resulting from fluctuations of prices in the commodity markets in individual areas of commercial activities of the TAURON Group.	Effective management is ensured by a commercial risk management system linked in terms of organization 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 at 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

48.1. 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.

(in PLN thousand)

Classes of financial instruments	As at 31 December 2019	As at 31 December 2018
Receivables from buyers	2 290 746	2 229 400
Cash and cash equivalents	1 237 952	823 724
Loans granted	255 485	227 552
Derivative instruments	105 529	220 343
Deposits	50 228	47 126
Other financial receivables	499 219	255 504

48.1.1 Credit risk related to receivables from buyers

The Group has receivables from two groups of buyers: institutional and individual clients. The percentage share of individual groups in the total amount of receivables from buyers has been presented below:

	As at 31 December 2019	As at 31 December 2018
Institutional clients	76.65%	70.88%
Individual clients	23.35%	29.12%
Total	**100%**	**100%**

No material concentration of credit risk related to the core activity occurs in the Group. Amounts due from PSE S.A. constitute the largest item of receivables from buyers with a share of 6.69% and 6.55% as at 31 December 2019 and 31 December 2018, respectively.

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

The aging analysis of receivables from buyers as well as information on allowances/write-downs on receivables from buyers have been presented in Note 29 hereto.

48.1.2 Credit risk related to other financial receivables

Other financial receivables of the Group as at 31 December 2019 and as at 31 December 2018 relate mainly to institutional clients (share of 99.64% and 99.89%, respectively). As at 31 December 2019, the main item of other financial receivables are margin deposits resulting from collaterals provided in respect of transactions entered into on stock exchange markets. Stock exchange trading mechanisms and applied hedge in the assessment of the Company basically eliminate the credit risk. In addition to stock exchange collaterals, there is no significant concentration of credit risk associated with other financial receivables.

Regarding other financial receivables measured at amortized cost as at the balance sheet date, the Group estimates an impairment loss.

Aging analysis of other financial receivables measured at amortized cost as at 31 December 2019

	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	206 721	5 526	5 055	1 428	2 124	97 633	**318 487**
Percentage of allowance/write-down	5%	60%	51%	97%	99%	100%	-
Allowance/write-down	(9 330)	(3 317)	(2 576)	(1 391)	(2 113)	(97 408)	**(116 135)**
Net Value	**197 391**	**2 209**	**2 479**	**37**	**11**	**225**	**202 352**

Aging analysis of other financial receivables measured at amortized cost as at 31 December 2018

	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	42 580	780	1 292	23 103	5 813	78 006	**151 574**
Percentage of allowance/write-down	25%	67%	98%	100%	100%	100%	-
Allowance/write-down	(10 668)	(522)	(1 262)	(23 064)	(5 808)	(77 978)	**(119 302)**
Net Value	**31 912**	**258**	**30**	**39**	**5**	**28**	**32 272**

(in PLN thousand)

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

	Year ended 31 December 2019	Year ended 31 December 2018
Opening balance	**(119 302)**	**(114 786)**
Recognised	(3 143)	(8 705)
Utilized	560	511
Reversed	5 750	1 860
Other movements	-	1 818
Closing balance	**(116 135)**	**(119 302)**

48.1.3 Credit risk related to cash and cash equivalents and derivatives instruments

Credit risk management related to cash is carried out by the Group through the diversification of banks in which surpluses of cash are deposited. These banks receive investment rating. The share of three banks in which the Group has the largest cash balances as at 31 December 2019 amounted to 86%.

The entities the Company concludes derivative transactions with in order to hedge against interest rate and currency risk operate in the financial sector. These banks receive investment rating. The Company diversifies banks with whom derivative transactions are concluded.

Derivatives for which the basic assets are non-financial assets, which are in the scope of IFRS 9 *Financial Instruments*, apply to futures (exchage market) and forwards (OTC market). Exchange markets apply appropriate mechanisms to protect, in the form of margin and supplementary deposits. Under supplementary 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 contract. Therefore, commercial transactions of material value are preceded by the assessment of the counterparty's creditworthiness, 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.

48.1.4 Credit risk related to loans granted

Loans measured at amortised cost

As far as originated loans measured at amortized cost are concerned, the Company 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 analyzed beginning from the initial recognition of a given asset.

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

- 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;
- 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 2019 and 31 December 2018 were not overdue.

The Group did not originate loans for which impairment losses are calculated over the entire life cycle of a financial instrument and which as at 31 December 2019 were impaired due to credit risk.

(in PLN thousand)

Loans measured at fair value

Measurement of the loan granted to Elektrociepłownia Stalowa Wola S.A., a joint venture classified as non-financial assets measured at fair value through profit or loss, with the carrying amount of PLN 216 018 thousand, includes credit risk effects. The loan is collateralized with a blank promissory note with a promissory note agreement.

48.2. 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 Group has adopted *Liquidity Management Policy for the TAURON Group*, which facilitates optimization of liquidity management in the Group, reduces the risk of liquidity loss in the Group and in each Group company as well as reduces 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 minimize the 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 Company also has available financing under the concluded overdraft agreements. The balance of use of overdratts by the Company as at each balance sheet date is presented in the table below.

Bank overdrafts

	Bank	Purpose	Currency	Currency financing available	Repayment date	As at 31 December 2019		As at 31 December 2018	
						currency	PLN	currency	PLN
intraday limit	PKO BP	intraday limit	PLN	300 000	17.12.2020		-		-
overdraft facility	PKO BP	financing of ongoing operations	PLN	300 000	29.12.2020		-		-
	BGK	financing of CO_2 emission allowance, electricity and gas transactions on EU stock exchanges	EUR	45 000	31.12.2020	4 804	20 456	-	-
	mBank	financing of security deposits and commodity transactions	USD	200	31.03.2020	198	754	204	767
Total							**21 210**		**767**

The use of foreign currency loans is to mitigate forex risk related to commercial transactions denominated in foreign currencies.

In addition to overdrafts, the Company has primarily available financing under the syndicated loan agreement, which is used for general corporate purposes, including securing the Group's current liquidity position and financing under the Intesa Credit Agreement.

After the period end date, the Company concluded new financing agreements (described in detail in Note 56 hereto).

- a credit agreement concluded with SMBC Bank EU AG;
- a programme agreement concluded with Santander Bank Polska S.A. enabling financing to be obtained through a bond issue on the domestic market;
- a syndicated loan agreements concluded with Banca IMI S.P.A., London Branch, Banca IMI S.A.P., Intesa Sanpaolo S.P.A. acting through intermediation of Intesa Sanpaolo S.P.A. S.A. Branch in Poland and China Construction Bank (Europe) S.A. acting through intermediation of China Construction Bank (Europe) S.A. Branch in Poland.

(in PLN thousand)

The adopted financing policy provides for increased access to funding sources, reduction of borrowing costs and collateral established on the Group's assets, covenants required by financial institutions and allows a decrease in administrative expenses. The centralized financing model allows access to funding sources inaccessible for individual companies.

As at 31 December 2019, TAURON Group had a significant number of forward contracts concluded on the exchange for the purchase of CO_2 emission allowances, mainly for surrender by the Group's generating units. A position within the scope of CO_2 emission allowances entered into on the exchange generates a risk related to the necessity to provide funds for variation margins, the volume of which is closely related to the volume maintained on the exchange market and current market prices of CO_2 emission allowances. The risk in this case is the reduction of market prices below the average portfolio price. Therefore, taking into account the significant price volatility in 2018 and 2019 and potential significant price changes in the future, the Group identifies the liquidity risk related to the necessity to deposit cash for variation margins. The change of price by 1 EUR/Mg is a change of the variation margin by about PLN 56 000 thousand with the volume of about 13 million Mg.

Due to the strong positive correlation between CO_2 emission allowances prices and electricity prices on the Polish market, a drop in CO_2 emission allowances prices may also cause a reduction in electricity prices. The Group naturally has a long position for electricity on the Polish Power Exchange, mainly for the purpose of securing sales to TAURON Group customers. A price change by PLN 1/MWh means a possible change of the variation margin depending on the position held by about PLN 23 000 - 50 000 thousand with a net annual position of about 23 TWh. The sharp drop in CO_2 emission allowances prices and, as a consequence, electricity prices may cause a significant increase in the required margins on ICE and POLPX exchanges, which, as a consequence, may require the engagement of cash and have a negative impact on the liquidity ratios of the TAURON Group.

In 2019, the Group was fully able to pay its liabilities at maturity.

The following tables present the Group's financial liabilities based on non-discounted contractual payments by maturity as at 31 December 2019 and 31 December 2018.

Financial laibilities as at 31 December 2019

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	**13 307 673**	**(15 536 815)**	(1 693 417)	(977 598)	(650 705)	(3 882 401)	(1 981 047)	(6 351 647)
Liabilities to suppliers	**850 628**	**(850 628)**	(847 226)	-	(1 706)	(1 696)	-	-
Capital commitments	**765 357**	**(765 357)**	(757 850)	(93)	(3 708)	(3 706)	-	-
Other financial liabilities	**504 529**	**(504 529)**	(362 412)	(90 370)	(32 194)	(5 081)	(7 376)	(7 096)
Obligations under finance leases	**1 006 603**	**(1 927 467)**	(66 996)	(43 897)	(94 969)	(77 448)	(137 372)	(1 506 785)
Derivative financial liabilities								
Derivate instruments - commodity	**81 819**	**(29 676)**	(24 602)	(4 950)	(124)	-	-	-
Derivative instruments - currency	**29 823**	**(29 823)**	(2 505)	(19 911)	(7 407)	-	-	-
Derivate instruments - CCIRS	**12 885**	**(49 267)**	-	(6 207)	(6 188)	(6 120)	(12 326)	(18 426)
Total	**16 559 317**	**(19 693 562)**	**(3 755 008)**	**(1 143 026)**	**(797 001)**	**(3 976 452)**	**(2 138 121)**	**(7 883 954)**

(in PLN thousand)

Financial laibilities as at 31 December 2018

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	**10 963 352**	**(13 829 604)**	(464 622)	(2 324 303)	(2 438 943)	(582 418)	(1 027 403)	(6 991 915)
Liabilities to suppliers	**1 127 738**	**(1 127 738)**	(1 122 894)	(4 844)	-	-	-	-
Capital commitments	**794 976**	**(794 976)**	(784 326)	(10 590)	(59)	(1)	-	-
Other financial liabilities	**640 360**	**(640 360)**	(557 019)	(13 562)	(45 268)	(4 973)	(10 502)	(9 036)
Obligations under finance leases	**25**	**(28)**	(1)	(1)	(2)	(2)	(4)	(18)
Derivative financial liabilities								
Derivate instruments - commodity	**233 303**	**(124 112)**	(76 640)	(16 490)	(30 982)	-	-	-
Derivative instruments - currency	**2 479**	**(2 479)**	86	(2 565)	-	-	-	-
Derivate instruments - CCIRS	**5 140**	**(50 950)**	-	(5 627)	(5 713)	(5 695)	(11 253)	(22 662)
Total	**13 767 373**	**(16 570 247)**	**(3 005 416)**	**(2 377 982)**	**(2 520 967)**	**(593 089)**	**(1 049 162)**	**(7 023 631)**

48.3. 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 and price risk related to units held by the Group.

