TAURON Polska Energia S.A.

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)

STATEMENT OF COMPREHENSIVE INCOME

	Note	Year ended 31 December 2019	Year ended 31 December 2018
Sales revenue	11	10 680 577	8 618 642
Cost of sales	12	(10 431 139)	(8 472 648)
Profit on sale		**249 438**	**145 994**
Selling and distribution expenses	12	(24 036)	(20 692)
Administrative expenses	12	(121 636)	(98 716)
Other operating income and expenses		(2 664)	(3 927)
Operating profit		**101 102**	**22 659**
Dividend income	14	1 100 861	819 437
Interest income on bonds and loans	14	389 809	327 447
Interest expense on debt	14	(407 866)	(298 602)
Revaluation of shares	14	(94 920)	(2 469 069)
Revaluation of bonds and loans	14	(1 394 812)	15 493
Other finance income and costs	14	(40 381)	(149 648)
Loss before tax		**(346 207)**	**(1 732 283)**
Income tax expense	15.1	(116 623)	22 430
Net loss		**(462 830)**	**(1 709 853)**
Measurement of hedging instruments	27.4	15 179	(24 297)
Income tax expense	15.1	(2 884)	4 617
Other comprehensive income subject to reclassification to profit or loss		**12 295**	**(19 680)**
Actuarial gains/(losses)	30	(1 388)	18
Income tax expense	15.1	264	(4)
Other comprehensive income not subject to reclassification to profit or loss		**(1 124)**	**14**
Other comprehensive income, net of tax		**11 171**	**(19 666)**
Total comprehensive income		**(451 659)**	**(1 729 519)**
Loss per share (in PLN):			
- basic and diluted, for net loss	16	(0.26)	(0.98)

Accounting principles (policy) and additional explanatory notes to the financial statements are an integral part thereof

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

(in PLN thousand)

STATEMENT OF FINANCIAL POSITION

	Note	As at 31 December 2019	As at 31 December 2018
ASSETS			
Non-current assets			
Investment property	**17**	19 737	22 010
Right-of-use assets	**18**	34 177	-
Shares	**19**	21 844 183	21 076 056
Bonds and loans granted	**20**	5 047 552	5 852 741
Derivative instruments	**21**	20 352	43 844
Deferred tax assets	**15.3**	23 418	148 180
Other financial assets	**22**	2 348	2 804
Other non-financial assets	**25**	18 823	20 865
		27 010 590	**27 166 500**
Current assets			
Inventories	**23**	149 364	409 587
Receivables from buyers	**24**	1 472 462	819 563
Income tax receivables	**15.4**	255 490	13 921
Bonds and loans granted	**20**	265 202	205 428
Derivative instruments	**21**	85 177	176 499
Other financial assets	**22**	316 949	245 721
Other non-financial assets	**25**	6 167	9 846
Cash and cash equivalents	**26**	923 728	465 925
		3 474 539	**2 346 490**
TOTAL ASSETS		**30 485 129**	**29 512 990**

(in PLN thousand)

STATEMENT OF FINANCIAL POSITION — CONTINUED

	Note	As at 31 December 2019	As at 31 December 2018
EQUITY AND LIABILITIES			
Equity			
Issued capital	**27.1**	8 762 747	8 762 747
Reserve capital	**27.3**	6 801 584	8 511 437
Revaluation reserve from valuation of hedging instruments	**27.4**	15 666	3 371
Retained earnings / (Accumulated losses)	**27.5**	(771 820)	(2 017 719)
		14 808 177	**15 259 836**
Non-current liabilities			
Debt	**29**	10 909 597	8 474 344
Other financial liabilities	**34**	15 126	17 626
Derivative instruments	**21**	16 848	37 930
Provisions for employee benefits	**30**	5 929	3 787
Accruals, deferred income and government grants	**32**	-	103
		10 947 500	**8 533 790**
Current liabilities			
Debt	**29**	3 607 266	4 504 374
Liabilities to suppliers	**33**	424 486	525 986
Other financial liabilities	**34**	272 744	371 646
Derivative instruments	**21**	107 679	202 992
Other non-financial liabilities	**35**	223 035	24 626
Provisions for employee benefits	**30**	292	245
Other provisions	**31**	77 094	72 894
Accruals, deferred income and government grants	**32**	16 856	16 601
		4 729 452	**5 719 364**
Total liabilities		**15 676 952**	**14 253 154**
TOTAL EQUITY AND LIABILITIES		**30 485 129**	**29 512 990**

Accounting principles (policy) and additional explanatory notes to the financial statements are an integral part thereof

(in PLN thousand)

STATEMENT OF CHANGES IN EQUITY

	Note	Issued capital	Reserve capital	Revaluation reserve from valuation of hedging instruments	Retained earnings/ (Accumulated losses)	Total equity
As at 31 December 2017		**8 762 747**	**7 657 086**	**23 051**	**935 022**	**17 377 906**
Impact of IFRS 9		**-**	**-**	**-**	**(388 551)**	**(388 551)**
As at 1 January 2018		**8 762 747**	**7 657 086**	**23 051**	**546 471**	**16 989 355**
Distribution of prior years profit		-	854 351	-	(854 351)	**-**
Transactions with shareholders		**-**	**854 351**	**-**	**(854 351)**	**-**
Net loss		-	-	-	(1 709 853)	**(1 709 853)**
Other comprehensive income		-	-	(19 680)	14	**(19 666)**
Total comprehensive income		**-**	**-**	**(19 680)**	**(1 709 839)**	**(1 729 519)**
As at 31 December 2018		**8 762 747**	**8 511 437**	**3 371**	**(2 017 719)**	**15 259 836**
Coverage of prior years loss	**27.3**	-	(1 709 853)	-	1 709 853	**-**
Transactions with shareholders		**-**	**(1 709 853)**	**-**	**1 709 853**	**-**
Net loss		-	-	-	(462 830)	**(462 830)**
Other comprehensive income		-	-	12 295	(1 124)	**11 171**
Total comprehensive income		**-**	**-**	**12 295**	**(463 954)**	**(451 659)**
As at 31 December 2019		**8 762 747**	**6 801 584**	**15 666**	**(771 820)**	**14 808 177**

(in PLN thousand)

STATEMENT OF CASH FLOWS

	Note	Year ended 31 December 2019	Year ended 31 December 2018
Cash flows from operating activities			
Loss before tax		(346 207)	(1 732 283)
Depreciation and amortization		13 257	4 759
Interest and dividends, net		(950 609)	(814 298)
Impairment losses on shares		94 920	2 469 069
Impairment losses on bonds and loans		1 394 812	(15 493)
Foreign exchange difference		(36 014)	113 540
Other adjustments of profit before tax		24 134	23 767
Change in working capital	**36.1**	(633 078)	(70 078)
Income tax paid		(59 485)	(104 129)
Net cash from (used in) operating activities		**(498 270)**	**(125 146)**
Cash flows from investing activities			
Purchase of shares	**36.2**	(863 047)	(2 646 353)
Loans granted	**36.2**	(1 281 444)	(847 442)
Purchase of bonds	**36.2**	(420 000)	(160 000)
Purchase of investment property		-	(3 926)
Other		(2 860)	(3 188)
Total payments		**(2 567 351)**	**(3 660 909)**
Redemption of bonds	**36.2**	1 190 000	1 334 920
Repayment of loans granted		15 600	421 225
Dividends received		1 100 861	819 437
Interest received	**36.2**	335 316	289 177
Redemption of investment fund units		-	75 346
Other		273	372
Total proceeds		**2 642 050**	**2 940 477**
Net cash from (used in) investing activities		**74 699**	**(720 432)**
Cash flows from financing activities			
Payment of lease liabilities		(8 566)	(23 519)
Repayment of loans and borrowings	**36.3**	(862 318)	(162 318)
Redemption of debt securities	**36.3**	(2 420 000)	-
Interest paid	**36.3**	(405 881)	(301 978)
Commission paid		(18 710)	(17 409)
Total payments		**(3 715 475)**	**(505 224)**
Issue of debt securities	**36.3**	500 000	1 350 000
Contracted loans	**36.3**	5 150 000	-
Total proceeds		**5 650 000**	**1 350 000**
Net cash from financing activities		**1 934 525**	**844 776**
Net increase / (decrease) in cash and cash equivalents		**1 510 954**	**(802)**
Net foreign exchange difference		(239)	(526)
Cash and cash equivalents at the beginning of the period	**26**	**(1 560 034)**	**(1 559 232)**
Cash and cash equivalents at the end of the period, *of which:*	**26**	**(49 080)**	**(1 560 034)**
restricted cash	**26**	593 682	58 374

Accounting principles (policy) and additional explanatory notes to the financial statements are an integral part thereof

GENERAL INFORMATION ABOUT TAURON POLSKA ENERGIA S.A. AND BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS

1. General information about TAURON Polska Energia S.A.

These financial statements have been prepared by TAURON Polska Energia Spółka Akcyjna (the "Company") with its registered office in Katowice at ul. ks. Piotra Ściegiennego 3, whose shares are publicly traded.

The Company was established by Notarial Deed on 6 December 2006 under the name Energetyka Południe S.A. On 8 January 2007, the District Court of Katowice-Wschód, Commercial Department of the National Court Register, registered the Company under KRS number 0000271562. The change of its name to TAURON Polska Energia S.A. was registered with the District Court on 16 November 2007.

The Company has been assigned statistical number (REGON) 240524697 and tax identification number (NIP) 9542583988.

TAURON Polska Energia S.A. was established for an unlimited period.

The core business of TAURON Polska Energia S.A. is:

- Activities of head office and holding operations, except for financial holdings →PKD 70.10 Z;
- Sales of electricity→ PKD 35.14 Z;
- Sales of coal →PKD 46.71.Z;
- Sales of gaseous fuels in a network system →PKD 35.23.Z.

TAURON Polska Energia S.A. is the parent company of the TAURON Polska Energia S.A. Group of Companies ("the Group, the TAURON Group").

The financial statements prepared by the Company cover the financial year ended 31 December 2019 and include comparative information for the year ended 31 December 2018. These financial statements were approved for publication by the Management Board on 30 March 2020.

The consolidated financial statements for the year ended 31 December 2019 prepared by the Company 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 Vice President of the Management Board Mr. Kamil Kamiński from the composition of the Management Board and from his function.

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

2. Shares in related parties

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	Core business	Share of TAURON Polska Energia S.A. in the entity's capital	Share of TAURON Polska Energia S.A. in the governing body
1	TAURON Wydobycie S.A.	Jaworzno	Hard coal mining	100.00%	100.00%
2	TAURON Wytwarzanie S.A.	Jaworzno	Generation, transmission and distribution of electricity and heat	100.00%	100.00%
3	Nowe Jaworzno Grupa TAURON Sp. z o.o.	Jaworzno	Generation of electricity	84.76%	84.76%
4	TAURON Ekoenergia Sp. z o.o.	Jelenia Góra	Generation of electricity	100.00%	100.00%
5	Marselwind Sp. z o.o.	Katowice	Generation of electricity	100.00%	100.00%
6	TAURON Ciepło Sp. z o.o.	Katowice	Production and distribution of heat	100.00%	100.00%
7	TAURON Serwis Sp. z o. o.	Katowice	Services	95.61%	95.61%
8	TAURON Dystrybucja S.A.	Kraków	Distribution of electricity	99.75%	99.75%
9	TAURON Dystrybucja Pomiary Sp. z o.o.[1]	Tarnów	Services	99.75%	99.75%
10	TAURON Sprzedaż Sp. z o.o.	Kraków	Sale of electricity	100.00%	100.00%
11	TAURON Sprzedaż GZE Sp. z o.o.	Gliwice	Sale of electricity	100.00%	100.00%
12	TAURON Czech Energy s.r.o.	Ostrawa, Czech Republic	Sale of electricity	100.00%	100.00%
13	TAURON Dystrybucja Serwis S.A.	Wrocław	Services	100.00%	100.00%
14	TAURON Obsługa Klienta Sp. z o.o.	Wrocław	Services	100.00%	100.00%
15	Kopalnia Wapienia Czatkowice Sp. z o.o.	Krzeszowice	Limestone quarrying and stone quarrying	100.00%	100.00%
16	Polska Energia-Pierwsza Kompania Handlowa Sp. z o.o.	Warszawa	Sale of electricity	100.00%	100.00%
17	Finanse Grupa TAURON Sp. z.o.o.[2]	Katowice	Services	100.00%	100.00%
18	Bioeko Grupa TAURON Sp. z o.o.	Stalowa Wola	Wholesale of fuel and derivative products	100.00%	100.00%
19	Wsparcie Grupa TAURON Sp. z o.o.[1]	Tarnów	Services	99.75%	99.75%
20	TEC1 Sp. z o.o.	Katowice	Head office and holding operations	100.00%	100.00%
21	TEC2 Sp. z o.o.	Katowice	Head office and holding operations	100.00%	100.00%
22	TEC3 Sp. z o.o.	Katowice	Head office and holding operations	100.00%	100.00%
23	TEC1 spółka z ograniczoną odpowiedzialnością Mogilno I sp.k.[3]	Katowice	Generation of electricity	n/a	100.00%
24	TEC1 spółka z ograniczoną odpowiedzialnością Mogilno II sp.k.[3]	Katowice	Generation of electricity	n/a	100.00%
25	TEC1 spółka z ograniczoną odpowiedzialnością Mogilno III sp.k.[3]	Katowice	Generation of electricity	n/a	100.00%
26	TEC1 spółka z ograniczoną odpowiedzialnością Mogilno IV sp.k.[3]	Katowice	Generation of electricity	n/a	100.00%
27	TEC1 spółka z ograniczoną odpowiedzialnością Mogilno V sp.k.[3]	Katowice	Generation of electricity	n/a	100.00%
28	TEC1 spółka z ograniczoną odpowiedzialnością Mogilno VI sp.k.[3]	Katowice	Generation of electricity	n/a	100.00%
29	TEC1 spółka z ograniczoną odpowiedzialnością EW Śniatowo sp.k.[3]	Katowice	Generation of electricity	n/a	100.00%
30	TEC1 spółka z ograniczoną odpowiedzialnością EW Dobrzyń sp.k.[3]	Katowice	Generation of electricity	n/a	100.00%
31	TEC1 spółka z ograniczoną odpowiedzialnością EW Gołdap sp.k.[3]	Katowice	Generation of electricity	n/a	100.00%
32	TEC1 spółka z ograniczoną odpowiedzialnością Ino 1 sp.k.[3]	Katowice	Generation of electricity	n/a	100.00%

[1] Share in TAURON Dystrybucja Pomiary Sp. z o.o. and Wsparcie Grupa TAURON Sp. z o.o. is held by TAURON Polska Energia S.A. indirectly through its subsidiary TAURON Dystrybucja S.A. TAURON Polska Energia S.A. is a usufructuary of the shares of TAURON Dystrybucja Pomiary Sp. z o.o.

[2] On 23 August 2019, a cross-border merger 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 19 of these financial statements.

[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 the German partnership, as further described in Note 19 of these financial statements.

Acquisition of wind farms

On 3 September 2019 the transaction documentation for the acquisition by the subsidiaries of TAURON Polska Energia S.A. was signed: TEC1 Sp. z o.o., TEC2 Sp. z o.o., TEC3 Sp. z o.o. five wind farms belonging to the in.ventus group and receivables of Hamburg Commercial Bank AG against the companies operating the wind farms. The transaction was carried out by way of acquisition by the companies:

- TEC1 Sp. z o.o. - rights and obligations of the general partner of Polish partnerships owning wind farms;
- TEC2 Sp. z o.o. - rights and obligations of the general partner of German partnerships which are limited partners in the Polish partnerships;

- TEC3 Sp. z o.o. - the rights and obligations of a limited partner of Polish and German partnerships, with the simultaneous acquisition of financial receivables due to Hamburg Commercial Bank AG and receivables due to previous owners of the acquired companies from loans and credits granted to Polish limited partnerships.

The purpose of establishing TEC1 Sp. z o.o., TEC2 Sp. z o.o., TEC3 Sp. z o.o. and increasing their capitals described in detail in Note 19 of these financial statements was to enable the above transaction. After the transaction, TAURON Polska Energia S.A. indirectly holds all the rights and obligations of the general partner and limited partner of partnerships owning wind farms.

Changes in the share in the capital and the governing body the subsidiaries are described in Note 19 of these financial statements.

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	Core business	Share of TAURON Polska Energia S.A. in the entity's capital and governing body
1	Elektrociepłownia Stalowa Wola S.A.[1]	Stalowa Wola	Generation of electricity	50.00%
2	TAMEH HOLDING Sp. z o.o.[2]	Dąbrowa Górnicza	Head office and holding operations	50.00%
3	TAMEH POLSKA Sp. z o.o.[2]	Dąbrowa Górnicza	Generation, transmission, distribution and sale of electricity and heat	50.00%
4	TAMEH Czech s.r.o.[2]	Ostrawa, Czech Republic	Production, trade and services	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.

3. Statement of compliance

These financial statements have been prepared in compliance with the requirements of the International Financial Reporting Standards ("IFRS"), as endorsed 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.

4. Going concern

These financial statements have been prepared on the assumption that the Company will continue as a going concern in the foreseeable future. As at the date of approval of these financial statements for publication, no circumstances had been identified which would indicate a risk to the Company's ability to continue as a going concern.

After the end of the reporting period, 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 and the Company, as described in detail in Note 49 of these financial statements. 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 49 hereto.

5. Functional and presentation Currency

Polish zloty is the functional currency of the Company and the presentation currency of these financial statements. These financial statements have been presented in the Polish zloty ("PLN") and all figures are in PLN thousand, unless stated otherwise.

(in PLN thousand)

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

The Company did not choose an early application of any standards, amendments 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 amendments to 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 amendments to standards issued by the International Accounting Standards Board which have not been endorsed by the European Union and are not yet effective**

According to the Management Board, the following standards and amendments to 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
IFRS 3 *Business combination*	1 January 2020
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 Accounts.*

7. Changes in the accounting policies

The accounting principles (policy) adopted for the preparation of these financial statements are consistent with those used for the preparation of the annual financial statements of TAURON Polska Energia S.A. for the year ended 31 December 2018, except for the application of the new standards and amendments to standards and interpretation as discussed below.

IFRS 16 *Leases*

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

Under IFRS 16 *Leases*, the lessee recognizes the right-of-use asset and the 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 at the rate implicit in the lease if that can be readily determined. If that rate cannot be readily determined, the lessee uses the marginal interest rate.

Lessors continue to classify leases as operating or finance leases, i.e. in line with IAS 17 *Leases*. A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership of an underlying asset. Otherwise, a lease is classified as an operating lease. A lessor recognizes finance income over the lease term of a finance lease, based on a pattern reflecting a constant periodic rate of return on the net investment. A lessor recognizes operating lease payments as income on a straight-line basis or another systematic basis if that basis is more representative of the pattern in which benefit from the use of the underlying asset is diminished.

(in PLN thousand)

Impact on the financial statements

The Company 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 Company decided not to restate the comparative information, as permitted by the Standard. The data as at 31 December 2018 have been prepared on the basis of IAS 17 *Lease*, IFRIC 4 *Determining Whether an Arrangement Contains a Lease* and SIC 15 *Operating Lease – Incentives.*

As at 1 January 2019, the Company recognized the right-of-use assets in the amount equal to the leasing liability in the current value of other lease payments discounted by applying the incremental credit rate adjusted by the amount of any prepayment or accumulated lease payments relating to that lease, recognized in the statement of financial position before the date of first adoption.

An analysis of the impact of IFRS 16 *Leases* on the accounting policies has shown a change material for the Company, i.e. the need to recognize right-of-use assets and liabilities for leases currently classified as operating leases in the financial statements. The Company analyzed all concluded contracts to identify those affected by IFRS 16 *Leases*. The analysis included, in particular, identification of the asset, verification of control over its use, determination of the lease term and preparation of the methodology for determining the marginal interest rate.

The Company has decided that the right-of-use assets are presented in the statement of financial situation separately from other assets apart from right-of-use assets that meet the definition of investment property, which are presented as investment property as at 31 December 2018 in the amount of PLN 3 926 thousand and include only perpetual usufruct of land. The perpetual usufruct of land, presented as investment property, has been increased by discounted lease payments of PLN 1 526 thousand. Lease liabilities are presented in the statement of financial position under liabilities due to debt together with other titles previously recognized in this position.

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

	As at 31 December 2018	Recognition of right-of-use assets and lease liabilities	As at 1 January 2019
ASSETS			
Non-current assets	**27 166 500**	**41 496**	**27 207 996**
Investment property	22 010	1 526	23 536
Right-of-use assets	-	39 970	39 970
TOTAL ASSETS	**29 512 990**	**41 496**	**29 554 486**
EQUITY AND LIABILITIES			
Equity	**15 259 836**	**-**	**15 259 836**
Non-current liabilities	**8 533 790**	**34 404**	**8 568 194**
Debt	8 474 344	34 404	8 508 748
Current liabilities	**5 719 364**	**7 092**	**5 726 456**
Debt	4 504 374	7 092	4 511 466
TOTAL EQUITY AND LIABILITIES	**29 512 990**	**41 496**	**29 554 486**

Classification of right-of-use assets as at 1 January 2019

Right-of-use assets	As at 1 January 2019
Lease of office and warehouse space	35 345
Lease of parking spaces	3 123
Lease of cars	1 502
Total	**39 970**

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:

(in PLN thousand)

Reconciliation IAS 17 *Leases* to IFRS 16 *Leases*	
Future minimum operating lease payments as at 31 December 2018 in line with IAS 17 *Leases*	49 164
Discount using the incremental interest rate	(7 668)
Lease liabilities under IFRS 16 *Leases* as at 1 January 2019	**41 496**

The Company used a weighted average marginal interest rate of 4.18% to calculate the lease liabilities recognised in the statement of financial position on the date of first application of IFRS 16 *Leases*.

The following practical expedients have been applied as at the date of first-time adoption of IFRS 16 *Leases*:

- a single discount rate was adopted for the portfolio of similar leases;
- the requirements of IFRS 16 *Leases* were not applied to leases whose term expires within 12 months of the first-time adoption date;
- the knowledge of effective leases, in particular regarding the use of the contractual extension/termination option, was applied;
- if the non-lease component could not be separated for a base asset class, both the lease and non-lease components were recognized as a single lease.

According to the Management Board, the introduction of the following amendments to standards and interpretations has not materially impacted the accounting policies applied thus far.

Standard/ amendment	**Effective in the EU as of *(annual periods beginning on or after the date provided)***
Revised IFRS 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. Accounting principles (policy) and material values based on professional judgment and estimates

Significant accounting principles are presented in notes to these financial statements.

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 financial statements and in the explanatory notes. 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 financial statements, there were no significant changes in estimates or estimation methods applied, which would affect the current or future periods, other than those described further in these financial statements.

The items of the 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 financial statements. Key estimates include allowances for shares in subsidiaries, intercompany loans, as presented in details in Notes 10, 19 and 20 to these financial statements.

Additionally, the Company makes significant estimates as regards the contingent liabilities is discloses, and in particular as regards court cases it is a party to. Contingent liabilities have been presented in detail in Note 40 hereto.

BUSINESS SEGMENTS

9. Information on operating segments

9.1. Operating segments

The Company carries out its business in two operating segments, that is “Sales” and “Holding activity”.

The assets of the “Holding activity” segment are:

- shares in subsidiaries and jointly-controlled entities;
- cash pool loan receivables, including a cash pool deposit;
- receivables arising from other loans granted to related parties (in comparable period bonds acquired from subsidiaries as well);
- assets arising from valuation of hedging instruments relating to issued bonds.

The liabilities of the “Holding activity” segment are:

- bonds issued by the Company, including liabilities arising from valuation of hedging instruments relating to such bonds;
- liabilities due to loans from related parties, including under the cash pool agreement.

The “Holding activity” segment includes intra-group receivables and liabilities arising from income tax settlements of the Tax Capital Group companies.

Finance income and finance costs include dividend income as well as net interest income and expense earned/incurred by the Company in relation to the central financing model adopted by the Group and write-downs of shares, bonds and loans constituting assets of the “Holding Activity” segment.

General and administrative expenses are presented under unallocated expenses, as they are incurred for the Group as a whole and are not directly attributable to a specific operating segment.

EBIT is the profit/loss on continuing operations before tax, finance income and finance costs, i.e. operating profit (loss).

EBITDA is the profit/loss on continuing operations before tax, finance income and finance costs, increased by depreciation and/or amortization and impairment of non-financial assets.

(in PLN thousand)

Year ended 31 December 2019

	Sales	Holding activity	Unallocated items	Total
Revenue				
Sales outside the Group	901 645	-	-	**901 645**
Sales within the Group	9 778 927	5	-	**9 778 932**
Segment revenue	**10 680 572**	**5**	**-**	**10 680 577**
Profit/(loss) of the segment	**222 733**	**5**	**-**	**222 738**
Unallocated expenses	-	-	(121 636)	**(121 636)**
EBIT	**222 733**	**5**	**(121 636)**	**101 102**
Revaluation of shares	-	(94 920)	-	**(94 920)**
Revaluation of bonds and loans	-	(1 394 812)	-	**(1 394 812)**
Net finance income/(costs)	-	1 129 576	(87 153)	**1 042 423**
Profit/(loss) before income tax	**222 733**	**(360 151)**	**(208 789)**	**(346 207)**
Income tax expense	-	-	(116 623)	**(116 623)**
Net profit/(loss) for the year	**222 733**	**(360 151)**	**(325 412)**	**(462 830)**
Assets and liabilities				
Segment assets	3 003 016	27 176 583	-	**30 179 599**
Unallocated assets	-	-	305 530	**305 530**
Total assets	**3 003 016**	**27 176 583**	**305 530**	**30 485 129**
Segment liabilities	836 660	14 685 415	**-**	**15 522 075**
Unallocated liabilities	-	-	154 877	**154 877**
Total liabilities	**836 660**	**14 685 415**	**154 877**	**15 676 952**
EBIT	**222 733**	**5**	**(121 636)**	**101 102**
Depreciation/amortization	**(13 257)**	**-**	**-**	**(13 257)**
Impairment	**161**	**-**	**-**	**161**
EBITDA	**235 829**	**5**	**(121 636)**	**114 198**
Other segment information				
Capital expenditure *	2 612	-	-	**2 612**

** Capital expenditure includes expenditures for property, plant and equipment and non-current intangible assets, except for energy certificates acquired by the Company.*

Year ended 31 December 2018

	Sales	Holding activity	Unallocated items	Total
Revenue				
Sales outside the Group	1 006 805	-	-	**1 006 805**
Sales within the Group	7 603 640	8 197	-	**7 611 837**
Segment revenue	**8 610 445**	**8 197**	**-**	**8 618 642**
Profit/(loss) of the segment	**113 178**	**8 197**	**-**	**121 375**
Unallocated expenses	-	-	(98 716)	**(98 716)**
EBIT	**113 178**	**8 197**	**(98 716)**	**22 659**
Revaluation of shares	**-**	(2 469 069)	**-**	**(2 469 069)**
Revaluation of bonds and loans	**-**	15 493	**-**	**15 493**
Net finance income (costs)	-	714 077	(15 443)	**698 634**
Profit/(loss) before income tax	**113 178**	**(1 731 302)**	**(114 159)**	**(1 732 283)**
Income tax expense	-	-	22 430	**22 430**
Net profit/(loss) for the year	**113 178**	**(1 731 302)**	**(91 729)**	**(1 709 853)**
Assets and liabilities				
Segment assets	2 131 713	27 193 114	-	**29 324 827**
Unallocated assets	-	-	188 163	**188 163**
Total assets	**2 131 713**	**27 193 114**	**188 163**	**29 512 990**
Segment liabilities	884 862	13 073 580	**-**	**13 958 442**
Unallocated liabilities	-	-	294 712	**294 712**
Total liabilities	**884 862**	**13 073 580**	**294 712**	**14 253 154**
EBIT	**113 178**	**8 197**	**(98 716)**	**22 659**
Depreciation/amortization	**(4 759)**	**-**	**-**	**(4 759)**
Impairment	**131**	**-**	**-**	**131**
EBITDA	**117 806**	**8 197**	**(98 716)**	**27 287**
Other segment information				
Capital expenditure *	7 319	-	-	**7 319**

** Capital expenditure includes expenditures for property, plant and equipment and non-current intangible assets, except for energy certificates acquired by the Company.*

In the financial year ended 31 December 2019, revenue from sales to two major clients from the Capital Group accounted for 70% and 10% of the Company's total revenue in the "Sales" segment and amounted to PLN 7 849 372 thousand and PLN 1 072 616 thousand, respectively.

In the financial year ended 31 December 2018, revenue from sales to two major clients from the TAURON Group constituted 68% and 9% of the Company's total revenue in the "Sales" segment and amounted to PLN 5 873 610 thousand and PLN 789 451 thousand, respectively.

9.2. Geographic areas of operations

The majority of the Company's business operations are carried out in Poland. In the years ended 31 December 2019 and 31 December 2018, export sales amounted to PLN 35 974 thousand and PLN 97 502 thousand, respectively.

IMPAIRMENT OF SHARES IN SUBSIDIARIES

10. Impairment of financial assets

SELECTED ACCOUNTING PRINCIPLES

Under IAS 36 *Impairment of Assets*, as at each reporting period end, the Company assesses shares held in subsidiaries and joint ventures for objective impairment indication regarding financial assets or asset groups.

If there is any objective indication that the assets may be impaired, the assets are tested for impairment. The tests include shares in subsidiaries and debt financial instruments (intra-group loans and bonds) measured in line with IFRS 9 *Financial Instruments,* that account for key financial assets of the Company. The amount of the impairment loss is the difference between the carrying amount of a financial asset or group of financial assets and the recoverable amount, which is the fair value less costs of disposal or the value in use, whichever is higher. The value in use is calculated as the present value of estimated future cash flows from the operations of subsidiaries and the estimated residual value discounted using the weighted average cost of capital.

As at 31 December 2019 and 30 June 2019, the Company carried out impairment tests focusing on shares and intra-group loans and bonds. As at 31 December 2019 tests were carried out taking into account the following premises:

- the Company's capitalization 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;
- an decrease in the risk-free rate.

Shares and intra-group loans and bonds accounted for about 89% of the balance sheet total as at the end of the reporting period.

The recoverable amount is the value in use. The calculation method has been presented below.

Relevant tests were conducted based on the present value of projected cash flows from operations of the key entities, by reference to detailed projections by 2029 and the estimated residual value. The projections used for the power generating and mining units cover the entire period of their operation. 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.

(in PLN thousand)

Key assumptions made for purposes of the 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 vs. 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 in 2030 -2040. The long-term projections of TAURON Wytwarzanie S.A. and Nowe Jaworzno TAURON Group Sp. z o.o. 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 Capacity Market mechanism implementation has been taken into account (in line with the adopted and notified Act on the Capacity Market and the draft Capacity 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 7.02% to 15.16% 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 and development investments was considered.

Fixed assets were also tested for impairment. To this end, the Company applied the relevant assumptions used for impairment testing of shares.

Sensitivity analyses conducted by the Company reveal that the projected prices of electricity, those of greenhouse gas emission allowances and the adopted discount rates, as well as coal prices are the key factors exerting an effect on the estimated cash flows of the key entities.

Test results

The impairment tests carried out in line with IAS 36 *Impairment of Assets* as at 31 December 2019 indicated impairment of the carrying amount of shares and loans in subsidiaries.

The Company created impairment allowance of TAURON Ciepło Sp. z o.o. shares in the amount of PLN 168 140 thousand and reversed impairment allowance of TAURON Ekoenergia Sp. z o.o. shares in the amount of PLN 185 172 thousand. Earlier, as a result of the tests carried out as at 30 June 2019, impairment allowance was created for the shares of TAURON Wydobycie S.A. in the amount of PLN 99 058 thousand, reducing the carrying value of the shares to PLN 0.

(in PLN thousand)

Company	WACC* assumed in tests as at			Recoverable amount of shares, intra-group loans as at 31 December 2019	Impairment (loss)/reversal of loss of shares recognized in the year ended 31 December 2019
	31 December 2019	30 June 2019 *(unaudited)*	31 December 2018		
TAURON Wydobycie S.A.	14.01%	11.40%	11.58%	312 312	(99 058)
TAURON Ciepło Sp. z o.o.	8.14%	7.61%	7.54%	2 718 776	(168 140)
TAURON Ekoenergia Sp. z o.o.	8.76%	9.37%	9.60%	2 124 584	185 172
Total					**(82 026)**

** The level of the weighted average cost of capital (WACC) in nominal terms before tax.*

At the same time, in connection with the Company's financial involvement in TAURON Wydobycie S.A. in the form of loans granted to the subsidiary, the results of asset impairment tests formed the basis for estimating repayment scenarios for the loans granted and the balance sheet valuation of the loans. In December 2019, the Company converted the existing debt of the subsidiary to TAURON Polska Energia S.A. in the form of bonds into loans and additionally granted new loans for the repayment of the existing debt due in 2019. The Company has decided that the loans granted are financial assets acquired with impairment due to credit risk. Loans with a nominal value of PLN 1 970 000 thousand were recognized in the financial statements in the amount of PLN 264 980 thousand. Thus, the Company's total exposure by virtue of its shares and loans granted reflects the estimated recoverable amount as at 31 December 2019. As a result of impairment tests carried out in 2019 and the valuation as at the balance sheet date of the aforementioned financial assets, the gross profit or loss for 2019 was reduced by PLN 1 509 745 thousand (including share's impairment allowance of TAURON Wydobycie S.A., which have been described above).