48.3.1 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 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 47.3 hereto.

The carrying amounts of financial instruments of the Group exposed to the interest rate risk have been presented in the tables below. As the Company 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.

(in PLN thousand)

Financial instruments by type of interest rate

Financial instruments	As at 31 December 2019			As at 31 December 2018		
	Fixed interest rate	Floating interest rate	Total	Fixed interest rate	Floating interest rate	Total
Financial assets						
Deposits	50 228	-	**50 228**	47 126	-	**47 126**
Loans granted	246 243	9 242	**255 485**	222 756	4 796	**227 552**
Cash and cash equivalents	-	1 143 598	**1 143 598**	-	724 078	**724 078**
Derivative instruments-IRS	19 462	-	**19 462**	4 178	-	**4 178**
Financial liabilities						
Bank overdrafts	-	23 339	**23 339**	-	767	**767**
Preferential loans	-	12 488	**12 488**	-	17 521	**17 521**
Arm's length loans	2 892 708	4 122 116	**7 014 824**	850 675	17 322	**867 997**
Bonds issued	5 756 491	500 531	**6 257 022**	6 519 439	3 557 628	**10 077 067**
Obligations under finance leases	1 006 603	-	**1 006 603**	25	-	**25**
Derivative instruments-CCIRS	12 885	-	**12 885**	5 140	-	**5 140**

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

The analysis of sensitivity to changes in market risk factors is conducted by means of a scenario analysis. The Group relies on expert scenarios reflecting its judgment concerning the behavior 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 scale of potential changes in interest rates has been estimated on the basis of implied volatility for interest rate options quoted on the interbank market for currencies which expose the Group to the interest rate risk as at the end of the reporting period.

The Group identifies its exposure to the risk of changes in WIBOR, EURIBOR and LIBOR USD interest rates. As at 31 December 2019 and as at 31 December 2018, its exposure to the risk of changes in EURIBOR and LIBOR USD was immaterial.

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

Year ended 31 December 2019

Classes of finacial instruments	31 December 2019		Sensitivity analysis for interest rate risk as at 31 December 2019	
	Carrying amount	Value at risk	WIBOR +38 bp	WIBOR -38 bp
			Profit or loss / other comprehensive income	
Loans granted	255 485	225 260	(9 883)	10 398
Cash and cash equivalents	1 237 952	1 143 598	4 237	(4 237)
Derivatives (assets)	105 529	19 462	37 204	(37 204)
Preferential loans	12 488	12 488	(47)	47
Arm's length loans	7 014 824	6 320 285	(24 017)	24 017
Issued bonds	6 257 022	1 890 467	(7 184)	7 184
Derivatives (liabilities)	124 527	12 885	6 098	(6 098)
Total			**6 408**	**(5 893)**

The exposure to risk as at 31 December 2019 is representative for the Group's exposure to risk during the annual period preceding the aforementioned date.

(in PLN thousand)

Year ended 31 December 2018

Classes of finacial instruments	31 December 2018		Sensitivity analysis for interest rate risk as at 31 December 2018	
	Carrying amount	Value at risk	WIBOR +34 bp	WIBOR -34 bp
			Profit or loss / other comprehensive income	
Loans granted	227 552	204 052	(8 788)	9 225
Cash and cash equivalents	823 724	724 078	1 728	(1 728)
Derivatives (assets)	220 343	4 178	10 315	(10 315)
Preferential loans	17 521	17 521	(60)	60
Arm's length loans	867 997	17 322	(59)	59
Issued bonds	10 077 067	5 656 342	(19 232)	19 232
Derivatives (liabilities)	240 922	5 140	6 618	(6 618)
Total			**(9 478)**	**9 915**

The exposure to risk as at 31 December 2018 is representative for the Group's exposure to risk during the annual period preceding the aforementioned date.

48.3.2 Currency risk

The TAURON Group companies are exposed to transaction and translation currency risk. The Group companies are exposed mainly to the risk of EUR/PLN, CZK/PLN, USD/PLN and GBP/PLN exchange rate changes in relation to their operating and financing activities. The Group's exposure to currency risk by financial instrument class in 2019 and in 2018 has been presented below. A material exposure involves changes in EUR/PLN and CZK/PLN exchange rates. Group's exposure to other currencies is immaterial.

Currency position as at 31 December 2019

Classes of financial instruments	Total carrying amount in PLN	EUR		CZK	
		in currency	in PLN	in currency	in PLN
Financial assets					
Receivables from buyers	2 290 746	2 170	9 251	50 029	8 384
Other financial receivables	499 219	49 784	212 005	20 346	3 410
Cash and cash equivalents	1 237 952	4 187	17 832	48 443	8 119
Derivatives (assets)	105 529	14 214	60 531	-	-
Total		**70 355**	**299 619**	**118 818**	**19 913**
Financial liabilities					
Bank overdrafts	23 339	5 304	22 585	-	-
Issued bonds	6 257 022	851 101	3 624 412	-	-
Liabilities to suppliers	850 628	5 770	24 572	8 884	1 489
Other financial liabilities	223 920	2 530	10 774	-	-
Derivatives (liabilities)	124 527	13 206	56 238	-	-
Total		**877 911**	**3 738 581**	**8 884**	**1 489**
Net currency position		**(807 556)**	**(3 438 962)**	**109 934**	**18 424**

Currency position as at 31 December 2018

Classes of financial instruments	Total carrying amount in PLN	EUR		CZK	
		in currency	in PLN	in currency	in PLN
Financial assets					
Receivables from buyers	2 229 400	1 815	7 805	55 582	9 299
Other financial receivables	255 504	38 733	166 552	20 292	3 395
Cash and cash equivalents	823 724	51 173	220 044	31 544	5 277
Derivatives (assets)	220 343	35 511	152 697	-	-
Total		**127 232**	**547 098**	**107 418**	**17 971**
Financial liabilities					
Issued bonds	10 077 067	853 686	3 670 848	-	-
Liabilities to suppliers	1 127 738	2 436	10 475	4 579	766
Other financial liabilities	406 151	57 866	248 824	-	-
Derivatives (liabilities)	240 922	39 493	169 820	-	-
Total		**953 481**	**4 099 967**	**4 579**	**766**
Net currency position		**(826 249)**	**(3 552 869)**	**102 839**	**17 205**

(in PLN thousand)

TAURON Group uses forward contracts to manage its foreign exchange risk. Transactions concluded in 2019 were intended to protect the Group from forex risk, related to its commercial operations, mostly to purchases of CO_2 emission allowances and from currency exposure generated by interest payments on borrowings denominated in EUR.

Fair value measurement of forward foreign exchange contracts (as at 31 December 2019, a liability for a negative valuation of PLN 29 823 thousand) and CCIRS (as at 31 December 2019, a liability for a negative valuation of PLN 12 885 thousand) is exposed to the risk of changes in the EUR/PLN exchange rate. Transactions concluded to hedge against currency risk are not subject to hedge accounting.

Sensitivity analysis

The analysis of sensitivity to changes in market risk factors is conducted by means of a scenario analysis. The Group relies on expert scenarios reflecting its judgment concerning the behavior 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 end of the reporting period.

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

Year ended 31 December 2019

Classes of finacial instruments	31 December 2019		Sensitivity analysis for currency risk as at 31 December 2019	
			EUR/PLN	
	Carrying amount	Value at risk	exchange rate EUR/PLN +4.24%	exchange rate EUR/PLN -4.24%
Receivables from buyers	2 290 746	9 251	392	(392)
Other financial receivables	499 219	212 005	8 989	(8 989)
Cash and cash equivalents	1 237 952	17 832	756	(756)
Derivatives (assets)	105 529	60 531	2 567	(2 567)
Bank overdrafts	23 339	22 585	(958)	958
Bonds issued	6 257 022	3 624 412	(153 675)	153 675
Liabilities to suppliers	850 628	24 572	(1 042)	1 042
Other financial liabilities	223 920	10 774	(457)	457
Derivatives (liabilities)	124 527	98 946	79 408	(79 408)
Total			**(64 020)**	**64 020**

The exposure to risk as at 31 December 2019 is representative for the Group's exposure to risk during the annual period preceding the aforementioned date.

Year ended 31 December 2018

Classes of finacial instruments	31 December 2018		Sensitivity analysis for currency risk as at 31 December 2018	
			EUR/PLN	
	Carrying amount	Value at risk	exchange rate EUR/PLN +5.85%	exchange rate EUR/PLN -5.85%
Receivables from buyers	2 229 400	7 805	456	(456)
Other financial receivables	255 504	166 552	9 743	(9 743)
Cash and cash equivalents	823 724	220 044	12 872	(12 872)
Derivatives (assets)	220 343	152 697	8 933	(8 933)
Bonds issued	10 077 067	3 670 848	(214 745)	214 745
Liabilities to suppliers	1 127 738	10 475	(613)	613
Other financial liabilities	406 151	248 824	(14 556)	14 556
Derivatives (liabilities)	240 922	177 439	38 838	(38 838)
Total			**(159 072)**	**159 072**

The exposure to risk as at 31 December 2018 is representative for the Group's exposure to risk during the annual period preceding the aforementioned date.

(in PLN thousand)

48.3.3 Raw material and commodity price risk related to commodity derivative instruments and price risk related to units

Commodity derivatives

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. an unbalanced position in the portfolio.

As at 31 December 2019, the portfolio of concluded contracts is fully balanced. This minimizes market risk related to the commodity derivatives portfolio, as confirmed by a sensitivity analysis, which indicated immaterial effects of potential changes in the prices of emission allowances on Group's gross profit/loss.

Participation units

As at 31 December 2019, the Group held units in investment funds with the carrying amount of PLN 26 622 thousand. As they are measured at fair value through profit or loss at the end of the reporting period, they are exposed to the price risk.

A performed analysis indicated immaterial effects of potential quotation changes on Group's gross profit/loss.

49. Operational risk

The commercial operational risk is managed at the level of the TAURON Group, as described in Note 3.3.4. Management Board's reports on the activities of TAURON Polska Energia S.A. and of TAURON Capital Group for the financial year 2019. The Group manages its commercial risk following the Commercial risk management policy developed and adopted 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.

The TAURON Group companies are exposed to adverse effects of risks related to changes in cash flows and financial performance in the domestic currency due to changes in commodity prices. The Group's exposure to commodity price risk is reflected by the volume of the key raw materials and commodities purchased, including coal, gas and electricity. The volume and cost of the key raw materials purchased from third-party suppliers have been presented in the table below.

Fuel type	Unit	2019		2018	
		Volume	Purchase cost	Volume	Purchase cost
Coal	tonne	3 809 329	1 002 443	4 452 901	1 115 294
Gas	MWh	3 498 481	345 742	3 075 513	290 574
Electricity	MWh	32 326 975	7 906 677	30 757 412	5 665 514
Heat energy	GJ	5 718 634	226 430	5 776 785	222 076
Total			**9 481 292**		**7 293 458**

OTHER INFORMATION

50. 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 of the following capital groups: in.ventus, Polenergia and Wind Invest 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 new contract termination and contractual penalties related claims. On 2 September 2019, Amon Sp. z o.o. (the Polenergia Group company) filed a number of a new cases regarding claims in total amount of PLN 29 009 thousand. After the balance sheet day, on 24 February 2020, Polska Energia-Pierwsza Kompania Handlowa Sp. z o.o. received changing letter of case filed by Dobiesław Wind Inwest Sp. z o.o. which except the primary demand, company also filed a case in total amount of PLN 34 464 thousand, which have been discussed in detail in Note 56 to these consolidated financial statements.

As of the date of approval of these consolidated financial statements for publication, the amount of damages claimed is: companies of the in.ventus group companies- EUR 20 397 thousand, the Polenergia group companies- PLN 115 566 thousand (including Amon Sp. z o.o. - PLN 69 488 thousand, Talia Sp. z o.o. - PLN 46 078 thousand, Wind Invest group companies - PLN 322 313 thousand.

In the case filed by Amon Sp. z o.o., on 25 July 2019, a partial and preliminary judgment was issued in the case, in which the court determined that the statements of Polska Energia-Pierwsza Kompania Handlowa Sp. z o.o. on termination of long-term contracts concluded between Polska Energia-Pierwsza Kompania Handlowa Sp. z o.o. and Amon Sp. z o.o. for the purchase of electricity and property rights arising from certificates of origin are ineffective and do not have 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 for all provisions and are binding on the parties. Moreover, the Court recognized Amon Sp. z o.o.'s claim for payment of compensation as justified in principle, without prejudging the amount of possible compensation. The judgement is not final. Polska Energia-Pierwsza Kompania Handlowa Sp. z o.o. disagrees with the judgement and on 25 October 2019, Polska Energia-Pierwsza Kompania Handlowa Sp. z o.o. appealed against the judgement.

After the period end date, on 6 March 2020 District Court in Gdańsk issued a partial and preliminary judgment similar as in case filed by Taila Sp. z o.o., against a subsidiary – Polska Energia-Pierwsza Kompania Handlowa Sp. z o.o., which have been discussed in detail in Note 56 hereto.

Above partial ad preliminary judgments, have not changed Group's assessment, according to the claims for compensation is less than 50%.

In the case filed by Amon Sp. z o.o. of 2 September 2019, Polska Energia-Pierwsza Kompania Handlowa Sp. z o.o. on 4 November 2019 submitted a response to the claim, demanding that the claim be dismissed in its entirety. A preliminary assessment of the claims and the grounds on which they are based indicates that they are unfounded.

In the case biled by Pękanino Wind Invest Sp. z o.o. to secure the claims for establishing that the termination of long-term agreements submitted by Polska Energia - Pierwsza Kompania Handlowa Sp. z o.o. is ineffective, the Court of Appeal in Warsaw on 6 November 2019 partially accepted the motion for collateral by ordering Polska Energia - Pierwsza Kompania Handlowa Sp. z o.o. to execute in full the provisions of the agreements under existing terms and conditions, in accordance with their contents, until the final and binding conclusion of the proceedings in the case filed by Pękanino Wind Invest Sp. z o.o. against Polska Energia-Pierwsza Kompania Handlowa Sp. z o.o., pending before the District 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. Bearing in mind the need to implement the provision on collateral referred to above, as at the balance sheet date the company created a provision for onerous contracts in the amount of PLN 4 213 thousand.

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

In light of the current status of the proceedings and the related circumstances, the Group believes that the probability of losing other cases related to the claims both as regards declaration of ineffectiveness of the termination notices and securing non-monetary claims and the claims for compensation is less than 50%. Therefore, no provision for the related costs has been recognized (except provision which have been made for cases filed by Pękanino Wind Invest Sp. z o.o., which have been discussed above).

In connection with the transaction of purchase on 3 September 2019 of companies belonging to the in.ventus group (described in more detail in Note 2.1 of these consolidated financial statements), the cases filed by the in.ventus group companies against Polska Energia-Pierwsza Kompania Handlowa Sp. z o.o. were suspended by the court, at the unanimous request of the parties.

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

In 2017 and 2018 companies of the following capital groups: in.ventus, Polenergia and Wind Invest filed cases against TAURON Polska Energia S.A. regarding damages and 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 amount of compensation sought in the claims is: the in.ventus group companies- EUR 12 286 thousand, the Polenergia group companies - PLN 78 855 thousand, the Wind Invest group companies - PLN 129 947 thousand.

Moreover, in their claims, the plaintiffs indicate the following values of estimated damages that may arise in the future: companies of the in.ventus group - EUR 35 706 thousand, companies of the Polenergia group - PLN 265 227 thousand, companies of the Wind Invest group - PLN 1 119 363 thousand.

The court competent for hearing the claims is the Regional Court for Katowice. All cases are held before the first instance courts. Those 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 positive outcome in disputes should be assessed positively, i.e. the chances of losing are no higher than the chances of winning.

In connection with the transaction of purchase on 3 September 2019 of companies belonging to the in.ventus group (described in more detail in note 2.1 of these consolidated financial statements), the cases from actions filed by the in.ventus group companies against TAURON Polska Energia S.A. were suspended by the court, at the unanimous request of the parties.

Moreover, a case filed by Dobiesław Wind Invest Sp. z o.o. against TAURON Polska Energia S.A. was pending. It concerned a demand to make a court deposit of PLN 183 391 thousand to reverse the threat of a loss. The Company assessed the chances for a positive resolution of the dispute as positive. The case was closed (as a result of the withdrawal of the suit by Dobiesław Wind Invest Sp. z o.o., the proceedings were discontinued - court decision of 29 November 2019).

Claims relating to termination of long-term contracts against a subsidiary TAURON Sprzedaż Sp. z o.o.

On 28 February 2017, TAURON Sprzedaż Sp. z o.o., a subsidiary, submitted termination notices regarding long-term contracts for the purchase of property rights under green certificates by the subsidiary. The party to the contracts concluded in 2008 are companies from the in.ventus group. The contracts were terminated after the parties were unable to reach an agreement in renegotiation of the contracts in line with the terms and conditions provided for therein. Total net contractual liabilities of TAURON Sprzedaż Sp. z o.o. under the terminated contracts for the years 2017-2023, as at the date of the termination would be approx. net PLN 417 000 thousand.

On 7 March 2019, Hamburg Commercial Bank AG (former HSH Nordbank AG) filed a case against TAURON Sprzedaż Sp. z o.o. for compensation relating to its failure to exercise contracts on sales of property rights arising from green certificates and liquidated damages charged in relation to termination of the above contracts. The plaintiff demanded TAURON Sprzedaż Sp. z o.o. to pay the amount of PLN 232 879 thousand with statutory interest for the delay, calculated from the date of filing the action, i.e. from 7 March 2019 to the date of the payment, and including the compensation totalling PLN 36 252 thousand and liquidated damages totalling PLN 196 627 thousand.

In connection with the purchase of wind farms(more details in Note 2.1 to these consolidated financial statements), on 4 September 2019 Hamburg Commercial Bank AG and TAURON Sprzedaż Sp. z o.o. filed a letter of action with the District Court in Krakow in which the bank withdrew its case to waive the claim and the parties jointly applied for the discontinuation of the above proceedings in full. By order of 5 September 2019, the Regional Court in Kraków discontinued the proceedings and mutually cancelled the costs of the proceedings between the parties. The court order is final and binding.

In 2018, subsidiary TAURON Sprzedaż Sp. z o.o. was notified of cases filed against it by two Polenergia group companies with regard to settlement related to damages in the total amount of PLN 78 855 thousand for an alleged loss incurred by the Polenergia group companies as a result of groundless termination of the long-term agreement concluded between them and Polska Energia-Pierwsza Kompania Handlowa Sp. z o.o. The companies indicated in their motions that the Company, Polska Energia-Pierwsza Kompania Handlowa Sp. z o.o. and the liquidators of Polska Energia-Pierwsza Kompania Handlowa Sp. z o.o. have caused and continue to cause damage to the companies of the Polenergia Group, and TAURON Sprzedaż Sp. z o.o. has consciously taken advantage of this damage and - according to the Polenergia Group companies- is responsible for it. TAURON Sprzedaż Sp. z o.o. considered the claims of the Polenergia group companies groundless; thus, no settlement was reached. Based on the analysis of the legal situation, in the opinion of the Management Board of TAURON Sprzedaż Sp. z o.o., there are no grounds for creating a provision for the above case.