	As at 31 December 2019				As at 31 December 2018				Impact of remeasurment on gross profit (loss) as at 31 December 2019
	Shares	Loans granted under cash pool	Other loans granted	Total financial exposure	Shares	Bonds	Loans granted under cash pool	Total financial exposure	
Gross value/ Nominal value	1 341 755	86 884	1 970 000	**3 398 639**	1 341 755	570 000	386 751	2 298 506	
Measurement of position with impairment (level 3)	-	-	(1 705 020)	**(1 705 020)**	-	-	-	-	**(1 705 020)**
Accrued interest	-	10 019	3 596	**13 615**	-	22 836	4 334	27 170	
Impairment loss	(1 341 755)	(49 572)	(3 596)	**(1 394 923)**	(1 242 697)	(143 579)	(203 922)	(1 590 198)	**195 275**
Carrying amount	**-**	**47 331**	**264 980**	**312 311**	**99 058**	**449 257**	**187 163**	**735 478**	**(1 509 745)**

The impairment loss on shares and decrease of measurement of bonds and loans granted to the subsidiary TAURON Wydobycie S.A. in 2019 resulted from:

- updating of technical and economic assumptions, mainly in terms of exploitation plans and availability of deposits,
- updating market assumptions regarding the cost of capital.

The need to write off the shares of TAURON Ciepło Sp. z o.o. in 2019 resulted mainly from updating market assumptions regarding the cost of capital.

The reversal of the impairment loss on shares in TAURON Ekoenergia Sp. z o.o. recognized in 2019 was possible for the following reasons:

- changes regarding renewable energy sources (the manner of calculating a substitution fee) that positively affect financial performance of assets based on renewable energy sources;
- a fundamental change in market factors related to energy generation from renewable sources meaning a competitive advantage over conventional generation.

The loans granted to Elektrociepłownia Stalowa Wola S.A. were tested for impairment. The results of the test showed that there is no need for an impairment loss provided that the assumption are compliant with the impairment tests on shares.

(in PLN thousand)

EXPLANATORY NOTES TO THE STATEMENT OF COMPREHENSIVE INCOME

11. Sales revenue

SELECTED ACCOUNTING PRINCIPLES

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 perform a service to a client. The asset transfer takes place when a client obtains control over an asset. For sales of electricity and gaseous fuels, the energy is deemed sold when delivered to a consumer.

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

The Company 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.

For goods and materials, revenue is recognized when the Company 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 includes amounts the Company expects to receive from sales of electricity, gaseous fuels, CO_2 emission allowances and other products, amended by granted rebates, discounts, excise duty.

Revenue from sales of goods includes the total positive result on transactions on CO_2 emission allowances, concluded within the trading portfolio, i.e. intended for sale and to realize short-term profit arising from market price fluctuations, including trading in emission allowances, fair value measurement of inventories, as well as measurement and settlement of derivative commodity instruments related to sales of CO_2 emission allowances.

Revenue from sales of goods includes gains on change in measurement and on exercising derivative commodity instruments falling within the scope of IFRS 9 *Financial Instruments* and related to purchases and sales of other commodities.

	Year ended 31 December 2019	Year ended 31 December 2018
Revenue from sales of goods for resale and materials	**10 526 854**	**8 506 398**
Electricity	9 468 482	7 555 021
Gas	347 631	277 887
CO_2 emission allowances	701 607	666 306
Other	9 134	7 184
Rendering of services	**153 723**	**112 244**
Trading income	110 256	67 014
Using trademark	37 466	30 650
Other	6 001	14 580
Total	**10 680 577**	**8 618 642**

TAURON Polska Energia S.A. acts as an agent coordinating and supervising purchases, supplies and transportation of fuels. The Company buys coal from entities outside the TAURON Group, while the sale is made to related companies. It recognizes revenue from agency services (supply management).

In the year ended 31 December 2019, the value of raw materials purchased and subsequently resold in the aforementioned transactions was PLN 1 049 941 thousand. The Company recognized revenue from agency services of PLN 27 755 thousand.

The increase in revenues from trade services is mainly due to the fact that from 2019 onwards the Company started to provide the companies in the Sales segment with trade services related to electricity portfolio management. Revenue from this account for the year ended 31 December 2019 amounted to PLN 41 189 thousand.

The increase in revenues from sales of electricity vs. the comparative period results mostly from an increase in electricity prices in the current reporting period, with simultaneous slight decrease of trading volume. The increase in revenue from gas sales vs. the comparative period is due to the increase in the volume sold and price.

(in PLN thousand)

12. Expenses by type

SELECTED ACCOUNTING PRINCIPLES

The Company presents costs by function.

They include:

- cost of goods, materials and services sold (cost of sales), incurred during a given reporting period, including any impairment losses on property, plant and equipment, intangible assets, receivables and inventories,
- total selling and distribution expenses, and administrative expenses incurred in the reporting period (disclosed separately in the statement of comprehensive income).

The cost of goods sold includes the total positive result on transactions on CO_2 emission allowances, concluded within the trading portfolio, i.e. intended for sale and to realize short-term profit arising from market price fluctuations, including trading in emission allowances, fair value measurement of inventories, as well as measurement and settlement of derivative commodity instruments related to sales of CO_2 emission allowances.

Costs of goods sold include losses on change in measurement and on exercising derivative commodity instruments falling within the scope of IFRS 9 *Financial Instruments* and related to purchases and sales of other commodities.

Costs that can be assigned directly to revenue generated by the Company impact 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 Company impact the profit or loss in the portion pertaining to the given reporting period, and match the revenue or other economic benefits.

	Year ended 31 December 2019	Year ended 31 December 2018
Depreciation of property, plant and equipment, right-of-use assets and amortization of intangible assets	(13 257)	(4 759)
Materials and energy	(1 533)	(1 481)
External services	(47 064)	(51 201)
Taxes and charges	(4 605)	(4 586)
Employee benefits expense	(101 710)	(92 935)
Advertising expenses	(23 943)	(28 910)
Other	(2 862)	(1 896)
Total costs by type	**(194 974)**	**(185 768)**
Costs of performances intended for internal purposes	162	55
Selling and distribution expenses	24 036	20 692
Administrative expenses	121 636	98 716
Cost of goods for resale and materials sold	(10 381 999)	(8 406 343)
Cost of sales	**(10 431 139)**	**(8 472 648)**

The increase in depreciation and/or amortization costs in the year ended 31 December 2019 in relation to the comparable period results mainly from recognition in the current period of depreciation and/or amortization of PLN 7 902 thousand on the rights-of-use assets due to IFRS 16 *Leases* coming into force on 1 January 2019. The entry into force of IFRS 16 *Lease* also resulted in a decrease in the cost of external services (no recognition of rental costs).

The increase in the value of goods and materials sold in the year ended 31 December 2019 versus the comparative period resulted primarily from the increase in electricity prices in the current reporting period, accompanied by a slight decrease in the volume of trade and an increase in the volume and purchase price of gas sold.

Employee benefits expenses have been presented in detail in Note 13 to these financial statements.

(in PLN thousand)

13. Employee benefits expenses

	Year ended 31 December 2019	Year ended 31 December 2018
Wages and salaries	(82 321)	(74 004)
Social security costs	(11 879)	(10 481)
Appropriations to the Social Fund	(606)	(545)
Costs of employee retirement plans	(2 879)	(2 712)
Post-employment benefits expenses - actuarial provisions	(700)	(635)
Other employee benefits expenses	(3 325)	(4 558)
Total	**(101 710)**	**(92 935)**
Items included in cost of sales	(19 040)	(27 580)
Items included in costs of performances intended for internal purposes	(162)	(55)
Items included in selling and distribution expenses	(7 498)	(6 890)
Items included in administrative expenses	(75 010)	(58 410)

14. Finance income and costs

SELECTED ACCOUNTING PRINCIPLES

Finance income and costs include in particular items relating to:
- revenue from profit sharing in other entities, including dividends;
- interest;
- disposal/liquidation of financial assets;
- revaluation of financial instruments, except financial assets measured at fair value where the effects are recognized in other comprehensive income and charged to revaluation reserve and derivative commodity instruments falling within the scope of IFRS 9 *Financial Instruments* in the case of which gains/losses on change in measurement and on exercising are presented within operating activities where gains/losses on the related trading in goods are also recognized;
- interest expense related to measurement of employee benefits, in line with IAS 19 *Employee Benefits*;
- changes in the balance of a provision resulting from the nearing deadline to incur the expense (discount unwinding effect);
- 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;
- other items related to financing activities.

Foreign currency transactions are translated into PLN at initial recognition at the exchange rate applicable as at the transaction date. As at the end of the reporting period:
- monetary items denominated in foreign currencies are translated at the closing rate (the average exchange rate published by the National Bank of Poland as at the date);
- non-monetary items measured at historical cost in a foreign currency are translated using the exchange rate at the date of the original transaction and
- non-monetary items measured at fair value in a foreign currency are translated using the exchange rate at the date of determining the fair value.

Exchange differences from translation are recognized within finance income (costs), or, in the cases specified in the accounting principles (policy), capitalized in the value of assets.

Exchange rates applied for the purpose of balance sheet measurement:

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

(in PLN thousand)

	Year ended 31 December 2019	Year ended 31 December 2018
Income and costs from financial instruments	**(445 893)**	**(1 755 041)**
Dividend income	1 100 861	819 437
Interest income on bonds and loans	389 809	327 447
Other interest income	8 563	5 774
Surplus of impairment losses (recognised)/reversed on shares	(94 920)	(2 469 069)
Revaluation of bonds and loans	(1 394 812)	15 493
Interest expense	(407 866)	(298 602)
Commissions due to external financing	(20 319)	(22 993)
Exchange gains/(losses)	28 739	(118 143)
Gain/(loss) on derivative instruments	(53 233)	(4 052)
Other	(2 715)	(10 333)
Other finance income and costs	**(1 416)**	**99**
Total, *incl. recognized in the statement of comprehensive income:*	**(447 309)**	**(1 754 942)**
Dividend income	1 100 861	819 437
Interest income on bonds and loans	389 809	327 447
Interest expense on debt	(407 866)	(298 602)
Revaluation of shares	(94 920)	(2 469 069)
Revaluation of bonds and loans	(1 394 812)	15 493
Other finance income and costs	(40 381)	(149 648)

Significant changes in items of financial income and expenses in the year ended 31 December 2019 resulted mainly from the following:

- the increase in interest income on bonds and loans by PLN 62 362 thousand, which resulted mainly from the increase in the balance of financing granted to subsidiaries;
- revaluation of shares, including mainly the creation and reversal of write-downs of shares in subsidiaries as a result of impairment tests of shares carried out as at 30 June 2019 and 31 December 2019 (more details in Note 10);
- revaluation of bonds and loans in the amount of PLN 1 394 812 thousand - revaluation concerned mainly bonds, and then loans granted by the Company to a subsidiary in the Mining segment, which is described in Note 20.1 of these financial statements (cost in 2019 in amount of PLN 1 410 686 thousand).
- the increase of interest expenses by PLN 109 264 thousand in the year ended 31 December 2019 versus the comparative period results mainly from recognition in the financial profit or loss of costs related to new financing incurred at the end of 2018 and in 2019;
- there was a surplus of positive exchange differences over negative ones in the amount of PLN 28 739 thousand (in the comparative period there was a surplus of negative exchange differences over positive ones - PLN 118 143 thousand). The exchange rate differences relate mainly to exchange rate differences related to the Company's debt obligations in EUR currency. In 2019, the Company recognised revenue of PLN 36 252 thousand and in 2018 a cost of PLN 113 013 thousand.

15. 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 determined by the Company in line with provisions of the CIT Act and including the settlement of the Tax Capital Group the Company belongs to, as well as any previous year tax adjustments.

Deferred income tax

The Company 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 carrying amount of the deferred tax asset is reviewed at the end of each reporting period. The Company reduces the carrying amount of the deferred tax asset to the extent the generation of taxable income sufficient to use the deferred tax asset in part or in whole is not probable. Unrecognized deferred tax asset is reviewed at the end of each reporting period and recognized to the extent its use is probable following generation of taxable income in the future. Deferred tax assets on deductible temporary differences arising from investments in subsidiaries is recognized insofar as their reversal is probable in the foreseeable future and where taxable income will be available to enable realization of deductible differences.

(in PLN thousand)

The deferred tax asset and liability are measured with the application of tax rates expected to be applicable in the period of realization of the asset or derecognition of the liability, with the consideration of tax rates (and tax regulations) that had been enacted or substantively enacted at the end of the reporting period.

Income tax related to items which are not recognized in profit or loss, i.e. items recognized in other comprehensive income or directly in equity, is recognized in other comprehensive income or in equity, respectively.

The Company offsets its deferred tax asset and deferred tax liability only if it has an enforceable legal title to offset its current tax receivables with liabilities and the deferred tax asset and liability concern the same tax authority.

PROFESSIONAL JUDGMENT AND ESTIMATES

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

15.1. Tax expense in the statement of comprehensive income

Key items of the tax expense in the statement of comprehensive income:

	Year ended 31 December 2019	Year ended 31 December 2018
Current income tax	**5 519**	**(59 908)**
Current income tax expense	(4 275)	(53 127)
Adjustments of current income tax from prior years	9 794	(6 781)
Deferred tax	**(122 142)**	**82 338**
Income tax expense in profit or loss	**(116 623)**	**22 430**
Income tax expense in other comprehensive income	**(2 620)**	**4 613**

15.2. Reconciliation of the effective tax rate

	Year ended 31 December 2019	Year ended 31 December 2018
Loss before tax	**(346 207)**	**(1 732 283)**
Tax at Poland's statutory tax rate of 19%	**65 779**	**329 134**
Adjustments to income tax from previous years	9 794	(6 781)
Tax resulting from tax non-deductible costs	(446 540)	(647 305)
Impairment loss on shares, bonds and loans in subsidiaries	(421 076)	(647 822)
Recognition of non-deductible provisions	(798)	(798)
Other	(24 666)	1 315
Tax resulting from income not included in taxable base	254 695	342 152
Reversal of impairment loss on shares in subsidiaries	35 183	178 699
Dividends	209 164	155 693
Other	10 348	7 760
Settlement of the TCG	(731)	4 851
Other	380	379
Tax at the effective tax rate of 33.7 % (2018: 1.3%)	**(116 623)**	**22 430**
Income tax expense in profit/(loss)	(116 623)	22 430

15.3. Deferred income tax

Deferred income tax results from the following items:

(in PLN thousand)

	As at 31 December 2019	As at 31 December 2018
difference between tax base and carrying amount of financial assets	23 181	41 547
difference between tax base and carrying amount of fixed and intangible assets and right-of-use assets	7 599	1 422
valuation of hedging instruments	3 698	794
difference between tax base and carrying amount of ficiancial liabilities	7 884	4 427
Deferred tax liabilities	**42 362**	**48 190**
difference between tax base and carrying amount of financial assets	5 367	76 519
difference between tax base and carrying amount of financial liabilities	38 976	60 110
different timing of recognition of revenue and cost of sales for tax purposes	14 851	53 580
provisions and accruals	3 594	3 199
difference between tax base and carrying amount of fixed and intangible assets	2 458	2 666
other	534	296
Deferred tax assets	**65 780**	**196 370**
Deferred tax assets/(liabilities), net	**23 418**	**148 180**

Deferred tax assets on deductible temporary differences arising from investments in subsidiaries is recognized insofar as their reversal is probable in the foreseeable future and where taxable income will be available to enable realization of deductible differences. According to the Company, deductible temporary differences related to recognition of impairment allowances on shares in subsidiaries of PLN 9 230 002 thousand will not be reversed in the foreseeable future, as the investments are not intended for sale. Consequently, no related deferred tax asset has been recognized.

In addition, the Company does not recognise a deferred tax asset on negative temporary differences related to impairment allowances of loans granted. As at 31 December 2019 impairment allowances on loans was PLN 100 285 thousand.

As taxable profit is forecast for subsequent years for the Tax Capital Group ("TCG") of which the Company is a member, the deferred tax asset related to all deductible differences, except those described above, has been recognized in these financial statements in the full amount.

15.4. Tax Capital Group

The Tax Group Agreement for 2018-2020 was registered on 30 October 2017. Main companies forming the Tax Group since 1 January 2018: 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.

As at 31 December 2019, the Tax Capital Group had an income tax receivables of PLN 255 459 thousand. The receivable relates in full to 2019 and represents the surplus of advance payments of PLN 442 514 thousand over Tax Group tax charge of PLN 187 055 thousand.

At the same time, due to the Company's settlements as a Representative Company with subsidiaries belonging to the Tax Group, the Company had a liability to these subsidiaries due to overpayment of tax in the amount of PLN 212 598 thousand, which was presented in the statement of financial position as "Other financial liabilities".

16. Earnings (loss) per share

SELECTED ACCOUNTING PRINCIPLES

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

(in PLN thousand)

Loss per share (in PLN)	Year ended 31 December 2019	Year ended 31 December 2018
Basic and diluted, for loss for the financial year	(0.26)	(0.98)

Presented below is information about the loss and number of shares which served as the basis for calculation of the basic and diluted loss per share presented in the statement of comprehensive income.

	Year ended 31 December 2019	Year ended 31 December 2018
Net loss attributable to ordinary shareholders	(462 830)	(1 709 853)
Number of ordinary shares	1 752 549 394	1 752 549 394

EXPLANATORY NOTES TO THE STATEMENT OF FINANCIAL POSITION

17. Investment property

SELECTED ACCOUNTING PRINCIPLES

The Company holds an investment property generating revenue from rental fees. The property is rented to a subsidiary. At initial recognition investment property is measured at acquisition costs or cost including transaction costs. After initial recognition all investment properties held are measured in line with IAS 16 *Property, Plant and Equipment*, i.e. at cost less impairment allowances or acquisition costs. This means that the Company gradually depreciates the real property throughout its useful life.

	Year ended 31 December 2019	Year ended 31 December 2018
COST		
Opening balance	**40 095**	**36 169**
Impact of IFRS 16 *Leases*	1 526	-
Restated opening balance	**41 621**	**36 169**
Purchase	-	3 926
Increase/(decrease) due to lease changes	(108)	-
Closing balance	**41 513**	**40 095**
ACCUMULATED DEPRECIATION		
Opening balance	**(18 085)**	**(14 468)**
Depreciation for the period	(3 691)	(3 617)
Closing balance	**(21 776)**	**(18 085)**
NET CARRYING AMOUNT AT THE BEGINNING OF THE PERIOD	**22 010**	**21 701**
NET CARRYING AMOUNT AT THE END OF THE PERIOD, *of which:*	**19 737**	**22 010**
Buildings	14 468	18 084
Perpetual usufruct of land	5 269	3 926

The investment property is composed of a perpetual usufruct right to land and buildings located in Katowice Szopienice, at ul. Lwowska 23. The Company entered into an agreement to rent the property with a subsidiary. The rental revenue for the year ended 31 December 2019 amounted to PLN 5 409 thousand. The Company estimates that as at the end of the reporting period the fair value of the property in amount of PLN 28 626 thousand.

The Company has decided that the assets on account of the right to use assets meeting the definition of investment property, which relate to the rights to perpetual usufruct of land, are presented in investment property. Therefore, as at 1 January 2019 the right of perpetual usufruct of land constituting an investment property was increased by the value of discounted lease payments in the amount of PLN 1 526 thousand.

(in PLN thousand)

18. Right-of-use assets

SELECTED ACCOUNTING PRINCIPLES

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

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 amortization and impairment write-down and adjusted for the revaluation of the lease liability. Depreciation and/or amortization principles applied to assets used under leases are consistent with those applied to depreciation and/or amortization of assets owned by the Company.

PROFESSIONAL JUDGMENT AND ESTIMATES

At the date of commencement of the lease, the Company measures an rights-of-use assets incl. 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 Company applies the incremental borrowing rate, in accordance with the adopted methodology depending on the rating.

The Company applies the portfolio approach to similar leases regarding unified assets with similar use. When accounting for leases under the portfolio approach, the Company 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 contracts for an indefinite period, the Company makes an estimate.

Depreciation and/or amortization principles applied to the rights-of-use of assets are consistent with those applied to depreciation and/or amortisation of assets owned by the Company. If there is no reasonable certainty that the Company 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.

Rights-of-use assets for the year ended 31 December 2019

	Buildings, premises and civil engineering structures	Motor vehicles	Total right-of-use assets
COST			
Opening balance	-	-	-
Impact of IFRS 16 *Leases*	38 468	1 502	**39 970**
Restated opening balance	**38 468**	**1 502**	**39 970**
New lease agreement	-	261	**261**
Increase/(decrease) due to lease changes	1 794	54	**1 848**
Closing balance	**40 262**	**1 817**	**42 079**
ACCUMULATED DEPRECIATION			
Opening balance	-	-	-
Depreciation for the period	(7 226)	(676)	**(7 902)**
Closing balance	**(7 226)**	**(676)**	**(7 902)**
NET CARRYING AMOUNT AT THE BEGINNING OF THE PERIOD	-	-	-
NET CARRYING AMOUNT AT THE END OF THE PERIOD	**33 036**	**1 141**	**34 177**

In connection with the entry into force of IFRS 16 *Lease*, as at 1 January 2019 the Company recognised rights-to-use assets in the amount of PLN 39 970 thousand. The impact of the standard on the financial statements is described in Note 8 of these financial statements.

(in PLN thousand)

19. Shares

SELECTED ACCOUNTING PRINCIPLES

Shares in subsidiaries and jointly-controlled entities

Shares in subsidiaries and interests in a joint venture are shown at purchase price, less impairment allowances, if any. Impairment allowances are recognized in line with IAS 36 *Impairment of Assets,* where the carrying amount is compared to the higher of the fair value less costs to sell and the value in use.

Shares in other entities

Shares in entities other than subsidiaries and jointly controlled entities held as at the balance sheet date are measured at fair value through profit or loss.

PROFESSIONAL JUDGMENT AND ESTIMATES

As at every balance sheet date the Company assesses if there is any objective indication that the shares may be impaired. Should material impairment indications occur, the Company is obliged to carry out impairment tests of shares and recognize an impairment loss or reverse an existing one.

Pursuant to IFRS 9 *Financial Instruments*, the Company classifies and measures at fair value shares in entities other than subsidiaries and jointly-controlled entities.

Change in shares for the year ended 31 December 2019

No.	Company	Gross value			Impairment losses			Net value	
		Opening balance	(Decreases) Increases	Closing balance	Opening balance	Decreases (Increases)	Closing balance	Opening balance	Closing balance
1	TAURON Wydobycie S.A.	1 341 755	-	1 341 755	(1 242 697)	(99 058)	(1 341 755)	99 058	-
2	TAURON Wytwarzanie S.A.	7 865 701	-	7 865 701	(7 635 126)	-	(7 635 126)	230 575	230 575
3	TAURON Ciepło Sp. z o.o.	1 928 043	-	1 928 043	-	(168 140)	(168 140)	1 928 043	1 759 903
4	TAURON Ekoenergia Sp. z o.o.	1 939 765	-	1 939 765	(185 172)	185 172	-	1 754 593	1 939 765
5	Marselwind Sp. z o.o.	307	-	307	-	-	-	307	307
6	TAURON Serwis Sp. z o.o.	1 268	-	1 268	-	-	-	1 268	1 268
7	Nowe Jaworzno Grupa TAURON Sp. z o.o.	4 611 026	250 000	4 861 026	-	-	-	4 611 026	4 861 026
8	TAURON Dystrybucja S.A.	10 511 628	-	10 511 628	-	-	-	10 511 628	10 511 628
9	TAURON Dystrybucja Serwis S.A.	640 362	-	640 362	-	-	-	640 362	640 362
10	TAURON Sprzedaż Sp. z o.o.	613 505	-	613 505	-	-	-	613 505	613 505
11	TAURON Sprzedaż GZE Sp. z o.o.	129 823	-	129 823	-	-	-	129 823	129 823
12	TAURON Czech Energy s.r.o.	4 223	-	4 223	-	-	-	4 223	4 223
13	Kopalnia Wapienia Czatkowice Sp. z o.o.	41 178	-	41 178	-	-	-	41 178	41 178
14	Polska Energia-Pierwsza Kompania Handlowa Sp. z o.o.	61 056	-	61 056	(61 056)	-	(61 056)	-	-
15	TAURON Sweden Energy AB (publ)	28 382	(28 382)	-	(20 933)	20 933	-	7 449	-
16	Bioeko Grupa TAURON Sp. z o.o.	1 269	-	1 269	-	-	-	1 269	1 269
17	TAURON Obsługa Klienta Sp. z o.o.	39 831	-	39 831	-	-	-	39 831	39 831
18	Finanse Grupa TAURON Sp. z o.o.	-	28 482	28 482	-	(23 925)	(23 925)	-	4 557
19	TAMEH HOLDING Sp. z o.o.	415 852	-	415 852	-	-	-	415 852	415 852
20	PGE EJ 1 Sp. z o.o.	18 651	(4 249)	14 402	-	-	-	18 651	14 402
21	Magenta Grupa TAURON Sp. z o.o.	9 500	-	9 500	-	-	-	9 500	9 500
22	ElectroMobility Poland S.A.	17 500	(5 653)	11 847	-	-	-	17 500	11 847
23	EEC Magenta Sp. z o.o. ASI spółka komandytowo–akcyjna	12	1 046	1 058	-	-	-	12	1 058
24	EEC Magenta Sp. z o.o. 2 ASI spółka komandytowo–akcyjna	24	10 926	10 950	-	-	-	24	10 950
25	TEC1 Sp. z o.o.	-	725	725	-	-	-	-	725
26	TEC2 Sp. z o.o.	-	225	225	-	-	-	-	225
27	TEC3 Sp. z o.o.	-	600 025	600 025	-	-	-	-	600 025
28	Other	379	-	379	-	-	-	379	379
	Total	**30 221 040**	**853 145**	**31 074 185**	**(9 144 984)**	**(85 018)**	**(9 230 002)**	**21 076 056**	**21 844 183**

Creation and increase of capital in TEC1 Sp. z o.o., TEC2 Sp. z o.o., TEC3 Sp. z o.o.

On 12 April 2019, newly established companies were registered: TEC1 Sp. z o.o., TEC2 Sp. z o.o., TEC3 Sp. z o.o., in which the Company is the sole shareholder. The share capital of each company was equal to PLN 25 thousand. On 2 September 2019, the Extraordinary General Meetings of TEC1 Sp. z o.o., TEC2 Sp. z o.o., TEC3 Sp. z o.o. adopted resolutions on increasing the share capitals of the aforementioned companies. The Company took up shares in the increased capital of the companies and covered them in full with cash contributions in the following amounts:

- TEC1 Sp. z o.o., totaling PLN 700 thousand;
- TEC2 Sp. z o.o., totaling PLN 200 thousand;
- TEC3 Sp. z o.o., totaling PLN 600 000 thousand;

The capital increase in these subsidiaries was intended to enable the acquisition of five wind farms belonging to the in.ventus group and receivables of Hamburg Commercial Bank AG against the companies operating the wind farms. The acquisition transaction documentation was signed on 3 September 2019 and was carried out by way of acquisition by the companies:

- TEC1 Sp. z o.o. - rights and obligations of the general partner of Polish partnerships owning wind farms;
- TEC2 Sp. z o.o. - rights and obligations of the general partner of German partnerships which are limited partners in the Polish partnerships;
- TEC3 Sp. z o.o. - the rights and obligations of a limited partner of German partnerships, with the simultaneous acquisition of financial receivables due to Hamburg Commercial Bank AG and receivables due to previous owners of the acquired companies from loans and credits granted to Polish limited partnerships.

After the transaction, TAURON Polska Energia S.A. indirectly holds all the rights and obligations of the general partner and limited partner of partnerships owning wind farms.

Share capital increase of Nowe Jaworzno Grupa TAURON Sp. z o.o.

In the year ended on 31 December 2019, share capital increases of the subsidiary Nowe Jaworzno Grupa TAURON Sp. z o.o. took place. The total share capital was increased by PLN 11 300 thousand. The new shares in the company's increased share capital were subscribed for by Fundusz Inwestycji Infrastrukturalnych - Kapitałowy Fundusz Inwestycyjny Zamknięty Aktywów Niepublicznych for the total issue price of PLN 440 000 thousand (including transfer in amount of PLN 100 000 thousand, which was made in year ended 31 December 2018), PFR Inwestycje Fundusz Inwestycji Zamkniętych for the total issue price of PLN 440 000 thousand and the Company for the total issue price of PLN 250 000 thousand. The surplus of the issue price of the shares over their par value in the total amount of PLN 1 118 700 thousand was transferred to the reserve capital of Nowe Jaworzno Grupa TAURON Sp. z o.o. As a result of the transaction, the Company’s share in the capital and the decision-making body has dropped from 97.89% to 84.76%.

Cross-border merger Finanse Grupa TAURON Sp. z o.o. with TAURON Sweden Energy AB (publ)

On 6 May 2019 the Extraordinary General Meeting of Shareholders of Finanse Grupa TAURON Sp. z o.o. with its registered office in Katowice and on 17 May 2019 the Extraordinary General Meeting of Shareholders of TAURON Sweden Energy AB (publ) with its registered office in Stockholm adopted resolutions concerning the cross-border merger of Finanse Grupa TAURON Sp. z o.o. (the acquirer) with TAURON Sweden Energy AB (publ) (the acquiree). On 23 August 2019, the merger was registered in the National Court Register maintained by the District Court in Katowice. The court in Sweden deleted TAURON Sweden Energy AB (publ) on 26 August 2019.

As a result of the merger, the Company relocated its shares in TAURON Sweden Energy AB (publ) in the net amount of PLN 4 457 thousand to the value of shares in Finanse Grupa TAURON Sp. z o.o. Taking into account the earlier contribution of PLN 100 thousand to the capital of Finanse Grupa TAURON Sp. z o.o., as of 31 December 2019 the value of the Company's shares in Finanse Grupa TAURON Sp. z o.o. amounted to PLN 4 557 thousand.

Other changes in the balance of long-term investments that took place in the year ended 31 December 2019 resulted from the share capital increase of the following companies:

- EEC Magenta Sp. z o.o. ASI spółka komandytowo–akcyjna in the amount of PLN 1 046 thousand;
- EEC Magenta Sp. z o.o. 2 ASI spółka komandytowo–akcyjna in the amount of PLN 10 926 thousand.

Impairment allowances on shares

In the year ended 31 December 2019, the Company recognised the creation and reversal of impairment allowances on shares in subsidiaries, witch deducted profit or loss in total value of PLN 85 018 thousand, as further described in Note 10 to these financial statements. In addition, the Company recognised the creation of impairment allowances for shares in other companies for the total amount of PLN 9 902 thousand.

(in PLN thousand)

Change in shares for the year ended 31 December 2018

No.	Company	Gross value			Impairment losses			Net value	
		Restated opening balance	(Decreases) Increases	Closing balance	Opening balance	Decreases (Increases)	Closing balance	Restated opening balance	Closing balance
1	TAURON Wydobycie S.A.	1 001 755	340 000	1 341 755	(147 870)	(1 094 827)	(1 242 697)	853 885	99 058
2	TAURON Wytwarzanie S.A.	7 085 701	780 000	7 865 701	(5 347 296)	(2 287 830)	(7 635 126)	1 738 405	230 575
3	TAURON Ciepło Sp. z o.o.	1 928 043	-	1 928 043	-	-	-	1 928 043	1 928 043
4	TAURON Ekoenergia Sp. z o.o.	1 939 765	-	1 939 765	(1 125 693)	940 521	(185 172)	814 072	1 754 593
5	Marselwind Sp. z o.o.	307	-	307	-	-	-	307	307
6	TAURON Serwis Sp. z o.o.	1 268	-	1 268	-	-	-	1 268	1 268
7	Nowe Jaworzno Grupa TAURON Sp. z o.o.	3 551 026	1 060 000	4 611 026	-	-	-	3 551 026	4 611 026
8	TAURON Dystrybucja S.A.	10 511 628	-	10 511 628	-	-	-	10 511 628	10 511 628
9	TAURON Dystrybucja Serwis S.A.	201 045	439 317	640 362	-	-	-	201 045	640 362
10	TAURON Sprzedaż Sp. z o.o.	613 505	-	613 505	-	-	-	613 505	613 505
11	TAURON Sprzedaż GZE Sp. z o.o.	129 823	-	129 823	-	-	-	129 823	129 823
12	TAURON Czech Energy s.r.o.	4 223	-	4 223	-	-	-	4 223	4 223
13	Kopalnia Wapienia Czatkowice Sp. z o.o.	41 178	-	41 178	-	-	-	41 178	41 178
14	Polska Energia-Pierwsza Kompania Handlowa Sp. z o.o.	55 056	6 000	61 056	(55 056)	(6 000)	(61 056)	-	-
15	TAURON Sweden Energy AB (publ)	28 382	-	28 382	-	(20 933)	(20 933)	28 382	7 449
16	Bioeko Grupa TAURON Sp. z o.o.[1]	1 269	-	1 269	-	-	-	1 269	1 269
17	TAURON Obsługa Klienta Sp. z o.o.	39 831	-	39 831	-	-	-	39 831	39 831
18	TAMEH HOLDING Sp. z o.o.	415 852	-	415 852	-	-	-	415 852	415 852
19	PGE EJ 1 Sp. z o.o.	12 651	6 000	18 651	-	-	-	12 651	18 651
20	Magenta Grupa TAURON Sp. z o.o.	9 500	-	9 500	-	-	-	9 500	9 500
21	ElectroMobility Poland S.A.	2 500	15 000	17 500	-	-	-	2 500	17 500
22	Other	391	24	415	-	-	-	391	415
	Total	**27 574 699**	**2 646 341**	**30 221 040**	**(6 675 915)**	**(2 469 069)**	**(9 144 984)**	**20 898 784**	**21 076 056**

[1] *On 8 October 2018 the name of the company was changed from Biomasa Grupa TAURON Sp. z o.o. to Bioeko Grupa TAURON Sp. z o.o.*

20. Bonds and loans granted

SELECTED ACCOUNTING PRINCIPLES

As part of intra-group financing, the Company purchased bonds issued by TAURON Group companies. These bonds were classified as financial assets measured at amortised cost. Bonds with a maturity date not exceeding 12 months from the balance sheet date were classified as current assets, and bonds with a maturity date exceeding 12 months from the balance sheet date as fixed assets, with the classification being determined not only by the maturity date but also by the issuer's intention to roll over. In December 2019, the bonds were converted into loans. Thus, as at 31 December 2019, the Company had assets on account of loans granted to its subsidiaries, and no assets on account of covered bonds issued by its subsidiaries.