Claim against PGE EJ 1 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 in the framework of the investment process related to the construction of a nuclear power plant by PGE EJ 1 Sp. z o.o. (hereinafter referred to as „the agreement”), lodged, in relation the the agreement - in the request for payment towards PGE EJ 1 Sp. z o.o. - claims for the total amount of PLN 92 315 thousand. 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 shareholders (i.e. PGE Polska Grupa Energetyczna S.A., KGHM Polska Miedź S.A. and ENEA S.A.) that regulated mutual relations related 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 the company's view, its potential additional exposure to PGE EJ 1 Sp. z o.o. arising from the agreement shall not exceed its percentage equity share in PGE EJ 1 Sp. z o.o.

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

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

Claims filed by Huta Łaziska S.A.

In connection with the Company's merger with Górnośląskie Zakład Elektroenergetyczny S.A. ("GZE") - TAURON Polska Energia S.A. became a party to a court dispute with Huta Łaziska S.A. ("Huta") against GZE and the State Treasury represented by the President of Energy Regulatory Office (“ERO”). At present, the case is pending at the Court of Appeal in Warsaw.

Based on a decision of 12 October 2001, the President of the Energy Regulatory Office ordered GZE to resume electricity supplies to Huta (suspended on 11 October 2001 since Huta had not paid its liabilities) on such terms as set out in the agreement of 30 July 2001, in particular at the price of PLN 67/MWh, until final resolution of the dispute, and on 14 November 2001 the dispute was finally resolved pursuant to a decision stating that discontinuation of electricity supplies was not unjustified. Huta appealed against that decision. On 25 July 2006, the Court of Appeals in Warsaw issued a final and binding decision ending the dispute concerning GZE's energy supplies to Huta. The court dismissed Huta's appeal against the decision of the Regional Court in Warsaw dated 19 October 2005, in which the court had dismissed Huta's appeal against the decision of the President of the ERO. Huta filed a cassation appeal against the judgment of the Court of Appeals in Warsaw, which was dismissed by the judgment of the Supreme Court dated 10 May 2007. On 15 November 2001 (following the issue of the above decision by the President of the Energy Regulatory Office on 14 November 2001 and due to the growing indebtedness of Huta to GZE due to electricity supply) GZE again suspended electricity supply. Therefore, Huta has sued GZE for damages.

In a suit of 12 March 2007 against GZE and the State Treasury represented by the President of the ERO (jointly and severally) Huta claimed the payment of PLN 182 060 thousand together with interest from the date of filing the suit to the date of payment, in respect of damages for alleged losses resulting from GZE's failure to comply with the decision of the President of the Energy Regulatory Office dated 12 October 2001.

In this case, the courts of the first and second instance passed judgments favourable for GZE; however, in its judgment of 29 November 2011 the Supreme Court overruled the judgment 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. Since 27 November 2012 the case was heard by the court of first instance. By judgment of 28 May 2019, the Regional Court in Warsaw dismissed Huta's claim in its entirety and ruled that Huta reimbursed each of the respondents for the costs of the proceedings. The judgment is not final and binding. Huta appealed (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.

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. As a result, no provision has been recognized 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, regards the payment of PLN 17 086 thousand with statutory interest from 31 March 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 aggregated measurement and settlement data by ENEA Operator Sp. z o.o. (as the Distribution System Operator, DSO), 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. During the proceedings, at the request of ENEA S.A. the court decided to extend the suit against seven sellers for which TAURON Polska Energia S.A. acted as an entity in charge of trade balances in the distribution area of ENEA Operator Sp. z o.o. in 2012. Among the entities sued were two subsidiaries of TAURON Polska Energia S.A., i.e: TAURON Sprzedaż Sp. z o.o. (with respect to which ENEA S.A. has applied for the award of the amount of PLN 4 934 thousand with statutory interest from the date of delivery of the copy of the application for supplementary payment to the date of payment), and TAURON Sprzedaż GZE Sp. z o.o. (with regard to which ENEA S.A. has applied for the award of the amount of PLN 3 480 thousand with statutory interest from the date of delivery of the copy of the supplementary application to the payment date). The demand for payment of the above amounts as well as the amounts claimed from the other five sellers was submitted by the petitioner in case the claim against TAURON Polska Energia S.A. is dismissed. The case is pending before the first-instance court.

The Company did not recognize any provision as, in the opinion of the Company, the risk of losing the case is below 50%. Provisions were recognized by the subsidiaries of TAURON Polska Energia S.A. in the total amount of PLN 5 730 thousand (TAURON Sprzedaż Sp. z o.o.) and in the total amount of PLN 4 074 thousand (TAURON Sprzedaż GZE Sp. z o.o.). The said provisions cover the principal, interest reviewed as at 31 December 2019 and the cost of the proceedings.

As at 31 December 2019, the value of the claim against the Company is PLN 17 086 thousand, including statutory interest accrued between 31 March 2015 and the payment date. Should the claim filed against the Company be dismissed, the claim for payment by the Group companies totals PLN 8 414 thousand, including statutory interest accrued between the date of service of a copy of the request filed by ENEA S.A. to extend the suit by a specific Group company and the payment date. As new measurement data were presented by ENEA Operator sp. z o.o. during the proceedings, the values of the claims against the Company and the Group companies may be expected to change.

Administrative proceedings instigated by the President of the Energy Regulatory Office (“ERO”)

In 2016, administrative proceedings to impose a fine for a failure to maintain facilities, installations and equipment in a proper technical condition and for non-compliance with the terms of the electricity distribution licence were instigated against TAURON Dystrybucja S.A. By a decision of 10 July 2017, the company was fined with PLN 350 thousand. In July 2017 the company recognized a provision of PLN 351 thousand and filed an appeal against the decision to the Court of Competition and Consumer Protection (SOKiK). The case is pending.

In 2017 administrative proceedings regarding a fine to be imposed with respect to the alleged business activity consisting in generation of electricity in Elektrownia Wodna Dąbie and Elektrownia Wodna Przewóz without the necessary permits for special use of water of the Vistula river for energy generation, as required under the Water Law of 20 July 2017, were instigated against TAURON Ekoenergia Sp. z o.o. The company provided the President of the Energy Regulatory Office with relevant explanations in writing. In the last one, dated 29 June 2018 indicated that the Supreme Administrative Court had passed judgements on 17 May 2018 and on 27 June 2018 overruling decisions of administrative authorities (which had been disadvantageous for the company) related to permits for special use of water of the Vistula river for energy generation in Elektrownia Wodna Dąbie and Elektrownia Wodna Przewóz. By a decision of 15 February 2019, the company was fined with PLN 2 thousand. The Company has filed an appeal against the decision with the District Court in Warsaw and is waiting for the date of the hearing to be set. According to the company, the facts underlying the procedure cannot provide the basis to a fine; therefore no provision has been recognized in relation to the case.

As at the end of the reporting period, the companies in the Sales segment have been subject to the following proceedings:

- On 18 July 2018 proceedings were instigated against TAURON Sprzedaż Sp. z o.o. regarding the adjustment of the terms of the electricity distribution licence to meet the requirements of the applicable law. In November 2018, the company received a decision of the President of the Energy Regulatory Office on the change of the concession, from which it appealed to the SOKiK.
- On 15 October 2018 proceedings were instigated against TAURON Sprzedaż GZE Sp. z o.o. in relation to discontinued supply of electricity to end users. The proceedings have been suspended.
- On 2 September 2019, a proceeding was instigated against TAURON Sprzedaż Sp. z o.o. concerning the suspension of electricity supply to the end user.
- On 31 December 2019, TAURON Sprzedaż GZE Sp. z o.o. was subject to administrative proceedings in respect of the imposition of fines in connection with the disclosure of the possibility of non-compliance with the obligations set forth in Article 9a (1), Article 9a (8) of the Energy Law Act and Article 12 (1) of the Energy Efficiency Act. As at the balance sheet date, the company created provisions for the aforementioned proceedings in the total amount of PLN 6 320 thousand.

The companies have been providing relevant explanations on an ongoing basis. The companies do not recognize provisions for potential fines that may be imposed in the above proceedings (except for proceedings instigated on 31 December 2019) as in the opinion of the Management Board of the companies the risk of adverse rulings and fines is low.

Administrative and explanatory proceedings instigated by the President of the Office for Competition and Consumer Protection („UOKiK”)

As at the end of the reporting period, the companies in the Sales segment were subject to the following proceedings instigated by the President of UOKiK:

- Explanatory proceedings instigated on 11 May 2017 against TAURON Sprzedaż Sp. z o.o. and on 29 June 2018 against TAURON Sprzedaż GZE Sp. z o.o. with respect to the mechanism of automatic extension of the period of settling fees for the sale of electricity in line with the pricing list if a consumer does not respond to the new offer presented (renewal offer).
- Proceedings instigated on 13 October 2017 against TAURON Sprzedaż GZE Sp. z o.o. in relation to alleged violation of collective interests of consumers, which consisted in hindering a change of the electricity supplier.
- Explanatory proceedings instigated on 31 December 2018 against TAURON Sprzedaż Sp. z o.o. in relation to alleged violation of collective interests of consumers through application of practices involving conclusion of electricity sales agreements on the phone.
- The investigation procedure instigated on 8 January 2019 against TAURON Sprzedaż Sp. z o.o. in relation with the suspicion of a practice by the company to alleged violation of collective interests of consumers by introducing changes in the scope of information made available to consumers in applications for conclusion or amendment of the terms and conditions of a comprehensive agreement concerning electricity.
- The investigation proceedings instigated on 26 August 2019 against TAURON Sprzedaż Sp. z o.o. and TAURON Sprzedaż GZE Sp. z o.o. calling on the companies to provide information on the reserve sale agreements concluded in 2018 and 2019 and to provide relevant explanations in the case.

The companies have been providing relevant explanations on an ongoing basis. The companies do not recognize provisions for potential fines that may be imposed in the above proceedings as in the opinion of the Management Board of the companies the risk of adverse rulings and fines is low.

Use of real estate without contract

The Group companies do not have legal titles to all lands on which distribution networks, heating installations and related equipment are located. In the future, the Group may be required to incur costs due to use of real estate without contract, but it should be noted that the risk of losing assets is negligible. The Group recognizes provisions for all court disputes reported in this respect. No provision has been recognized for potential, not submitted claims of owners of land with unregulated legal status, since there are no detailed records of such land. As a consequence, potential claim amounts cannot be reliably estimated. However, taking into account the previous history of lodged claims and costs incurred in this respect in previous years, the risk related to the need to incur significant costs on this account can be considered as low.

(in PLN thousand)

A provision in the amount of PLN 88 070 thousand was recognized for the court disputes filed as at the balance sheet date (Note 39.1).

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

In December 2017, a claim was filed against the subsidiary TAURON Wydobycie S.A. by Galeria Galena Sp. z o.o. with its registered office in Gliwice for the payment of PLN 22 785 thousand as reimbursement of expenses incurred to protect a facility located in Jaworzno against the effects of mining operations. Additionally, 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. Currently, 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).

With regard to the broadening of the scope of the claim to include other defendants, i.e. the legal successors of former Kompania Węglowa S.A. and doubts over the facts and legal uncertainties, which make it impossible to decide on the final outcome of the case heard by the Court or to estimate the amount that may be awarded by the Court no provision has been recognised for the above event.

The commitment of the Funds in the subsidiary Nowe Jaworzno Grupa TAURON Sp. z o.o.

The investment agreement signed by the Company with the Closed-End Investment Funds (“Funds”) managed by the Polish Development Fund provides for a number of situations whose occurrence constitutes a material breach of the agreement by the Company. The above situations, some of which are beyond the direct control of the Company, include, among others, the occurrence of events of a legal nature, events relating to the financial and property situation of the TAURON Group, decisions of an investment and operational nature taken by the Group with respect to the financing and construction of the 910 MW unit, as well as events relating to the future operation of the unit. A potential material breach of the agreement on the part of the Group's companies may lead to the potential launch of a procedure which may result in the Closed-End Investment Funds demanding (triggering of options) the repurchase of shares in the subsidiary Nowe Jaworzno Grupa TAURON Sp. z o.o., in the amount invested by the in the shares increased by the agreed return and a premium for material breach and reduced by the distribution of funds by Nowe Jaworzno Grupa TAURON Sp. z o.o. to the Funds. After the reporting period, on 6 March 2020, the subsidiary Nowe Jaworzno Grupa TAURON Sp. z o.o. received information from the Contractot concerning a change in the estimated date of commissioning of the 910 MW power unit. Also after the reporting period, on 27 March 2020, an annex to the investment agreement was concluded, removing from the catalogue of significant breaches of the agreement on the part of the Company the breaches referring to debt ratios combined with a simultaneous amendment to the shareholders' agreement, consisting in granting the Funds special rights in case of exceeding the agreed levels of these ratios. As at the date of approval of these consolidated financial statements for publication, the Company does not identify any risk of material breach of contract and is of the opinion that there is no real possibility, including in the future, of material breach of contract beyond the Company's direct control. Therefore, the Group, having regard to the provisions of IAS 32 *Financial Instruments: Presentation,* does not recognise the Funds' involvement as liabilities but as non-controlling interests.

As at the balance sheet date the Closed-End Investment Funds hold shares of Nowe Jaworzno Grupa TAURON Sp. z o.o. in the amount of PLN 880 000 thousand.

51. Security for liabilities

Key items of collateral established and binding as at 31 December 2019 in the Group are presented in the following table and regard contracts concluded by the Parent.

Collateral	Collateral amount			Due date	Agreement/transaction
	Currency		PLN		
Declarations of submission to enforcement			2 550 000	20.12.2032	Long-term Bond Issue Scheme in Bank Gospodarstwa Krajowego of 31 July 2013
			240 000	31.12.2023	Bond Issue Scheme of 24 November 2015
			600 000	30.06.2034	Subordinated Bond Issue Scheme in Bank Gospodarstwa Krajowego of 6 September 2017
			621 000	31.07.2020	Bank guarantee agreement dated 5 February 2019 with MUFG Bank, Ltd.
			600 000	17.12.2021	Bank account agreement (intraday limit) with PKO Bank Polski S.A. of 9 October 2017
			360 000	29.12.2021	Overdraft agreement with PKO Bank Polski S.A. of 9 October 2017
	EUR	24 000	102 204	31.12.2021	Overdraft agreement with Bank Gospodarstwa Krajowego of 8 May 2017
	EUR	50 000	212 925		
	USD	750	2 848	29.03.2020	Overdraft agreement with mBank S.A. of 26 March 2019
			1 500 000	31.12.2036	Overdraft agreement with Bank Gospodarstwa Krajowego of 19 December 2018
			96 000	27.05.2024	Framework bank guarantee agreements with CaixaBank S.A. of 27 May 2019
			24 000	27.05.2029	
			7 284 000	31.12.2025	Loan arrangement with a consortium of banks of 19 June 2019
Authorizations to debit bank accounts			80 000	26.05.2023	Framework bank guarantee agreements with CaixaBank S.A. of 27 May 2019
			20 000	26.05.2028	
			300 000	17.12.2020	Bank account agreement (intraday limit) with PKO Bank Polski S.A. of 9 October 2017
			300 000	29.12.2020	Overdraft agreement with PKO Bank Polski S.A. of 9 October 2017
	EUR	45 000	191 633	31.12.2020	Overdraft agreement with Bank Gospodarstwa Krajowego of 8 May 2017
Bank guarantees			61 000	31.01.2020	Bank guarantee issued by CaixaBank S.A. to Izba Rozliczeniowa Giełd Towarowych S.A. as a collateral of transactions concluded on Power Commodity Exchange

(in PLN thousand)

On 20 December 2019, an annex to the overdraft agreement with Bank Gospodarstwa Krajowego was concluded extending its term until 31 December 2020, under which a new power of attorney was granted to dispose of a bank account in the amount of EUR 45 000 thousand with the term of validity until 31 December 2020 (the existing power of attorney expired on 31 December 2019).

After the reporting period end:

- on 8 January 2020, the Company signed a statement on submission to enforcement under the loan agreement with Intesa Sanpaolo S.P.A. bank. (described in more detail in Note 35.1 of these consolidated financial statements), up to the amount of PLN 900 000 thousand with a maturity date of 31 December 2027;
- on 7 February 2020, the Company signed a statement of submission to enforcement under the guarantee limit agreement concluded on 28 January 2020 with MUFG Bank, Ltd. up to the amount of PLN 621 000 thousand, to be valid until 31 October 2021;
- on 22 January and 20 February 2020 Caixabank S.A. issued annexes to the bank guarantees in force, issued for the benefit of the Warsaw Commodity Clearing House, by virtue of which the guarantee validity period was extended until 29 February and 31 March 2020, respectively. Additionally, on 25 March 2020, Caixabank S.A. issued annexes to the guarantee in the total amount of PLN 50 000 thousand, under which the validity of these guarantees was extended until 30 April 2020, and the guarantee in the amount of PLN 1 000 thousand expired at the end of March 2020;
- on 16 March 2020, the Company signed a statement of submission to enforcement under the loan agreement with SMBC Bank EU AG concluded on 16 March 2020 (described in more detail in Note 56 hereto), up to the amount of PLN 600 000 thousand, with the term of validity until 31 December 2028;
- on 18 March 2020, Bank Gospodarstwa Krajowego, by virtue of the agreement concluded on 13 March 2020 for granting of guarantees within the line of credit with the available limit of PLN 500 000 thousand, issued - upon the Company's order - bank guarantees for the benefit of the Warsaw Commodity Clearing House in total amount of PLN 500 000 thousand, with the expiration dates from 18 March 2020 till 30 June 2020 (in amount of PLN 300 000 thousand), till 31 July 2020 (in amount of PLN 100 000 thousand) and till 31 August 2020 (in amount of PLN 100 000 thousand). The agreement is secured with a power of attorney to bank accounts and a statement of submission to enforcement up to the amount of PLN 600 000 thousand, valid until 14 March 2023.
- on 26 March 2020, the Company signed a statement of submission to enforcement under the syndicated loan agreement concluded on 25 March 2020 with Banca IMI S.P.A., London Branch, Banca IMI S.A.P., Intesa Sanpaolo S.P.A. acting through intermediation of Intesa Sanpaolo S.P.A. S.A. Branch in Poland and China Construction Bank (Europe) S.A. acting through intermediation of China Construction Bank (Europe) S.A. Branch in Poland (discussed in detail in Note 56 to these financial statements), up to the amount of PLN 600 000 thousand with maturity date of 31 December 2030.

Carrying amounts of assets pledged as collateral against liabilities of the Group

The carrying amounts of assets pledged as collateral for the payment of liabilities at the end of each reporting period have been presented in the table below.

	As at 31 December 2019	As at 31 December 2018
Other financial receivables	184 353	163 495
Real estate	10 482	38 809
Cash	45	45
Total	**194 880**	**202 349**

Collaterals of forwards and futures (derivative financial instruments) - concluded by the Company on foreign exchange markets is the key item. As at 31 December 2019 and 31 December 2018, the collateral amount was PLN 184 353 thousand and PLN 163 495 thousand, respectively.

(in PLN thousand)

Other forms of collateral against liabilities of the Group

As at 31 December 2019, other material forms of collateral regarding liabilities of TAURON Group included:

- Registered pledges and a financial pledge on shares of TAMEH HOLDING Sp. z o.o.

Under the agreement of 15 May 2015, annexed on 15 September 2016, the parent company established 3 293 403 shares in the issued capital of TAMEH HOLDING Sp. z o.o, with the nominal value of PLN 100 and the total nominal value of PLN 329 340 thousand, constituting approximately 50% of the shares in the issued capital, a financial pledge and registered pledges, i.e. a registered pledge with the highest priority of satisfaction on the shares up to the maximum security amounting to CZK 3 950 000 thousand and a registered pledge with the highest priority of satisfaction on the shares up to the maximum security amounting to PLN 1 370 000 thousand in favour of RAIFFEISEN BANK INTERNATIONAL AG. The Company also agreed to establish a financial pledge and registered pledges on new shares acquired or taken up. Moreover, the Company assigned the rights to dividend and other payments.