Loans granted by the Company include intragroup loans with agreed maturities granted to subsidiaries, cash pool loans and loans granted to other entities, mainly to the joint venture. Loans are classified as financial assets measured at amortized cost or at fair value through profit or loss. Loans with a maturity date not exceeding 12 months from the balance sheet date were classified as current assets and loans with a maturity date exceeding 12 months from the balance sheet date as fixed assets, considering the expectations as regards the loan repayment as at the end of the reporting period (intentions as to the maturity period extension).

PROFESSIONAL JUDGMENT AND ESTIMATES

The Company makes appropriate classification and valuation of the loans granted. Loans granted and previously intragroup bonds with a maturity period of less than one year, for which an extension of the repayment period or roll-over is planned, are classified as long-term instruments.

In accordance with the requirements of IFRS 9 *Financial Instruments*, the Company estimates the amount of impairment losses on loans (previously also on intragroup bonds), as described in detail below and in Note 38.1.2 of these financial statements.

Balances of loans and bonds granted by the Company as at each balance sheet date are presented in the table below.

	As at 31 December 2019				As at 31 December 2018			
	Principal/ Measurement	Interest	Impairment loss	Total	Principal (nominal value)/ Measurement	Interest	Impairment loss	Total
Loans and bonds measured at amortized cost								
Loans granted to sbsidiaries / bonds purchased*	4 612 447	11 172	(37 284)	4 586 335	5 305 000	98 709	(167 417)	**5 236 292**
Loans granted to EC Stalowa Wola S.A.	25 810	1 936	(730)	**27 016**	18 185	426	(460)	**18 151**
Loans granted to PGE EJ 1 Sp. z o.o.	7 740	512	(45)	**8 207**	7 740	249	(52)	**7 937**
Granted cash pool loans including accrued interest	525 938	11 466	(62 226)	**475 178**	803 677	5 256	(212 400)	**596 533**
Loans measured at fair value								
Loans granted to EC Stalowa Wola S.A.	216 018			**216 018**	199 256			**199 256**
Total	**5 387 953**	**25 086**	**(100 285)**	**5 312 754**	**6 333 858**	**104 640**	**(380 329)**	**6 058 169**
Non-current	5 137 526	2 225	(92 199)	**5 047 552**	6 225 513	670	(373 442)	**5 852 741**
Current	250 427	22 861	(8 086)	**265 202**	108 345	103 970	(6 887)	**205 428**

* *As at 31 December 2019, the balance relates to loans granted; as at 31 December 2018, the balance relates to bonds issued by subsidiaries. The change results from a change in the financial instrument used for intragroup financing, as described in detail in Note 20.1. of these financial statements.*

(in PLN thousand)

20.1. Loans granted to subsidiaries and acquired bonds issued by subsidiaries

As part of the operation of intra-group financing, the Company grants loans to its subsidiaries (previously it also purchased bonds issued by TAURON Group companies). In December 2019, the debt of the TAURON Group companies resulting from intra-group bonds was converted into intra-group loans with the existing maturity dates (redemption) of financial instruments.

The table below presents the balance of loans granted as at 31 December 2019 and bonds purchased as at 31 December 2018, broken down by individual companies.

Company	As at 31 December 2019				As at 31 December 2018			
	Contractual loan value	Gross value	Impairment loss	Total - net value	Par value of bonds	Gross value	Impairment loss	Total - net value
TAURON Wytwarzanie S.A.	200 000	200 768	(5 582)	**195 186**	200 000	200 262	(3 829)	**196 433**
TAURON Dystrybucja S.A.	3 000 000	3 014 526	(7 453)	**3 007 073**	3 300 000	3 360 026	(10 241)	**3 349 785**
TAURON Ciepło Sp. z o.o.	975 000	978 752	(19 879)	**958 873**	1 075 000	1 090 169	(8 931)	**1 081 238**
TAURON Wydobycie S.A.	1 970 000	268 576	(3 596)	**264 980**	570 000	592 836	(143 578)	**449 258**
TAURON Ekoenergia Sp. z o.o.	160 000	160 997	(774)	**160 223**	160 000	160 416	(838)	**159 578**
Total	**6 305 000**	**4 623 619**	**(37 284)**	**4 586 335**	**5 305 000**	**5 403 709**	**(167 417)**	**5 236 292**
Non-current		4 612 447	(33 632)	**4 578 815**		5 205 000	(161 019)	**5 043 981**
Current		11 172	(3 652)	**7 520**		198 709	(6 398)	**192 311**

As at 31 December 2019 the value of loans with a repayment period of less than one year, which were classified as long-term, amounted to PLN 4 415 000 thousand.

As a result of the conversion of intra-group bonds into intra-group loans with a total par value of PLN 4 535 000 thousand, interest on the bonds was paid and the par value of the bonds was deducted from the amount of the loan, i.e. without any transfer of funds. In accordance with IFRS 9 *Financial Instruments*, the Company recognized mostly of the transactions as an exchange of debt instruments and recognized the result on that account in financial income in the amount of PLN 13 402 thousand.

The debt conversion of the subsidiary TAURON Wydobycie S.A. was recognised as expiry of the original financial asset and recognition of a new one. The loans were recognized as impaired financial assets due to credit risk (level 3 of valuation). The amount of credit loss as at the date of recognition was estimated on the basis of scenarios assumed by the Company for repayment of the loan granted, taking into account the results of the asset impairment test. Except of the conversion of bonds, in 2019 the Company granted new loans to its subsidiary TAURON Wydobycie S.A. in the total amount of PLN 1 770 000 thousand, (including loans in the total amount of PLN 1 400 000 thousand were allocated for repayment of cash pool loans), which were also recognised as impaired financial assets due to credit risk. For the funds obtained from the loans, the company redeemed the bonds on maturity and repaid the cash pool loan. Thus, loans with a nominal value of PLN 1 970 000 thousand were initially valued at PLN 264 980 thousand. The loss due to the initial valuation reduced the gross value of loans and is the main reason for the reduction of impairment allowances.

After the end of the reporting period, on 11 March 2020, the Company granted another loan to TAURON Wydobycie S.A. with a nominal value of PLN 318 000 thousand and on 27 February 2020 it granted a loan to TAURON Sprzedaż Sp. z o.o. with a nominal value of PLN 100 000 thousand.

(in PLN thousand)

Change in bonds and loans and impairment allowances

	Year ended 31 December 2019				Year ended 31 December 2018		
	Level 1: allowance equal to 12 monthly expected credit losses (no impairment)	Level 2: allowance for expected credit losses over the life period (no impairment)	Level 3: allowance for expected credit losses over the life period (with impairment)	Total	Level 1: allowance equal to 12 monthly expected credit losses (no impairment)	Level 2: allowance for expected credit losses over the life period (no impairment)	Total
Gross value							
Opening balance	**4 387 594**	**1 016 115**	**-**	**5 403 709**	**4 499 215**	**2 073 481**	**6 572 696**
Buy-back of bonds	(720 000)	(670 000)	-	**(1 390 000)**	(470 000)	(864 920)	**(1 334 920)**
Issue of bonds/ Loan granting	420 000	-	264 980	**684 980**	160 000	-	**160 000**
Reclassification between the levels	-	-	-	**-**	200 262	(200 262)	**-**
Conversion of bonds into loans	14 025	(623)	-	**13 402**	-	-	**-**
Interest accrued	199 126	43 943	3 596	**246 665**	190 304	84 658	**274 962**
Interest received	(248 023)	(87 114)	-	**(335 137)**	(192 187)	(76 842)	**(269 029)**
Closing balance	**4 052 722**	**302 321**	**268 576**	**4 623 619**	**4 387 594**	**1 016 115**	**5 403 709**
Impairment loss							
Opening balance	**(19 164)**	**(148 253)**	**-**	**(167 417)**	**(11 524)**	**(385 069)**	**(396 593)**
Recognition	(1 753)	(12 131)	(3 596)	**(17 480)**	(4 804)	-	**(4 804)**
Reversal	3 392	641	-	**4 033**	992	141 009	**142 001**
Utilized	-	143 580	-	**143 580**	-	-	**-**
Reclassification of allowances to cash pool receivables	-	-	-	**-**	-	50 050	**50 050**
Reclassification between levels	-	-	-	**-**	(3 828)	45 757	**41 929**
Closing balance	**(17 525)**	**(16 163)**	**(3 596)**	**(37 284)**	**(19 164)**	**(148 253)**	**(167 417)**
Net carrying amount at the beginning of the period	**4 368 430**	**867 862**	**-**	**5 236 292**	**4 487 691**	**1 688 412**	**6 176 103**
Net carrying amount at the end of the period	**4 035 197**	**286 158**	**264 980**	**4 586 335**	**4 368 430**	**867 862**	**5 236 292**

20.2. Loans to joint ventures

Loans granted to the joint venture Elektrociepłownia Stalowa Wola S.A. as at 31 December 2019 and 31 December 2018 are presented in the table below.

	Agreement date	Loan amount	As at 31 December 2019			As at 31 December 2018			Maturity date	Interest rate
			Gross value	Impairment allowance	Total net value	Gross value	Impairment allowance	Total met value		
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 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.

Loans granted under cash pool agreement

Detailed information on the cash pool service has been presented in Note 29.5 to these financial statements.

(in PLN thousand)

21. Derivative instruments and hedge accounting

SELECTED ACCOUNTING PRINCIPLES

Derivative financial instruments falling 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 which are designated as hedging instruments and subject to hedge accounting. Derivative instruments acquired and held for internal purposes as excluded from the scope of IFRS 9 *Financial Instruments* are not measured at the end of the reporting period.

Derivatives classified as “financial assets/financial liabilities measured at fair value through profit or loss” are measured at fair value, taking into account their market value as at the end of the reporting period. Changes in the fair value of these instruments are recognized in profit or loss for the period. Derivatives are disclosed as assets if their value is positive or as liabilities if their value if negative.

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

Hedge accounting

In order to hedge the interest rate risk, the Company uses IRS (Interest Rate Swap) contracts. These instruments hedge cash flows related to bonds issued and loans taken. Such transactions are subject to hedge accounting.

At the inception of the hedge the hedging relationship 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

The Company measure fair value at each balance sheet date. Methodology is presented as below.

Derivative instrument	Methodology of determining fair value hierarchy
IRS	The difference between discounted floating-rate interest cash flows and those based on fixed interest rates. Reuters interest rate curve is the input data.
CCIRS	The difference between discounted interest cash flows relating to payments and receipts, in two different currencies, expressed in the valuation currency. Interest rate curves, basis spreads and NBP fixing for the relevant currencies from Reuters are the input data.
Forward currency contracts	The difference between discounted future cash flows: the forward price at the valuation date and the transaction price, multiplied by the nominal value of the contract in a foreign currency. NBP fixing and the implied interest rate curve from FX swap transactions for the relevant currency from Reuters are 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.

	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
IRS	121	19 341	**19 462**	**-**	16	4 162	**4 178**	**-**
CCIRS	(12 885)	-	**-**	**(12 885)**	(5 140)	-	**-**	**(5 140)**
Commodity future/forward	4 248	-	**86 067**	**(81 819)**	(17 138)	-	**216 165**	**(233 303)**
Currency forward	(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 is as follows:

	As at 31 December 2019		As at 31 December 2018	
	1 level	2 level	1 level	2 level
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**

Hedge derivative instruments (subject to hedge accounting) – IRS

In the year ended 31 December 2019, the Company hedged 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 subsequently from 2023 to 2028;
- interest on loans with a par value of PLN 1 000 000 thousand by concluding interest rate swap hedging transactions (IRS) for periods starting from 20 December 2019, expiring from 20 June 2024 and to 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 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.

Derivative instruments measured at fair value through profit or loss

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 purchase and sale mainly CO_2 emission allowance;
- 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.

22. Other financial assets

SELECTED ACCOUNTING PRINCILES

Other financial assets include investment i.a. fund units, Tax Capital Group receivables, deposits, performance bonds, collateral transferred and receivables arising from sales of property, plant and equipment and intangible assets.

(in PLN thousand)

	As at 31 December 2019	As at 31 December 2018
Initial and variation margin deposits arising from stock exchange transactions	209 466	163 495
Bid bonds, deposits, collateral transferred	82 951	4 213
Units in investment funds	26 622	26 063
Receivables arising from income tax settlements of the TCG companies	-	54 458
Other	258	296
Total	**319 297**	**248 525**
Non-current	2 348	2 804
Current	316 949	245 721

Initial and variation margins are related mostly to futures transactions on the CO_2 emissions allowances concluded on foreign regulated markets.

Increase of value of the bid bonds, deposit and collaterals transferred versus the comparative period in amount of PLN 78 738 thousand concerns mainly the collaterals transferred within the framework of the clearing guarantee system with Izba Rozliczeniowa Giełd Towarowych S.A. As at 31 December 2019 the collateral amounted to PLN 80 237 thousand and as at 31 December 2018 - PLN 1 133 thousand.

23. Inventories

SELECTED ACCOUNTING PRINCIPLES

The Company's inventories include acquired CO_2 emission allowances and certificates of energy generated using renewable sources and in CHP units, intended for trading purposes.

At initial recognition inventories are measured at purchased cost or manufacturing cost. At the end of the reporting period inventories are measured at purchased cost/ manufacturing cost or net realizable value, whichever is lower. If the cost is higher than the net realizable value, the Company recognizes an appropriate impairment loss.

CO_2 emission allowances purchased for resale and generation of profit in the short term due to volatility of market prices are recognized within inventories. They are measured at fair value at initial recognition and at the end of each reporting period.

Releases of CO_2 emission allowances and of the purchased certificates of energy generated using renewable sources and in CHP units are measured with the FIFO method.

	As at 31 December 2019	As at 31 December 2018
Gross Value		
CO_2 emission allowances	149 151	409 489
Energy certificates	250	250
Total	**149 401**	**409 739**
Measurement to net realisable value		
CO_2 emission allowances	-	(146)
Energy certificates	(37)	(52)
Measurement to fair value		
CO_2 emission allowances	-	46
Total	**(37)**	**(152)**
Net value		
CO_2 emission allowances	149 151	409 389
Energy certificates	213	198
Total	**149 364**	**409 587**

(in PLN thousand)

24. Receivables from buyers

SELECTED ACCOUNTING PRINCIPLES

Receivables from buyers are recognized at originally invoiced amounts, except situations where the effect of the time value of money is material, less allowances/write-downs.

Impairment allowances are recognized for both overdue and current receivables based on probability-weighted 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, it is expected that the historical performance does not provide full information on the expected credit losses that the Company may be exposed to. 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.

	As at 31 December 2019	As at 31 December 2018
Gross Value		
Receivables from buyers	1 474 635	820 463
Receivables claimed at court	1 005	961
Total	**1 475 640**	**821 424**
Allowance/write-down		
Receivables from buyers	(2 173)	(900)
Receivables claimed at court	(1 005)	(961)
Total	**(3 178)**	**(1 861)**
Net Value		
Receivables from buyers	1 472 462	819 563
Receivables claimed at court	-	-
Total	**1 472 462**	**819 563**

As at 31 December 2019 and 31 December 2018, the largest item of receivables from buyers was receivables from TAURON Sprzedaż Sp. z o.o., a subsidiary, amounting to PLN 694 511 thousand and PLN 521 286 thousand, respectively.