The agreement to establish registered pledges and a financial pledge was concluded to secure transactions including the agreement for term loans and working capital loans, entered into by TAMEH Czech s.r.o. and TAMEH POLSKA Sp. z o.o. as original borrowers, TAMEH HOLDING Sp. z o.o. as the parent and the guarantor, and RAIFFEISEN BANK INTERNATIONAL AG as the agent and the collateral agent. The registered pledges are valid in the collateral period, i.e. until the total repayment 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.

As at 31 December 2019, the carrying amount of the investment in a joint venture measured using the equity method in the TAMEH HOLDING Sp. z o.o. Group was PLN 559 144 thousand.

- Blank promissory notes

Agreement/transaction secured by blank promissory notes	Issuer a blank promissory note	As at 31 December 2019	As at 31 December 2018
Agreements concerning loans granted to subsidiary TAURON Wytwarzanie S.A. and TAURON Ciepło Sp. z o.o. by Regional Fund for Environmental Protection and Water Management in Katowice. The companies have provided declarations of submission to enforcement as collateral for the loans in question.	TAURON Polska Energia S.A.	70 000*	70 000*
Performance bonds under contracts and agreements concluded by the company, including co-funding of engagements being carried out.	TAURON Dystrybucja S.A.	212 284	245 957
Performance bonds under the co-funding agreements concluded with the National Fund for Environmental Protection and Water Management in Warsaw.	TAURON Ciepło Sp. z o.o.	87 251	228 606
Performance bonds under the co-funding agreements concluded with Centrum Projektów Polska Cyfrowa in Warsaw.	TAURON Obsługa Klienta Sp. z o.o.	187 841	187 841
An agreement with PSE S.A. to provide electricity supply services, an agreement with the National Fund for Environmental Protection and Water Management in Warsaw concerning partial cancellation of a loan and an agreement with the National Centre for Research and Development in Warsaw for the funding of a project.	TAURON Wytwarzanie S.A.	63 708	49 570

* *As at 31 December 2019 the amount outstanding under the loans, secured by the promissory notes in question was PLN 12 000 thousand and in the comparable period it was PLN 17 000 thousand.*

(in PLN thousand)

- Guarantees and surety agreements

Company in respect of which contingent liability has been granted	Beneficiary	Due date	As at 31 December 2019		As at 31 December 2018		Transaction
			Currency	PLN	Currency	PLN	
Corporate and bank guarantees							
Finanse Grupa TAURON Sp. z o.o. (dawniej TAURON Sweden Energy AB (publ))	Bondholders	3.12.2029	EUR 168 000	715 428	168 000	722 400	Corporate guarantee granted by the Company to secure bonds issued by a subsidiary.
Elektrociepłownia Stalowa Wola S.A.	Bank Gospodarstwa Krajowego	11.04.2020		517 500		444 000	Bank guarantee issued at the Company's request by MUFG Bank, Ltd. to secure BGK's receivables under the loan agreement concluded on 8 March 2018 between the borrower Elektrociepłownia Stalowa Wola S.A. and Bank Gospodarstwa Krajowego and Polskie Górnictwo Naftowe i Gazownictwo S.A.
TAURON Czech Energy s.r.o.	ČEZ a. s.	31.01.2021	CZK 80 000	13 408	80 000	13 384	Payment guarantees issued at TAUORN Czech Energy s.r.o. request by PKO BP S.A. Czech Branch and UniCredit Bank Czech Republic and Slovakia, a.s. for securing contracts concluded with market operators and contracts for supply of electricity and natural gas.
	OTE a.s.	31.05.2020	CZK 15 000	2 514	15 000	2 510	
	OKTE a.s.	30.06.2020-31.01.2021	EUR 1 200	5 110	1 200	5 160	
Suerty agreements							
TAURON Sprzedaż Sp. z o.o.	Polska Spółka Gazownictwa Sp. z o.o.	30.11.2020		20 000		20 000	Surety by the Company of liabilities of the subsidiary under the concluded distribution agreement.
Nowe Jaworzno Grupa TAURON Sp. z o.o.	Polskie Sieci Elektroenergetyczne S.A.	31.12.2020		33 024		33 024	Surety by the Company of liabilities of a subsidiary resulting from the obligation of the subsidiary under the Capacity Market Act to establish and maintain a security.
Elektrociepłownia Stalowa Wola S.A.	Bank Gospodarstwa Krajowego	30.01.2021		9 959		9 959	Surety by the Company of liabilities of a jointly-controlled company under bank guarantee agreements and overdraft loan agreements concluded between BGK and ECSW S.A.
		30.07.2020-24.04.2021	USD 4 993	18 962		-	

On 7 February 2019, at the Company's request, an annex was cocluded to the bank guarantee issued forBank Gospodarstwa Krajowego, pursuant to which as of 12 April 2019 the guarantee amount was increased to the amount of PLN 517 500 thousand, and the validity period was extended to 11 April 2020. The annex was concluded based on the guarantee agreement of 5 February 2019 concluded with the MUFG Bank, Ltd. and the receivables of MUFG Bank, Ltd. towards the Company are secured with a declaration of submission to enforcement up to PLN 621 000 thousand valid until 31 July 2020.

After the reporting period, on 28 January 2020, the Company concluded a guarantee limit agreement with MUFG Bank, Ltd. under which, at the Company's request, an annex was issued to the bank guarantee issued to Bank Gospodarstwa Krajowego for the amount of 517 500 thousand PLN, extending the guarantee period until 11 April 2021. The exposure of MUFG Bank, Ltd. to the Company is secured with a declaration of submission to enforcement up to PLN 621 000 thousand, valid until 31 October 2021.

In relation to the guarantee issued, the Company recognized a liability equal to the projected credit losses, amounting to PLN 15 265 thousand as at 31 December 2019 (as at 31 December 2018 - PLN 11 994 thousand)

- Collateral for transactions on the Polish Power Exchange.

In order to secure the liabilities of the Company resulting from the transactions concluded by the Company on the Polish Power Exchange agreements on transfer of CO_2 emission allowances to the Izba Rozliczeniowa Giełg Towarowych S.A. have been concluded. („IRGiT”):

- the agreement of 5 November 2019 concluded between the Company and the IRGiT, by the power of which the Company has deposited on the account in the Union Register the amount of 1 000 000 tons of CO_2 emission allowances in possession;
- two agreements of 18 December 2019 concluded between the Company, a subsidiary of TAURON Wytwarzanie S.A. and the IRGiT, by virtue of which the subsidiary of TAURON Wytwarzanie S.A. transferred to the IRGiT allowances owned by TAURON Wytwarzanie S.A. in total amount of 9 795 035 tons.

As of 31 December 2019, the object of the collateral established is a total of 10 795 035 tonnes of CO_2 emission allowances. After the reporting period, in February 2020, new agreements on the transfer of CO_2 emission allowances were concluded and some of the allowances were returned to TAURON Wytwarzanie S.A. As at the date of approval of the consolidated financial statement for publication the balance of collaterals lodged in favour of the IRGiT amounts to 6 084 453 tons of CO_2emission allowances.

(in PLN thousand)

In case when the IRGiT sells the CO_2 emission allowances being subject of the transfer of ownership, which is possible only in the situations, strictly specified in the agreements, connected with the Company's failure to satisfy justified claims of other members of the House or WCCH, the Company shall be obliged to purchase and transfer to TAURON Wytwarzanie S.A. the CO_2 emission allowances within the period that makes possible fulfilling of the subsidiary's obligation to redeem the CO_2 emission allowances for 2019.

On 10 February 2020, two agreements of transfer of ownership as collateral concerning the property rights of the certificates of origin were concluded between the Company, subsidiary TAURON Sprzedaż Sp. z o.o. and the IRGiT as well as between the Company, subsidiary TAURON Sprzedaż GZE Sp. z o.o. and the WCCH. As at the date of approval of the consolidated financial statement for publication pursuant to the agreements entered into, the subsidiaries submitted an instruction to block the Property Rights held in a total number of 3 352 058.38 MWh in the Certificate of Origin Register maintained by the Polish Power Exchange.

In order to provide funds to cover future mine decommissioning costs, the subsidiaries TAURON Wydobycie S.A. and Kopalnia Wapienia Czatkowice Sp. z o.o. have established the Mine Decommissioning Fund.

52. Related-party disclosures

52.1. 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 has been discussed in more detail in Note 24 to these consolidated financial statements.

The total amount of transactions with jointly-controlled entities has been presented in the following table.

	Year ended 31 December 2019	Year ended 31 December 2018
Revenue	123 504	52 455
Costs	(63 354)	(37 053)

The key item of receivables from and liabilities to jointly-controlled entities is a loan granted to Elektrociepłownia Stalowa Wola S.A., which has been 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 51 hereto.

52.2. Transactions with State Treasury companies

As the State Treasury of the Republic of Poland is the Company's major shareholder, State Treasury companies are treated as related parties.

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

Revenue and costs

	Year ended 31 December 2019	Year ended 31 December 2018
Revenue	2 354 188	2 079 293
Costs	(2 815 591)	(3 440 786)

Receivables and liabilities

	As at 31 December 2019	As at 31 December 2018
Receivables	277 032	284 443
Payables	290 373	432 097

As at 31 December 2019, receivables presented in the table above comprised advance payments for purchases of fixed assets of PLN 2 439 thousand. As at 31 December 2018, receivables presented in the table above comprised advance payments for purchases of fixed assets of PLN 12 196 thousand.

(in PLN thousand)

Among of the State Treasury companies, the largest clients of the TAURON Polska Energia S.A. Capital Group in the year ended 31 December 2019 were KGHM Polska Miedź S.A., PSE S.A. and Polska Grupa Górnicza S.A. The total sales to the above contractors amounted to 82% of the volume of revenues generated in transactions with State Treasury companies. The largest purchase transactions were made by the Group from PSE S.A., Polska Grupa Górnicza S.A. and Węglokoks S.A. Purchases from the above contractors constituted 89% of the value of purchases from State Treasury companies in the year ended 31 December 2019.