The increase in receivables from customers is mainly due to an increase in amounts due from companies in the Generation segment due to the purchase of CO_2 emission allowances sold to companies at the end of 2019. As at 31 December 2019, the related balance was PLN 561 340 thousand.

Aging of receivables from buyers as at 31 December 2019

	Not past due	*Past due*			Total
		<30 days	*30-360 days*	*>360 days*	
Value of item before allowance/write-down	1 474 610	23	39	968	**1 475 640**
Percentage of allowance/write-down	0%	-	85%	100%	-
Allowance/write-down	(2 177)	-	(33)	(968)	**(3 178)**
Net Value	**1 472 433**	**23**	**6**	**-**	**1 472 462**

(in PLN thousand)

Aging of receivables from buyers as at 31 December 2018

	Not past due	*Past due*			Total
		<30 days	*30-360 days*	*>360 days*	
Value of item before allowance/write-down	820 329	79	47	969	**821 424**
Percentage of allowance/write-down	0%	-	79%	100%	-
Allowance/write-down	(855)	-	(37)	(969)	**(1 861)**
Net Value	**819 474**	**79**	**10**	**-**	**819 563**

Impairment allowances on receivables from buyers

	Year ended 31 December 2019	Year ended 31 December 2018
Opening balance	**(1 861)**	**(924)**
Effects of implementing IFRS 9 *Financial Instruments*	-	(1 575)
Restated opening balance	**(1 861)**	**(2 499)**
Recognised	(1 317)	(48)
Reversed	-	686
Closing balance	**(3 178)**	**(1 861)**

Related-party transactions as well as related party receivables and liabilities have been presented in Note 43.1 hereto.

25. Other non-financial assets

SELECTED ACCOUNTING PRINCIPLES

Other non-financial assets include mostly settlement of taxes and charges, except for income tax presented in the statement of financial position under a separate line item, prepaid expenses and advance payments for deliveries.

Settlements due to taxes and charges comprise:

- VAT and excise duty settlements;
- PIT and social insurance;
- Environmental fees and other regulatory settlements.

Prepayments are measured at the amount of reliably estimated expenses incurred by the entity, related to future reporting periods and resulting in an inflow of economic benefits to the entity in the future. Prepaid expenses may be settled based on the elapsed time or amounts paid.

	As at 31 December 2019	As at 31 December 2018
Prepaid expenses, *including:*	15 126	19 168
Prepaid fee on borrowings	*14 563*	*17 721*
VAT receivables	-	4 736
Advance payments for deliveries	4 957	2 845
Other	4 907	3 962
Total	**24 990**	**30 711**
Non-current	18 823	20 865
Current	6 167	9 846

26. Cash and cash equivalents

SELECTED ACCOUNTING PRINCIPLES

Cash and short-term deposits recognized in the statement of financial position include in particular cash at bank and in hand and short-term deposits with original maturity of up to three months.

The balance of cash and cash equivalents recognized in the statement of cash flows consists of the aforesaid cash and cash equivalent items. If the entity uses overdraft facilities as a cash management solution, in line with IAS 7 *Statement of Cash Flows*, the balance of cash is presented in the statement of cash flows less the outstanding balance of such facilities. Additionally, cash is adjusted by the balances of short-term loans granted and taken out in a cash pool transaction as their main objective is to manage liquidity on a day-to-day basis.

(in PLN thousand)

	As at 31 December 2019	As at 31 December 2018
Cash at bank and in hand	923 721	252 834
Short-term deposits (up to 3 months)	7	170 091
Other	-	43 000
Total cash and cash equivalents presented in the statement of financial position, *including*:	**923 728**	**465 925**
restricted cash, *including:*	593 682	58 374
collateral of settlements with Izba Rozliczeniowa Giełd Towarowych S.A.	*571 699*	*56 698*
Cash pool	(951 564)	(2 024 919)
Overdraft	(21 210)	(767)
Foreign exchange	(34)	(273)
Total cash and cash equivalents presented in the statement of cash flows	**(49 080)**	**(1 560 034)**

The balances of short-term loans granted and taken out in a cash pool transaction are not cash flows from investing or financing activities, but a cash adjustment, as their main objective is to manage the Group's liquidity on a day-to-day basis.

Detailed information on cash pool balances has been presented in Note 29.5 to these financial statements.

27. Equity

27.1. Issued capital

SELECTED ACCOUNTING PRINCIPLES

Issued capital

In the financial statements, issued capital is presented at the amount specified in the articles of association and entered in the Company's 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 issued 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 issued bonds. Its amount is determined as the fair value of the effective portion of cash flow hedging instruments, including deferred tax.

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**	

As at 31 December 2019, the value of issued capital, the number of shares and the par value of shares had not changed as compared to 31 December 2018.

(in PLN thousand)

27.2. Major shareholders

Shareholding structure as at 31 December 2019 (to the best of the Company's knowledge)

Shareholder	Number of shares	Nominal value of shares	% of issued capital	% 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%**

*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 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 then 25% of the total votes in the Company.*

To the best of the Company's knowledge, the shareholding structure as at 31 December 2019 had not changed since 31 December 2018.

27.3. Reserve capital

On 8 May 2019, the General Shareholders' Meeting of the Company adopted a resolution to cover the net loss for 2018 of PLN 1 709 853 thousand to increase the reserve capital.

27.4. 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 bonds issued, which has been discussed in more detail in Note 21 to these financial statements.

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 as at the end of the reporting period, totalling 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.

27.5. Retained earnings/ (Accumulated losses) and dividend limitation

Reserve capital — dividend limitation

	As at 31 December 2019	As at 31 December 2018
Amounts subject to distribution	**4 886 520**	**4 886 520**
amounts from distribution of prior years profits	4 886 520	4 886 520
Non-distributable amounts	**1 915 064**	**3 624 917**
amounts from decrease in the value of issued capital	1 680 184	3 390 037
amounts from settlement of mergers with subsidiaries	234 880	234 880
Total reserve capital	**6 801 584**	**8 511 437**

The part of reserve capital in the amount of one third of the issued capital amounting to PLN 2 920 916 thousand can only be used to cover the loss disclosed in the financial statements.

(in PLN thousand)

Retained earnings/ (Accumulated losses) — dividend limitation

	As at 31 December 2019	As at 31 December 2018
Distributable amounts or losses to be covered	**(462 817)**	**(1 709 840)**
profit (loss) for the year ended 31 December 2019	(462 830)	-
profit (loss) for the year ended 31 December 2018	-	(1 709 853)
adjustment of prior years profit (loss)	13	13
Non-distributable amounts or losses to be covered	**(309 003)**	**(307 879)**
actuarial gains and losses on provisions for post-employment benefits	(970)	154
Effects of implementing IFRS 9 *Finanical Instruments*	(388 551)	(388 551)
settlement of mergers with subsidiaries	80 518	80 518
Total retained earnings/ (accumulated losses)	**(771 820)**	**(2 017 719)**

The Management Board of the Company recommends to offset the net loss for 2019 of PLN 462 830 thousand with reserve capital of Company.

28. Dividends paid and proposed

In the years ended 31 December 2019 and 31 December 2018 the Company did not pay dividend.

29. Debt

SELECTED ACCOUNTING PRINCIPLES

The Company presents its debt obligations in the statement of financial position:

• loans, borrowings, bonds issued

At initial recognition, all credits, loans and bonds issued are measured at fair value less the cost incurred to obtain a borrowings or loan as well as discounts or bonuses obtained due to the liability. After initial recognition interest-bearing loans and debt securities are measured at amortized cost using the effective interest method.

• lease

An agreement or part of a rental, lease or other agreement or part of an agreement of a similar nature under which the right to control the use of an asset (underlying asset) for a given period is transferred in exchange for remuneration is classified as a lease. The lease liability is measured at the present value of the outstanding lease payments, discounted at the lease interest rate specified in the agreement (if determinable) or the incremental borrowing 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,
- monetary penalties for termination of the lease.

PROFESSIONAL JUDGMENT AND ESTIMATES

When measuring liabilities at amortized cost using the effective interest rate method, the Company 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 loans tranches up to 1 year, where the financing available under the agreement is revolving and the term of availability exceeds 1 year, the Company classifies the tranches according to the intention and possibility of maintaining financing under the agreement, i.e. as long-term or short-term liabilities.

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

(in PLN thousand)

	As at 31 December 2019	As at 31 December 2018
Long-term portion of debt		
Subordinated hybrid bonds	1 908 871	1 537 848
Other issued bonds	3 544 236	5 530 671
Bank loans	4 719 385	690 129
Loans from the subsidiary	708 831	715 696
Lease	28 274	-
Total	**10 909 597**	**8 474 344**
Short-term portion of debt		
Subordinated hybrid bonds	4 556	3 811
Other issued bonds	86 808	2 285 678
Bank loans	2 300 443	161 314
Loans from the subsidiary	2 125	15 051
Cash pool loans received	1 205 417	2 038 520
Lease	7 917	-
Total	**3 607 266**	**4 504 374**

29.1. Bonds issued

Bonds issued as at 31 December 2019

Investor	Interest rate	Currency	Bonds at nominal value in currency	Maturity date	As at balance sheet date		of which maturing within (after the balance sheet date)			
					Accrued interest	Principal at amortized cost	up to 1 year	1-2 years	2 - 5 years	over 5 years
Unsubordinated bonds										
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
Subordinated hybrid bonds										
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
Total					**31 003**	**5 513 468**	**60 361**	**169 886**	**1 279 013**	**4 004 208**

[1] Bond Issue Scheme dated 24 November 2015
[2] In the case of hybrid (subordinated) financing - bonds subscribed for by the European Investment Bank, two periods are distinguished. In the first period the interest rate is fixed, while in the second period the interest rate is variable based on the base rate (EURIBOR/WIBOR) plus a fixed margin.
[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 above table are the final terms of redemption according to agreement, after two period of financing. Measurement of bonds as at the reporting period, includes earlier redemption, intention of bonds redemption is after end of first period of financing. Aging takes into account estimation of redemption after first period of financing.

(in PLN thousand)

Bonds issued as at 31 December 2018

Investor	Interest rate	Currency	Bonds at nominal value in currency	Maturity date	As at balance sheet date		of which maturing within *(after the balance sheet date)*			
					Accrued interest	Principal at amortized cost	up to 1 year	up to 2 years	2 - 5 years	over 5 years
Unsubordinated bonds										
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	-	-
Inwestorzy krajowi 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
Subordinated hybrid bonds										
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
Total					**40 154**	**9 317 854**	**2 249 335**	**1 967 730**	**509 420**	**4 591 369**

[1] Bond Issue Scheme dated 24 November 2015
[2] In the case of hybrid (subordinated) financing - bonds subscribed for by the European Investment Bank, two periods are distinguished. In the first period the interest rate is fixed, while in the second period the interest rate is variable based on the base rate (EURIBOR/WIBOR) plus a fixed margin.
[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 above table are the final terms of redemption according to agreement, after two period of financing. Measurement of bonds as at the reporting period, includes earlier redemption, intention of bonds redemption is after end of first period of financing. Aging takes into account estimation of redemption after first period of financing.

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

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

Bonds acquired by the European Investment Bank (“EIB”) are subordinated, which means that they have priority of satisfaction only before the amounts due to the Company's shareholders in the event of its bankruptcy or liquidation. This in turn positively affects Company's financial stability, since the bonds are excluded from the net debt / EBITDA ratio calculation, a covenant in national financing agreements concluded by the Company. Additionally, 50% of the subordinated bond amount has been classified by the rating agency as equity in the rating model, which has had a beneficial effect on the rating of the TAURON Group.

In the case of bonds subscribed for by the European Investment Bank, two financing periods are distinguished. The Company cannot early buy-back the bonds in the first (non-call) period, nor can EIB early sell them to third parties (in both cases except for cases indicated in the subscription agreement). In this period, the interest is fixed, while after the non-call period, it is floating and refers to the base rate (WIBOR for bonds issued in PLN and EURIBOR for bonds issued in EUR) increased by a determined margin. In the case of bonds issued in PLN, the maturity date was set at 12 years from the issue date, i.e. 17 and 19 December 2030, with the first financing period defined as 7 years and the next one as 5 years in accordance with the characteristics of hybrid financing. In the case of bonds issued in EUR, the maturity date is set at 18 years from the issue date, i.e 16 December 2034, with the first financing period defined as 8 years and the next one as 10 years in accordance with the characteristics of hybrid financing.

The bonds issued under the agreement of 6 September 2017 concluded with Bank Gospodarstwa Krajowego with a par value of PLN 400 000 thousand are also of a subordinated nature. For these bonds, two periods are also distinguished. The Company cannot early buy-back the bonds in the first (non-call) period, nor can BGK early sell them to third parties (in both cases except for cases indicated in the documentation). The interest rate is variable based on WIBOR 6M increased by a fixed margin, with the margin being further increased after a 7-year financing period.

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

(in PLN thousand)

	Year ended 31 December 2019	Year ended 31 December 2018
Opening balance	**9 317 854**	**7 904 516**
Issue*	499 312	1 347 943
Redemption	(2 420 000)	-
Replacing the bond issue scheme by the loan arrangement	(1 839 600)	-
Measurement change	(44 098)	65 395
Closing balance	**5 513 468**	**9 317 854**

**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/ Date of redemption	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 at the maturity date		(400 000)
25.03.2019		Issue of bonds maturing on 25 March 2020	100 000	
29.03.2019	Subordinated bonds with BGK, agreement dated 6 September 2017	Issue of bonds maturing on 29 March 2031	400 000	
21.06.2019	Agreement concluded with BGK from 31 July 2013	Premature redemption of bonds with the following par value: - PLN 100 000 thousand and initial redemption date of 20 December 2019; - PLN 100 000 thousand and initial redemption date of 20 December 2020; - PLN 70 000 thousand and initial redemption 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 at the maturity date		(1 750 000)
		Total	**500 000**	**(4 259 600)**

Replacement of the bond issue programme by a loan agreement

On 19 June 2019 a loan agreement was concluded for the amount of PLN 6 070 000 thousand, which is described in more detail in Note 29.2 of these financial statements.

The credit agreement essentially replaces the bond issue programme up to PLN 6 270 000 thousand concluded on 24 November 2015, as amended, with banks that are parties to the loan agreement concluded on 19 June 2019 and with BNP Paribas Bank Polska S.A., which will continue to finance the Company under the bond programme, maintaining the exposure resulting from the bonds subscribed for so far, until the maturity date set out in the terms and conditions of the issue, which will not exceed the end of 2020.

According to the agreement, the funds in the first place, i.e. from the first tranche of the loan of 28 June 2019, were allocated for the redemption of bonds with a par value of PLN 1 839 600 thousand issued so far as part of the bond program and subscribed for by the banks being a party to the loan agreement. The settlement was made in net amounts, i.e. without physical transfer of cash.

In connection with the conclusion of the loan agreement, the banks' obligation to take up bonds issued through the bond program was cancelled, thus the Company will not carry out subsequent issues under the program.

(in PLN thousand)

Establishment of a bond issue scheme

After the end of the reporting period, on 6 February 2020, TAURON Polska Energia S.A. entered into a programme agreement with Santander Bank Polska S.A. under which a bond issue scheme was established, as described in detail in Note 49 to these financial statements.

29.2. Bank loans

Borrowing institution	Purpose	Interest rate	Maturity date	As at 31 December 2019	As at 31 December 2018
Consortium of banks	Redemption of bonds, investment and Group's general expenditures	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	-
Bank Gospodarstwa Krajowego	Group's capital expenditures and refinancing of a portion of debt	floating	20.12.2033	998 458	-
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
Bank Gospodarstwa Krajowego (bank overdrafts)	Financing of CO_2 emission allowance, electricity and gas transactions on EU stock exchanges	floating	31.12.2020	20 456	-
mBank (bank overdrafts)	Financing of performance bonds and commodity transactions	floating	31.03.2020	754	767
Total				**7 019 828**	**851 443**

**Tranche classified as a long-term liabilities*

Pursuant to the provisions of the loan agreement of 19 June 2019 concluded with the bank consortium, the maximum period for drawing individual loan tranches is 12 months. However, the financing available under the agreement is renewable and the deadline for its availability is end 2022. Some of the tranches which were taken as at 31 December 2019, have a 12-month maturity, fall 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 loan 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 loans, excluding interest increasing their carrying amount, in the year ended 31 December 2019 and in the comparative period, have been presented below.

(in PLN thousand)

	Year ended 31 December 2019	Year ended 31 December 2018
Opening balance	**846 751**	**1 129 512**
Impact of IFRS 9 *Finanical Instruments*	-	(33 055)
Restated opening balance	**846 751**	**1 096 457**
Movement in bank overdrafts	**20 443**	**(92 735)**
Movement in loans (excluding bank overdrafts):	**6 129 769**	**(156 971)**
Taken*	5 646 173	-
Repaid	(1 362 318)	(162 318)
Replacing the bond issue scheme by the loan arrangement*	1 837 822	-
Change in valuation	8 092	5 347
Closing balance	**6 996 963**	**846 751**
Interest increasing the carrying amount	22 865	4 692
Total bank loans	**7 019 828**	**851 443**

** Inclusive of the borrowing costs*

In the year ended 31 December 2019, the Company carried out the following transactions relating to bank loans (at par 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	
	Other tranches 2-12	4 650 000	(1 200 000)
Bank Gospodarstwa Krajowego	Drawdown of tranches 1-4 (total of available financing)	1 000 000	
European Investment Bank	Repayment of capital instalments according to schedule		(162 318)
Total, *including:*		**7 489 600**	**(1 362 318)**
Cash flows		5 150 000	(862 318)
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 loan 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 loan agreement essentially replaces the bond issue programme up to PLN 6 270 000 thousand concluded on 24 November 2015, as amended, with banks that are parties to the loan agreement concluded on 19 June 2019 and with BNP Paribas Bank Polska S.A., which will continue to finance the Company under the bond 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 scheme. Under the credit agreement, the Company has available financing:

- 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 loan tranche released on 28 June 2019 were allocated for the redemption of bonds with a par value of PLN 1 839 600 thousand issued so far under the bond 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 end of the reporting period, 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. As at the date of approval of these financial statements for publication, total debt of the Company under agreement is amounted 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 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 the Group:

- broadly defined renewable energy policy,
- 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 end of the reporting period, in January and February 2020, the Company released total value of available financing.

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

After the end of the reporting period, on 16 March 2020 the Company 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 49 to these financial statements.

Bank overdrafts

The Company has available financing under current account overdraft facilities. As at 31 December 2019 the balance of overdraft facilities amounted to PLN 21 210 thousand (as at 31 December 2018 PLN 767 thousand). Available financing and the balance of overdraft facilities broken down into individual agreements are presented in Note 38.2 of these financial statements.

29.3. 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*.

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.

(in PLN thousand)

29.4. Loans from subsidiary

As at 31 December 2019, the carrying amount of the liability to the subsidiary Finanse Grupa TAURON Sp. z o.o. on account of the loan received was PLN 710 956 thousand (EUR 166 950 thousand), including interest accrued as at the balance sheet date of PLN 2 125 thousand (EUR 499 thousand). As at 31 December 2018, the carrying amount of the loan from the subsidiary was PLN 730 747 thousand (EUR 169 941 thousand), including interest of PLN 15 051 thousand (EUR 3 500 thousand) accrued as at the end of the reporting period.

In the year ended 31 December 2019, the Company repaid interest on the loan in the total amount of EUR 9 296 thousand (PLN 40 089 thousand).

The Company's liability is a long-term loan granted under an agreement entered into in December 2014 by TAURON Polska Energia S.A. and a subsidiary - TAURON Sweden Energy AB (publ) (currently Finanse Grupa TAURON Sp. z o.o.). The loan bears interest at a fixed rate and interest is paid annually, in December - until full repayment of the loan. The loan repayment date under the agreement is 29 November 2029.

29.5. Cash pool service

In order to optimize cash management, financial liquidity and finance income and costs, the TAURON Group has implemented a cash pool structure. On 9 October 2017, the Company concluded a cash pooling agreement with PKO Bank Polski S.A. with the expiration date of 17 December 2020, with TAURON Polska Energia S.A. acting as an agent. The interest rate is set at arm's length.

The balances of receivables and liabilities arising from cash pool transactions have been presented in the table below.

	As at 31 December 2019	As at 31 December 2018
Receivables from cash pool loans granted	525 938	803 677
Interest receivable on loans granted under cash pool agreement	11 466	5 256
Impairment loss	(62 226)	(212 400)
Total Receivables	**475 178**	**596 533**
Loans received under cash pool agreement	1 204 453	2 036 679
Interest payable on loans received under cash pool agreement	964	1 841
Total Liabilities	**1 205 417**	**2 038 520**

Cash surpluses held within the cash pool structure are invested in interest-bearing bank accounts or fixed-term deposits.

29.6. Lease liabilities

In connection with the entry into force of IFRS 16 *Leases*, as at 1 January 2019, the Company recognised a lease liability in the amount of PLN 41 496 thousand, as described in more detail in Note 8 to these financial statements.

As at 31 December 2019 the Company had a lease liability of PLN 36 191 thousand. The liability concerns the right of perpetual usufruct of land, lease of office and warehouse premises, parking spaces and cars.

Aging of the lease liability as at 31 December 2019

Maturity within *(after the balance sheet date)*	As at 31 December 2019
Within 1 year	9 339
Within 1 to 5 years	29 116
Within 5 to 10 years	331
Within 10 to 20 years	662
More than 20 years	3 356
Gross lease liabilities	**42 804**
Discount	(6 613)
Present value of lease payments	**36 191**

As at 31 December 2018, according to IAS 17 *Leases*, the Company did not have any finance lease liabilities.

(in PLN thousand)

30. Provisions for employee benefits

SELECTED ACCOUNTING PRINCIPLES

In accordance with the Compensation Policy the employees of the Company 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 present value of such liabilities is calculated by an independent actuary at the end of each reporting period. 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 post-employment benefits are fully charged to other comprehensive income.

PROFESSIONAL JUDGMENT AND ESTIMATES

Provisions for post-employment benefits 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 (%)	8.98%	7.91%
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	22.67	16.80

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	Provisions, total
Opening balance	**2 389**	**1 502**	**141**	**4 032**
Current service costs	410	265	25	**700**
Actuarial gains and losses, *of which* :	410	895	83	**1 388**
arising from changes in financial assumptions	299	523	48	**870**
arising from other changes	111	372	35	**518**
Benefits paid	-	(12)	(1)	**(13)**
Interest expense	65	45	4	**114**
Closing balance	**3 274**	**2 695**	**252**	**6 221**
Non-current	2 995	2 684	250	**5 929**
Current	279	11	2	**292**

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	Provisions, total
Opening balance	**2 037**	**1 316**	**124**	**3 477**
Current service costs	359	254	22	**635**
Actuarial gains and losses, *of which* :	86	(98)	(6)	**(18)**
arising from changes in financial assumptions	6	-	-	**6**
arising from other changes	80	(98)	(6)	**(24)**
Benefits paid	(145)	(10)	(1)	**(156)**
Interest expense	52	40	2	**94**
Closing balance	**2 389**	**1 502**	**141**	**4 032**
Non-current	2 155	1 492	140	**3 787**
Current	234	10	1	**245**

(in PLN thousand)

Sensitivity analysis

A sensitivity analysis of measurement results as at 31 December 2019 to changes in key actuarial assumptions by 0.5 percentage point has been presented below:

Provision	Measurement as at 31 December 2019	Financial discount rate		Planned increases in base amount	
		-0.5 p.p.	+0.5 p.p.	-0.5 p.p.	+0.5 p.p.
Provision for retirement, disability and similar benefits	3 274	3 462	3 103	3 107	3 456
Employee electricity rates	2 695	3 058	2 387	2 390	3 051
Social Fund	252	284	222	222	283
Total	**6 221**	**6 804**	**5 712**	**5 719**	**6 790**

31. Other provisions

SELECTED ACCOUNTING PRINCIPLES

Provisions are recognized if the Company has a present obligation (legal or constructive) as a result of a past event, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and the amount of the obligation can be reliably estimated.

As at the end of the reporting period, the Company recognized a provision against the risk of an adverse decision arising from the pending inspection procedure.

In the reporting period, the Company recognized also a provision for the obligation to surrender energy certificates.

As at 31 December 2019 other provisions included the provisions for tax risks due to the pending control proceedings. As at 31 December 2019 the Company recognized a related provision of PLN 77 094 thousand. As at 31 December 2018, the relevant provision amounted to PLN 72 894 thousand. An increase in the provision by PLN 4 200 thousand is attributable to interest accrued for the year ended 31 December 2019. The Company is a party to VAT inspection proceedings instigated by the Director of the Tax Inspection Office in Warsaw (“Director of the TIO”). The duration of these proceedings was several times extended by the TIO Director and by the Head of Mazowiecki Customs and Tax Office. The newest proceedings closing dates fall on 24 and 28 April 2020 and 22 May 2020.

32. Accruals, deferred income and government grants

	As at 31 December 2019	As at 31 December 2018
Unused holidays	2 689	2 447
Bonuses	8 006	7 859
Accruals relating to post-service benefits for members of the Management Board/key management personnel	251	825
Other	5 910	5 573
Total	**16 856**	**16 704**
Non-current	-	103
Current	16 856	16 601

33. Liabilities to suppliers

SELECTED ACCOUNTING PRINCIPLES

Current liabilities to suppliers are recognized at amount due.

As at 31 December 2019 the largest balance of liabilities towards suppliers were liabilities towards the subsidiaries TAURON Sprzedaż Sp. z o.o. and TAURON Wytwarzanie S.A. and the state-owned - Polska Grupa Górnicza S.A. and amounted to PLN 150 454 thousand, PLN 51 887 thousand and PLN 43 517 thousand respectively.

As at 31 December 2018 the highest liabilities to suppliers were the liabilities towards subsidiary TAURON Wytwarzanie S.A. and towards the state-owned Węglokoks S.A. totalling PLN 113 292 thousand and PLN 100 711 thousand, respectively.

(in PLN thousand)

34. Other financial liabilities

SELECTED ACCOUNTING PRINCIPLES

Other financial liabilities include Tax Capital Group settlements, payroll liabilities, deposits, performance bonds, collateral received and liabilities arising from purchases of property, plant and equipment and intangible assets, measured at amount due since the discount effects are immaterial.

	As at 31 December 2019	As at 31 December 2018
Liabilities arising from income tax settlements of the TCG companies	212 598	90 490
Bid bonds, deposits and collateral received	16 164	464
Liabilities arising from stock exchange transactions	10 669	-
Wages and salaries, deductions on wages and salaries as well as other employee related liabilities	7 571	7 325
Commissions related to borrowings	7 564	9 758
Margin deposits arising from stock exchange transactions	104	248 480
Other	33 200	32 755
Total	**287 870**	**389 272**
Non-current	15 126	17 626
Current	272 744	371 646

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 supplementary deposits 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 futures contracts in December 2019 and the decrease in allowance prices versus the comparative period.

35. Other non-financial liabilities

SELECTED ACCOUNTING PRINCIPLES

As other non-financial liabilities mainly are presented liabilities arising from taxes and charges, which include:

- VAT settlements;
- PIT and social insurance;
- Environmental fees and other regulatory settlements.

	As at 31 December 2019	As at 31 December 2018
VAT	215 605	17 756
Personal Income Tax	2 186	1 860
Social security	5 200	4 973
Other	44	37
Total	**223 035**	**24 626**

The increase in VAT liabilities results from the change in regulations on taxation of sales of CO_2 emission allowances. Under the amended regulations, from November 2019 onwards, the sale of CO_2 emission allowances was covered by the split payment mechanism and thus was covered by the 23% VAT rate. Previously, the sale of CO_2 emission allowances was covered by the reverse charge mechanism.

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 financial statements may change in future if a final decision is issued by tax inspection authorities.

(in PLN thousand)

EXPLANATORY NOTES TO THE STATEMENT OF CASH FLOWS

SELECTED ACCOUNTING PRINCIPLES

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

36. Significant items of the statement of cash flows

36.1. Cash flows from operating activities

Change in working capital

	Year ended 31 December 2019	Year ended 31 December 2018
Change in receivables	(777 570)	(243 133)
Change in inventories	260 223	(211 159)
Change in payables excluding loans	(121 826)	354 023
Change in other non-current and current assets	942	23 386
Change in deferred income, government grants and accruals	152	2 110
Change in provisions	5 001	4 695
Change in working capital	**(633 078)**	**(70 078)**

36.2. Cash flows from investing activities

Acquisition of shares

Payments to acquire shares of PLN 863 047 thousand were related to the Company's transfer of funds to increase the capital of the following companies:

- TEC3 Sp. z o.o., totaling PLN 600 025 thousand;
- Nowe Jaworzno Grupa TAURON Sp. z o.o., totaling PLN 250 000 thousand;
- EEC Magenta Sp. z o.o. 2 ASI spółka komandytowo–akcyjna, totalling PLN 10 926 thousand;
- EEC Magenta Sp. z o.o. ASI spółka komandytowo–akcyjna, totalling PLN 1 046 thousand;
- TEC1 Sp. z o.o., totalling PLN 725 thousand;
- TEC2 Sp. z o.o., totalling PLN 225 thousand;
- Finanse Grupa TAURON Sp. z o.o., totalling PLN 100 thousand.

Loans granted

The granting of loans in the amount of PLN 1 281 444 thousand included:

- granting a loan to the subsidiary TAURON Wydobycie S.A. in the amount of PLN 1 770 000 thousand;
- change of the balance of loans to subsidiaries under a long-term cash pool agreement in the amount of PLN (511 781) thousand;
- granting a loan to the jointly-controlled entity Elektrociepłownia Stalowa Wola S.A. in the total amount of PLN 23 225 thousand.

Purchase of bonds

Payments to purchase bonds, in the amount of PLN 420 000 thousand, are related to purchases of intra-group bonds issued by TAURON Wydobycie S.A. subsidiary.

Redemption of bonds

Proceeds from redemption of bonds, in the amount of PLN 1 190 000 thousand, are related to redemption of intra-group bonds issued by the following subsidiaries:

- TAURON Wydobycie S.A., totaling PLN 790 000 thousand;
- TAURON Dystrybucja S.A., totalling PLN 300 000 thousand
- TAURON Ciepło Sp. z o.o. totalling PLN 100 000 thousand.

(in PLN thousand)

Interest received

	Year ended 31 December 2019	Year ended 31 December 2018
Interest received in relation to debt securities	334 996	269 028
Interest received in relation to loans granted	320	20 149
Total	**335 316**	**289 177**

36.3. Cash flows from 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 29.1 to these financial statements, concerns:

- bonds with a par value of PLN 1 750 000 thousand, redeemed in accordance with the redemption maturity of TPEA 1119 scheme bonds;
- bonds with a par value of PLN 400 000 thousand, redeemed in accordance with the redemption maturity of the bonds from the bond issue scheme of 24 November 2015;
- early redemption of three series of bonds taken up by BGK with the total par value of PLN 270 000 thousand.

Loans and borrowings repaid

Expenditure on repayment of loans in the amount of PLN 862 318 thousand related to repayment:

- two loan 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.

Interest paid

	Year ended 31 December 2019	Year ended 31 December 2018
Interest paid in relation to debt securities	(290 531)	(233 275)
Interest paid in relation to loans	(74 793)	(29 109)
Interest paid in relation to borrowings	(40 085)	(39 398)
Interest paid in relation to lease	(400)	(196)
Other intrest	(72)	-
Total	**(405 881)**	**(301 978)**

Loans taken

Proceeds from loans in the amount of PLN 5 150 000 thousand were related to, which more details are provided in Note 29.2 of these financial statements:

- release of loan tranches under the agreement concluded with Bank Gospodarstwa Krajowego in the amount of PLN 1 000 000 thousand;
- release of loan tranches under the agreement concluded with the Consortium of Banks in the amount of PLN 4 150 000 thousand.

Issue of debt securities

Proceeds from the issue of debt securities in the amount of PLN 500 000 thousand, which is discussed in more detail in Note 29.1 to these financial statements:

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

(in PLN thousand)

FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT

37. Financial instruments

SELECTED ACCOUNTING PRINCIPLES

Financial assets held by the Company 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 Company 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.

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

Classes of financial liabilities in the Company:

- 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 Company makes judgements regarding classification of financial instruments.

As at each reporting period end, the Company 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 fair value measurement is presented below.

The Company recognizes an impairment loss upon initial recognition of a financial asset and then remeasures the loss amount as at each reporting period end. The Company recognize allowance for expected credit losses on financial assets measured at amortized cost includes mostly receivables from buyers and loans granted. The measurement methodology is presented in Notes 21 and 38.1.2 hereof.