Among the companies of the State Treasury, the largest clients of the TAURON Polska Energia S.A. Capital Group in the year ended 31 December 2018 were KGHM Polska Miedź S.A., PSE S.A. and Polska Grupa Górnicza S.A. and Jastrzębska Spółka Węglowa S.A. The total sales to the above contractors amounted to 88% of the volume of revenues generated in transactions with state-owned companies. The largest purchase transactions were made by the Group from PSE S.A., Polska Grupa Górnicza S.A. and Węglokoks S.A. Purchases from the above contractors accounted for 91% of the value of purchases from State Treasury companies in the year ended 31 December 2018.

The Capital Group concludes material transactions on the energy markets through Izba Rozliczeniowa Giełd Towarowych S.A. As it is only responsible for organization of commodities exchange trading, it has been decided not to classify purchase and sale transactions made through this entity as related-party transactions.

Transactions with State Treasury companies are mainly related to the operating activities of the Group and they are concluded on arm's length terms.

52.3. Compensation of the executives

The amount of compensation and other benefits paid and/or due to the Management Board, Supervisory Boards and other key management personel of the parent and the subsidiaries in the year ended 31 December 2019 and in the comparative period has been presented in the table below.

	Year ended 31 December 2019		Year ended 31 December 2018	
	Parent	Subsidiaries	Parent	Subsidiaries
Management Board	**5 209**	**19 801**	**5 661**	**13 974**
Short-term benefits (with surcharges)	4 650	18 220	4 931	13 275
Employment termination benefits	541	1 577	695	357
Other	18	4	35	342
Supervisory Board	**898**	**1 062**	**833**	**865**
Short-term employee benefits (salaries and surcharges)	898	952	833	752
Other	-	110	-	113
Other key management personnel	**17 805**	**42 419**	**16 370**	**39 383**
Short-term employee benefits (salaries and surcharges)	15 707	40 762	14 330	35 505
Jubilee bonuses	-	94	-	2 468
Post-employment benefits	-	56	-	13
Employment termination benefits	933	110	898	856
Other	1 165	1 397	1 142	541
Total	**23 912**	**63 282**	**22 864**	**54 222**

In accordance with the adopted accounting policy, the Group recognizes provisions for termination benefits for members of the Management Board and other key management personel, which may be paid or due in future reporting periods. The amounts paid or payable until 31 December 2019 have been presented above.

53. Finance and capital management

The Company carries out a centralized finance management policy, allowing effective management in this respect on the TAURON Group level. Key tools allowing effective management include appropriate internal regulations, as well as the cash pooling service performed by the TAURON Group and the intercompany borrowings scheme. Additionally, the finance management system is supported by the centralized financial risk management policy of the TAURON Group and by the centralized insurance policy of the TAURON Group. In these respects, the Company acts as the manager and decision-maker with regard to measures undertaken to set appropriate risk exposure limits.

Detailed information on financial management described in Note 7.3 of the Management Board's report on the activities of TAURON Polska Energia S.A. and of the TAURON Capital Group for the financial year 2019.

In 2019, the Company and Group TAURON was fully able to pay its liabilities at maturity.

(in PLN thousand)

The key objective of the capital management policy developed by the Group is maintaining a good credit rating and safe capital ratios supporting its operations and increasing its shareholder value.

The Group focuses primarily on monitoring the debt ratio, which is defined as net financial debt relative to EBITDA.

Zadłużenie net financial liabilities of the TAURON Group is defined in individual financing agreements and in principle means a liability to pay or return money on account of credits, loans and debt securities and on account of financial leases, excluding: liabilities on account of subordinated bonds and liabilities on account of leases recognised in accordance with IFRS 16 *Leases*, which in the meaning of the provisions of IAS 17 *Leases* would not meet the conditions for classification as lease liabilities, decreased by cash and short-term investments with a maturity of up to 1 year. EBITDA is the operating profit or loss of the TAURON Group increased by amortization/depreciation and impairment of non-financial assets. The value of the ratio is also monitored by the institutions providing financing to the Group and rating agencies and has a measurable impact on the Company's ability to obtain funding and its cost, as well as on evaluation of its credit standing.

As at the end of the reporting period, the debt ratio was 2.81, which is accepted by financial institutions.

	Year ended 31 December 2019	Year ended 31 December 2018
Loans and borrowings	4 727 633	702 618
Bonds*	4 254 660	6 247 721
Finance lease**	-	23
Non-current debt liabilities	**8 982 293**	**6 950 362**
Loans and borrowings	2 323 018	183 667
Bonds*	88 935	2 287 687
Finance lease	-	2
Short-term debt liabilities	**2 411 953**	**2 471 356**
Total debt	**11 394 246**	**9 421 718**
Cash and cash equivalents	1 237 952	823 724
Short-term investments maturing within one year	26 722	26 105
Net debt	**10 129 572**	**8 571 889**
EBITDA	**3 599 367**	**3 492 084**
Operating profit (loss)	295 454	790 729
Depreciation/amortization	(1 991 733)	(1 838 941)
Impairment	(1 312 180)	(862 414)
Net debt / EBITDA	**2.81**	**2.45**

** Debt does not include liabilities arising from subordinated bonds*
***Liabilities arising from lease in line with IAS 17 Lease*

Changes in the balance of debt have been presented below.

(in PLN thousand)

Debt	Year ended 31 December 2019	Year ended 31 December 2018
Opening balance	**10 963 377**	**9 852 796**
subordinated bonds	(1 541 659)	(792 952)
Opening balance - debt in the calculation of debt ratio	**9 421 718**	**9 059 844**
Effects of implementing new IFRS	**918 115**	**(33 055)**
Proceeds arising from debt taken out	**5 645 485**	**1 348 236**
financing received	5 650 000	1 350 293
transaction costs	(4 515)	(2 057)
Interest accrued	**450 716**	**291 838**
charged to profit or loss	266 504	163 099
capitalized to property, plant and equipment and intangible assets	184 212	128 739
Debt related payments	**(3 759 175)**	**(481 304)**
debt securities redemption	(2 420 000)	-
principal repaid	(867 360)	(168 874)
lease instalments paid	(75 047)	(23 521)
interest paid	(212 556)	(160 170)
interest paid, capitalized to investment projects	(184 212)	(128 739)
Change in the balance of overdraft facility and cash pool	**21 453**	**(96 683)**
Recognition of new lease agreements	**84 474**	**-**
Business acquisition - recognition of acquired lease liabilities	**35 215**	**-**
Change in debt measurement	**(42 619)**	**93 114**
Other non-monetary changes	**(2 765)**	**(11 565)**
Closing balance	**14 314 276**	**10 963 377**
subordinated bonds	(1 913 427)	(1 541 659)
lease debt (except for debt meeting the conditions of IAS 17 *Leases*)	(1 006 603)	-
Closing balance - debt in the calculation of debt ratio	**11 394 246**	**9 421 718**

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

Information concerning the fee of the certified auditor has been presented in Note 6 in the Management Board's report on the activities of the TAURON Polska Energia S.A. and TAURON Capital Group for the 2019 financial year.

55. Other material information

Adopting an update of the strategic directions of the TAURON Group Strategy

On 27 May 2019, the Company's Management Board accepted and the Supervisory Board gave a positive opinion on the update of strategic directions supplementing the Strategy of TAURON Group for 2016-2025. The updated strategic directions take into account changes in the market and regulatory environment in which the TAURON Polska Energia S.A. Capital Group operates. Taking into account the need for the Group's energy transformation, optimisation of the investment portfolio and maintenance of financial stability, it was decided to carry out market-based verification of, among others, the strategic option involving making the Group's asset portfolio more flexible by adjusting the mining assets to the Group's planned demand for fuel, reorganisation of the Generation segment and the capital investment portfolio. This option considers, among others, market verification of the disposal of Zakład Górniczy Janina belonging to the subsidiary TAURON Wydobycie S.A. and the shares of the subsidiary TAURON Ciepło Sp. z o.o.

As a result of the above mentioned events, the Company launched projects aimed at market verification of the possibility of selling the aforementioned assets and possible continuation of the sales process. On 10 December 2019, the Company decided to complete the search for a potential investor interested in acquiring Zakład Górniczy Janina due to the failure to receive purchase offers within the prescribed time frame. As at the balance sheet date, the Company assessed that in relation to the net assets of TAURON Ciepło Sp. z o.o., the conditions resulting from IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* are not met, in particular the legal requirements to consider the sale of the above assets as highly probable are not met.

Key capacity market auction for 2024

On 6 December 2019, the main auction of the capacity market for the 2024 delivery period took place. These auction was held by PSE S.A. in line with the Capacity Market Act of 8 December 2017. The auction closing price, published by the President of the Energy Regulatory Office in the Public Information Bulletin, amounted to: PLN 259.87/kW/year and the TAURON Group companies concluded agreements for the total volume of capacity obligations amounting to 573.5 MW.

The auctions have been described in details in Note 2.6 of the Management Board's report on the activities of TAURON Polska Energia S.A. and of the TAURON Capital Group for the financial year 2019.

56. Events after the end of the reporting period

Establishment of bond issue scheme

On 6 February 2020, TAURON Polska Energia S.A. concluded a programme agreement with Santander Bank Polska S.A. under which a bond issue scheme was established (the “Scheme").

Under the Scheme, the Company may issue bonds up to a maximum of PLN 2 000 000 thousand, with the value of the issue being determined each time at the time of the decision to issue. The bonds will take the form of dematerialized, unsecured bearer securities denominated in PLN, with a maturity of 5 to 10 years (inclusive). The Company's intention is to introduce the bonds to trading and listing in the alternative trading system Catalyst operated by the Warsaw Stock Exchange.

The funds from the bond issue will support the implementation of the Group's energy transformation, including increasing the share of low- and zero-emission sources in its production structure.

The terms and conditions of the bond issue, including the maturity date and the amount and method of interest payment will be determined for each series of bonds issued. The terms and conditions of the bonds issued under the Scheme will include sustainable development indicators in the form of the CO_2 emission reduction index and the RES capacity increase index. The level of realization of certain threshold values of these indicators will influence the level of interest margin of the bonds.

The Company's intention is to carry out the first bond issue within 3- months from the date of the Scheme Agreement. Final decisions on individual bond issues under the Scheme will be approved by appropriate corporate approvals of the Company and will depend on market conditions.

Extension of the claim relating to termination of long-term contracts and the judgement of the District Court regarding the subsidiary Polska Energia - Pierwsza Kompania Handlowa Sp. z o.o.

On 24 February 2020, the subsidiary Polska Energia - Pierwsza Kompania Handlowa Sp. z o.o. was delivered a letter constituting a change in the suit of Dobiesław Wind Invest Sp. z o.o., in which, in addition to the original claim, a request for award of:

- the total amount of PLN 6 233 thousand with statutory interest for delay, including contractual penalties calculated for non-acquisition by Polska Energia - Pierwsza Kompania Handlowa Sp. z o.o. of property rights obtained by Dobiesław Wind Invest Sp. z o.o. for electricity produced in the period from April 2017 to June 2019 and compensation for non-performance of the energy sales agreement in the period from 1 June 2017 to 24 September 2017 and
- the total amount of PLN 28 231 thousand with statutory interest for delay, including contractual penalties calculated for non-acquisition by Polska Energia - Pierwsza Kompania Handlowa Sp. z o.o. of property rights obtained by Dobiesław Wind Invest Sp. z o.o. for electricity produced in the period from April 2017 to February 2019 and compensation for non-performance of the electricity sales agreement in the period from 25 September 2017 to 30 April 2019.

On 6 March 2020, the Regional Court in Gdańsk issued a partial and preliminary judgment in the proceedings brought in 2015 against the subsidiary Polska Energia - Pierwsza Kompania Handlowa Sp. z o.o. by Talia Sp. z o.o, in which:

- the court determined that the statements of the company Polska Energia - Pierwsza Kompania Handlowa Sp. z o.o. on termination of long-term contracts 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 arising from certificates of origin are ineffective and do not have legal effect in the form of termination of both agreements, as a result of which these agreements after the notice period, i.e. after 30 April 2015 remain in force for all provisions and are binding on the parties and
- considered the claim for compensation for non-performance of the contract for the sale of property rights arising from certificates of origin to be justified in principle, without in any way prejudging the amount of any compensation.

The sentence is not final and binding. Polska Energia - Pierwsza Kompania Handlowa Sp. z o.o. does not agree with the judgement and, on 12 March 2020, submitted an application to the court for delivery of the verdict and its justification, for its analysis and appeal.

Change of the commissioning date for a 910 MW power unit

On 6 March 2020, the subsidiary Nowe Jaworzno Grupa TAURON Sp. z o.o. received information from RAFAKO S.A. concerning a change in the estimated date of commissioning of the 910 MW power unit ("Unit") in Jaworzno.

In connection with the failure of one of the boiler elements during the last phase of the Unit tests, the Consortium RAFAKO S.A. - MOSTOSTAL WARSZAWA S.A., being the contractor of the Unit, the designer of the boiler and the entity responsible for the start-up of the boiler indicated that it was necessary to postpone the commissioning of the Unit. The General Contractor provided a schedule of activities related to burner repair, reassembly and adjustment and testing of the Unit. According to the updated schedule, which includes certain time reserves, the General Contractor estimates that the Unit should be commissioned by the end of July 2020. The technology used in the investment is a proven solution for high power pulverised coal-fired boilers (the units with similar technology have been operating correctly in Poland for many years). To the best of the Company's knowledge, resulting from assurances by the Unit contractor having the necessary knowledge, competence and experience of similar investments, the failure has occurred due to, among other things, abnormal operating conditions of the boiler during the start-up of the Unit after its construction during the regulatory and test operation, during which the optimisation of the Unit operating parameters is underway. Additionally, the Company has been assured by the Contractor's experts that the remaining main structural elements of the investment, the damage of which could cause further postponement of the investment's completion date, have not been violated (such failures occurred more than once on other objects, and after the causes have been diagnosed and remedial measures have been applied, these objects work correctly). Due to the impact of the COVID-19 epidemic on the Group's operations as further described below, the Group does not identify, as of the date of approval of these consolidated financial statements for publication, any difficulties in meeting the commissioning date described above due to the impact of the epidemic.

Signing a credit agreement with SMBC BANK EU AG

On 16 March 2020, TAURON Polska Energia S.A. concluded a credit agreement with SMBC BANK EU AG for the amount of PLN 500 000 thousand, from which funds may be used to finance the Group's general corporate objectives, excluding the construction, purchase, expansion of any coal-fired power plants and refinancing of any financial commitments or expenses incurred for such purposes.

On 23 March 2020, the Company drew down funds under the agreement in the amount of PLN 500 000 thousand. The credit shall be repaid within five years from the date of conclusion of the credit agreement. The interest rate will be calculated on the basis of a fixed interest rate.

Singing a syndicated loan agreements

On 25 March 2020, TAURON Polska Energia S.A. concluded a syndicated loan agreements for the amount of PLN 500 000 thousand with Banca IMI S.P.A., London Branch, Banca IMI S.A.P., Intesa Sanpaolo S.P.A. acting through intermediation of Intesa Sanpaolo S.P.A. S.A. Branch in Poland and China Construction Bank (Europe) S.A. acting through intermediation of China Construction Bank (Europe) S.A. Branch in Poland.

Funds under the loan may be used to finance the Group's general corporate objectives, excluding financing of any new projects related to coal assets.

In accordance with the Loan Agreement, the financing period is 5 years from the date of concluding the Loan Agreement, with an option to extend it, twice, by a year, i.e. up to 7 years maximum (“Financing Period”). The Company will be able to use the funds throughout the entire Financing Period (after the suspending conditions that are standard for this type of financing have been met). The interest rate will be calculated based on the variable WIBOR interest rate, applicable to the given interest period, increased by a margin depending, among others on the degree of loan utilization and the fulfillment of the pro-ecological contractual conditions, i.e. the reduction of emissions and an increase of the share of renewable energy sources in the TAURON Group’s generation fleet structure.

Impact of the COVID-19 epidemic on the TAURON Group

In the first quarter of 2020, an increase in the incidence of COVID-19 disease was observed in Poland. As a result, a number of restrictions have been introduced in the country to stop the spread of SARS-CoV-2. This situation causes disorders in the work of particular economic and administrative units in Poland. Similar actions are taken by other countries which are the main economic partners of Poland. As a result, the epidemic may significantly limit economic activity, especially in the first half of 2020, affecting the work of industrial plants and companies from the segment of small and medium-sized enterprises, also causes disturb in the work of economic system of country. In the medium and long term, the epidemic may have an impact on the national, European and global economic situation, affecting the economic growth in Poland in 2020 and subsequent years.

In addition, as a result of the epidemic, changes in the market environment have been observed, in particular in the form of changes in the prices of financial and commodity instruments. In particular, prices of CO_2 emission allowances and, consequently, electricity prices on the wholesale market are reduced. As regards financial factors, a weakening of the Polish zloty and a drop in interest rates are observed, including an interventional reduction of the NBP reference interest rate by 50 b.p.

The situation will in particular affect the level of demand for electricity in the National Power System and the volumes of distribution and sales of electricity in the TAURON Group. At the same time, this situation may result in a reduction in production in the area of conventional production and a decrease in demand for hard coal. Price drops in the market for electricity and related products, taking into account the position held in individual markets, may result in an increase in variation margins and translate into the level of cash employed. Moreover, restrictions introduced in the country may cause possible disruptions in the implementation of projects carried out in the TAURON Group. It is also possible that the current situation may have an impact on the TAURON Group's customers i.e. privet customers, small and medium-sized enterprises, as well large enterprises, which may cause delays in the payment for electricity, heat and gas, which confirms an increase in the number of request for payments defer. Changes in interest rates will, in turn, affect costs resulting from the concluded financing agreements based on a variable interest rate, as well as, in subsequent years, the level of regulated revenue from return on capital employed in the distribution area.

The above events may affect the operations of the TAURON Group, including the level of revenues generated and costs incurred, and consequently the Group's financial liquidity and debt level. Nevertheless, it is difficult to assess the possible impacts at present. The duration of the pandemic, its severity and extent, as well as its impact on economic growth in Poland in the short, medium and long term will be important here. Regulatory action to implement COVID-19 mitigation mechanisms will also be important. The TAURON Group, aware of the risks associated with the epidemiological situation, takes active measures to minimize the impact of the current and expected economic situation as well as to protect itself against extreme events.

Regardless of the economic effects, the current situation affects the operating activities of individual business areas through increased employee absenteeism, increase in cost of operating in epidemic conditions (costs of material purchase, costs of organisation changing), as well as relations with the Group's key subcontractors and contractors. In this respect, the TAURON Group takes a number of preventive measures in organizational and material scope, to protect employees of the TAURON Group companies, as well of maintain the continuity of critical infrastructure. In particular, a dedicated crisis management team has been established to assess the situation in particular areas of activity and to prepare detailed reserve plans in case of disturbances in the continuity of key processes functioning in the Group. In respective Group companies a crisis management teams has been established, which are responsible for coordination and activities to prevent disturbances of operating activities caused by COVID19 risks. Necessary organizational changes has been made to provide safety in companies. As at the date of approval of these financial statements for publication, none of the companies of the TAURON Group has been disturbed.

It should be considered, that situation concerned COVID-19 is very interchangeable. The Management Board of the Company is monitoring and will be monitor a potential impact, as well take all steps to soften all negative effects of COVID-19 impact for the TAURON Group.

The COVID-19 epidemic is, in the Company’s opinion, a post-balance sheet event that does not require adjustments to be made as at the balance sheet date and was therefore not included in the Group's assessment of evidence of impairment of assets, assumptions made for asset impairment testing, estimation of expected credit losses or other significant estimates made by the Group as at the balance sheet date.

Management Board of the Company

Katowice, 30 March 2020

Filip Grzegorczyk - President of the Management Board

Jarosław Broda - Vice-President of the Management Board

Marek Wadowski - Vice-President of the Management Board

Oliwia Tokarczyk – Executive Director in Charge of Taxes and Accounting