37.1. 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	**6 569 821**	**6 569 821**	**6 733 497**	**6 828 930**
Receivables from buyers	1 472 462	1 472 462	819 563	819 563
Bonds	-	-	5 236 292	5 331 725
Loans granted under cash pool agreement	475 178	475 178	596 533	596 533
Other loans granted	4 621 558	4 621 558	26 088	26 088
Other financial receivables	623	623	55 021	55 021
2 Financial assets measured at fair value through profit or loss (FVTPL)	**1 592 623**	**1 592 623**	**1 120 916**	**1 120 916**
Derivative instruments	86 067	86 067	216 165	216 165
Long-term shares	48 136	48 136	46 066	46 066
Loans granted	216 018	216 018	199 256	199 256
Other financial receivables	292 052	292 052	167 441	167 441
Investment fund units	26 622	26 622	26 063	26 063
Cash and cash equivalents	923 728	923 728	465 925	465 925
3 Derivative hedging instruments	**19 462**	**19 462**	**4 178**	**4 178**
4 Financial assets excluded from the scope of IFRS 9	**21 796 047**		**21 029 990**	
Shares in subsidiaries	21 380 195		20 614 138	
Shares in jointly-controlled entities	415 852		415 852	
Total financial assets, *of which in the statement of financial position:*	**29 977 953**		**28 888 581**	
Non-current assets	**26 914 435**		**26 975 445**	
Shares	21 844 183		21 076 056	
Bonds and loans granted	5 047 552		5 852 741	
Derivative instruments	20 352		43 844	
Other financial assets	2 348		2 804	
Current assets	**3 063 518**		**1 913 136**	
Receivables from buyers	1 472 462		819 563	
Bonds and loans granted	265 202		205 428	
Derivative instruments	85 177		176 499	
Other financial assets	316 949		245 721	
Cash and cash equivalents	923 728		465 925	

(in PLN thousand)

Categories and classes of financial liabilities	As at 31 December 2019		As at 31 December 2018	
	Carrying amount	Fair value	Carrying amount	Fair value
1 Financial liabilities measured at amortized cost	**15 193 028**	**15 483 307**	**13 893 976**	**14 028 032**
Arm's length loans, *of which:*	8 914 991	9 001 735	3 619 943	3 662 092
Liability under the cash pool loan	1 205 417	1 205 417	2 038 520	2 038 520
Bank loans	6 998 618	7 014 391	850 676	875 511
Loans from the subsidiary	710 956	781 927	730 747	748 061
Overdraft	21 210	21 210	767	767
Bonds issued	5 544 471	5 748 006	9 358 008	9 449 915
Liabilities to suppliers	424 486	424 486	525 986	525 986
Other financial liabilities	287 819	287 819	388 936	388 936
Liabilities due to purchases of fixed and intangible assets	51	51	336	336
2 Financial liabilities measured at fair value through profit or loss (FVTPL)	**124 527**	**124 527**	**240 922**	**240 922**
Derivative instruments	124 527	124 527	240 922	240 922
3 Financial liabilities excluded from the scope of IFRS 9 *Finanical Instruments*	**36 191**		**-**	
Lease liabilities	36 191		-	
Total financial liabilities, *of which in the statement of financial position:*	**15 353 746**		**14 134 898**	
Non-current liabilities	**10 941 571**		**8 529 900**	
Debt	10 909 597		8 474 344	
Other financial liabilities	15 126		17 626	
Derivative instruments	16 848		37 930	
Current liabilities	**4 412 175**		**5 604 998**	
Debt	3 607 266		4 504 374	
Liabilities to suppliers	424 486		525 986	
Derivative instruments	107 679		202 992	
Other financial liabilities	272 744		371 646	

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/liabilities classes	Fair value measurement level	Fair value measurement methodology
	Financial assets/liabilities measured at fair value	
Derivatives, *including:*		
IRS and CCIRS	2	Derivatives have been measured in line with the methodology presented in Note 21 hereto.
Currency forwards	2	
Commodity forwards and futures	1	
Non-current shares	3	The Company estimated the fair value of shares held in PGE EJ 1 Sp. z o.o. and in ElectroMobility Poland S.A. 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. 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 Company 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, a loan contracted from a subsidiary, subordinated bonds issued and taken by the European Investment Bank and eurobonds 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 subsidiaries and jointly-controlled entities excluded from the scope of IFRS 9 *Financial Instruments* are measured at cost less any impairment allowances.

In the year ended 31 December 2019 no changes occurred in the measurement methodology applied to the above financial instruments.

(in PLN thousand)

The Company 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 20.2 to these financial statements.

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	**46 066**	**199 256**	**38 939**	**-**
Effects of IFRS 9 *Financial Instruments* application	-	-	(13 893)	150 960
Restated opening balance	**46 066**	**199 256**	**25 046**	**150 960**
Gains/(losses) for the period recognized in financial revenue/costs	(9 902)	16 762	-	(11 581)
Purchased/contracted	11 972	-	21 032	-
Sold/repaid	-	-	(12)	(299 100)
Settlement of the debt consolidation arrangement	-	-	-	358 977
Closing balance	**48 136**	**216 018**	**46 066**	**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.

37.2. 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 measured at fair value through profit or loss	Financial liabilities measured at amortized cost	Financial liabilities measured at amortized cost	Hedging instruments	Financial assets / liabilities excluded from the scope of IFRS 9	Total
Dividends	3 035	-	-	-	1 097 826	**1 100 861**
Interest income/(expense)	6 430	390 406	(405 353)	743	(1 720)	**(9 494)**
Commissions	-	-	(20 319)	-	-	**(20 319)**
Exchange differences	2 647	(2 848)	28 940	-	-	**28 739**
Impairment / revaluation	(27 684)	(1 411 613)	(3 271)	34	(85 019)	**(1 527 553)**
Gain/loss on disposal of investments	17	-	-	-	-	**17**
Gain/(loss) on realized derivative instruments*	(18 144)	-	-	-	-	**(18 144)**
Net financial income/(costs)	**(33 699)**	**(1 024 055)**	**(400 003)**	**777**	**1 011 087**	**(445 893)**
Revaluation	21 386	(1 278)	-	-	-	**20 108**
Gain/(loss) on realized derivative instruments*	(34 054)	-	-	-	-	**(34 054)**
Net operating income/(costs)	**(12 668)**	**(1 278)**	**-**	**-**	**-**	**(13 946)**
Remeasurement of IRS	-	-	-	15 179	-	**15 179**
Other comprehensive income	**-**	**-**	**-**	**15 179**	**-**	**15 179**

**The Company 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)

Year ended 31 December 2018

	Assets / liabilities measured at fair value through profit or loss	Financial liabilities measured at amortized cost	Financial liabilities measured at amortized cost	Hedging instruments	Financial assets / liabilities excluded from the scope of IFRS 9	Total
Dividends	2 400	-	-	-	817 037	**819 437**
Interest income/(expense)	4 789	327 620	(298 796)	1 202	(196)	**34 619**
Commissions	-	-	(22 993)	-	-	**(22 993)**
Exchange differences	(7 480)	1 419	(112 082)	-	-	**(118 143)**
Impairment / revaluation	(9 505)	27 043	(11 994)	-	(2 469 069)	**(2 463 525)**
Gain/loss on disposal of investments	1 642	-	-	-	-	**1 642**
Gain/(loss) on realized derivative instruments*	(6 078)	-	-	-	-	**(6 078)**
Net financial income/(costs)	**(14 232)**	**356 082**	**(445 865)**	**1 202**	**(1 652 228)**	**(1 755 041)**
Revaluation	(17 534)	680	-	-	-	**(16 854)**
Gain/(loss) on realized derivative instruments*	16 910	-	-	-	-	**16 910**
Net operating income/(costs)	**(624)**	**680**	**-**	**-**	**-**	**56**
Remeasurement of IRS	-	-	-	(24 297)	-	**(24 297)**
Other comprehensive income	**-**	**-**	**-**	**(24 297)**	**-**	**(24 297)**

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

38. Principles and objectives of financial risk management

The financial risk is managed on the Capital Group level, which means that within the framework of financial risk management, the Company performs the functions assigned to it as a member of the TAURON Group and the management, control and monitoring functions assigned to it as the central unit.

Types of risk resulting from financial instruments to which the Company is exposed in the course of its business:

- credit risk;
- liquidity risk;
- market risk, including:

  - interest rate change risk;

  - exchange rate change risk;

  - raw material and commodity price risk related to commodity derivative instruments and price risk related to units held by the Company.

Risks related to financial instruments which the Company and TAURON Group are 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 goods and service) and a replacement risk (the amount that may be lost if a delivery is not made or a service is not provided).	Credit risk management is aimed at limiting losses resulting from the deterioration of the financial standing of the TAURON Group's counterparties and minimizing the risk of credit exposures at risk of impairment. Trading transactions of significant value are preceded by an assessment of the counterparty's creditworthiness, including an economic and financial analysis of the entity. On the basis of the assessment, the counterparty is granted a credit limit, which is a limitation of the maximum credit exposure understood as the amount that may be lost if the counterparty fails to fulfil its contractual obligations within a specified period of time (taking into account the value of contributed collaterals). The credit exposure is calculated for the current day and divided into payment and replacement exposure. The TAURON Group has a decentralized credit risk management system, which means that each risk owner is actively responsible for managing the credit risks that arise within its scope of activity, 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 Company and 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 risk, TAURON's policy assumes obtaining funding for the Group well 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. The key objective of such risk management is to minimize the cash flow sensitivity of the Company and 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, TAURON uses derivative instruments, 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

(in PLN thousand)

38.1. Credit risk

Classes of financial instruments that give rise to credit risk exposure with different characteristics are presented in the table below.

Financial asset classes	As at 31 December 2018	As at 31 December 2017
Receivables from buyers	1 472 462	819 563
Loans granted and bonds	5 312 754	6 058 169
Cash and cash equivalents	923 728	465 925
Derivative instruments	105 529	220 343
Other financial receivables	292 675	222 462

The credit risk related to financial assets of the Company results from the inability to make payment by the other party to the agreement and the maximum exposure is equal to the carrying amount of these instruments.

38.1.1 Credit risk related to receivables from buyers

The Company 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 credit standing of counterparties with significant credit exposure, the conclusion of trading transactions resulting in an increase in credit exposure above the allocated exposure limit generally requires the establishment of a collateral.

In accordance with IFRS 9 *Financial Instruments*, the Company estimates and recognizes in the profit or loss allowances on expected credit losses. For strategic counterparties, the risk is estimated based on ratings assigned to counterparties using an internal scoring model, appropriately converted to probability of default. The Company expects that the historical performance information concerning other counterparties may reflect the credit risk that will be faced in future periods. The expected credit loss on receivables from buyers is calculated upon recognition of such receivables in the statement of financial position and updated as at each subsequent reporting period end taking into account the forward looking aspect.

Company’s exposure to credit risk related to receivables from buyers, including aging, impairment and risk concentration of risk, is presented in Note 24 hereto.

38.1.2 Credit risk related to loans granted

As far as granted 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 Company 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 Company as at 31 December 2019 and 31 December 2018 were not overdue.

Under the applied model of measuring expected credit losses, the Company recognizes and remeasures allowances for expected credit losses as at each reporting period end. In Company’s view, no additional credit risk occurs that would exceed the level determined by the allowance for expected credit losses, recognized for each item of loans granted.

Measurement of the loan granted to Elektrociepłownia Stalowa Wola S.A., a joint venture classified as 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.

(in PLN thousand)

Company's exposure to credit risk related to loans granted, including information on impairment, its changes and the underlying reasons, as well as assignment to classes of allowances for expected credit losses in line with the rating used by the Company, are presented below and in Note 20 hereto.

Loans and bonds measured at amortized by ratings uses in the Company

	Year ended 31 December 2019				Year ended 31 December 2018		
	Level 1: allowance equal to 12 monthly expected credit losses -no impairment	Level 2: allowance for expected credit losses over the life period - no impairment	Level 3: allowance for expected credit losses over the life period - with impairment	Total	Level 1: allowance equal to 12 monthly expected credit losses - no impairment	Level 2: allowance for expected credit losses over the life period - no impairment	Total
AAA do A	3 014 527	-	-	**3 014 527**	-	-	**-**
A- do BBB-	160 997	-	-	**160 997**	3 522 439	-	**3 522 439**
BB+ do BB	666 984	320 020	-	**987 004**	675 217	423 278	**1 098 495**
BB- do B	652 422	11 362	-	**663 784**	631 754	-	**631 754**
B- do D	5 230	96 903	268 576	**370 709**	-	986 554	**986 554**
Gross value	**4 500 160**	**428 285**	**268 576**	**5 197 021**	**4 829 410**	**1 409 832**	**6 239 242**
impairment loss	(27 883)	(68 806)	(3 596)	**(100 285)**	(27 730)	(352 599)	**(380 329)**
Net value	**4 472 277**	**359 479**	**264 980**	**5 096 736**	**4 801 680**	**1 057 233**	**5 858 913**

38.1.3 Credit risk related to other financial assets

Cash and cash equivalents

The Company manages credit risk related to cash by diversifying banks where it deposits its cash surplus. These banks receive investment rating.

As at 31 December 2019, the share of three banks in which the Company holds the highest cash balances amounted to 73%. The highest balance was held on bank accounts in Deutsche Bank Polska S.A. – 62%.

Derivative instruments

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

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

Other financial receivables

Other financial receivables are presented in the following table.

(in PLN thousand)

	As at 31 December 2019	As at 31 December 2018
Initial and variation margin deposits arising from stock exchange transactions	209 466	163 495
Bid bonds, deposits and collateral transferred	82 951	4 213
Receivables due to income tax settlement by TCG companies	-	54 458
Other	258	296
	292 675	**222 462**

The main position is made up of initial margins and other collaterals resulting from transactions concluded on exchanges. Commodity exchange mechanisms and collateral used materially mitigate the credit risk.

38.2. Liquidity risk

The Company 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.

TAURON Group carries out a centralized finance management policy, allowing effective management in this respect on the Capital Group level. Among others, the TAURON Group has adopted Liquidity management policy for the TAURON Group, which facilitates optimization of liquidity management at the TAURON Group, reduces the risk of liquidity loss, as well as financial expenses in the Group and in each company from the TAURON Group. 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 as at each balance sheet date is presented in the table below.

Bank overdrafts

	Bank	Purspose	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.

Except of 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. As at the balance sheet day, the Company had also available financing under the Intesa loan agreement.

After the end of the reporting period, the Company entered into new financing agreements (see Note 49 to these financial statements):

- a loan agreement with SMBC Bank EU AG;
- a programme agreement with Santander Bank Polska S.A. enabling financing to be obtained through a bond issue on the domestic market;

(in PLN thousand)

- 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.

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 redemption 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 56 000 thousand PLN with the volume of about 13 million Mg.

Due to the strong positive correlation between CO_2 prices and electricity prices on the Polish market, a drop in CO_2 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 deposit 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 prices and, as a consequence, electricity prices may cause a significant increase in the required deposit 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 Company was fully able to pay its liabilities at maturity.

The tables below show the aging of the Company's financial liabilities by undiscounted contractual payments.

Financial liabilities as at 31 December 2019

	Carrying amount	Contractual undiscounted payments	Including contractual undiscounted payments maturing during the period (from the reporting date)					
			less than 3 months	3 -12 months	1 - 2 years	2 - 3 years	3 - 5 years	over 5 years
Financial liabilities other than derivative instruments								
Interest-bearing loans, borrowings and bonds issued	**14 480 672**	**(16 722 064)**	(2 879 285)	(975 809)	(643 883)	(3 884 113)	(1 984 541)	(6 354 433)
Liabilities to suppliers	**424 486**	**(424 486)**	(424 486)	-	-	-	-	-
Liabilities due to purchases of fixed and intangible assets	**51**	**(51)**	(51)	-	-	-	-	-
Other financial liabilities	**287 819**	**(287 819)**	(256 632)	(16 061)	(2 500)	(2 500)	(5 000)	(5 126)
Lease liabilities	**36 191**	**(42 804)**	(2 436)	(6 904)	(8 978)	(8 577)	(11 561)	(4 348)
Derivative financial liabilities								
Derivative 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	**15 353 746**	**(17 585 990)**	**(3 589 997)**	**(1 029 842)**	**(669 080)**	**(3 901 310)**	**(2 013 428)**	**(6 382 333)**

(in PLN thousand)

Financial liabilities as at 31 December 2018

	Carrying amount	Contractual undiscounted payments	Including contractual undiscounted payments maturing during the period (from the reporting date)					
			less than 3 months	3 -12 months	1 - 2 years	2 - 3 years	3 - 5 years	over 5 years
Financial liabilities other than derivative instruments								
Interest-bearing loans, borrowings and bonds issued	**12 978 718**	**(15 858 668)**	(2 497 449)	(2 322 357)	(2 435 940)	(579 729)	(1 026 724)	(6 996 469)
Liabilities to suppliers	**525 986**	**(525 986)**	(525 986)	-	-	-	-	-
Liabilities due to purchases of fixed and intangible assets	**336**	**(336)**	(325)	(11)	-	-	-	-
Other financial liabilities	**388 936**	**(388 936)**	(368 794)	(2 517)	(2 500)	(2 500)	(5 000)	(7 625)
Derivative financial liabilities								
Derivative 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	**14 134 898**	**(16 951 467)**	**(3 469 108)**	**(2 349 567)**	**(2 475 135)**	**(587 924)**	**(1 042 977)**	**(7 026 756)**

As at 31 December 2019, the Company had guarantees, sureties and collaterals granted to related companies for the total amount of PLN 1 404 068 thousand (not including registered and financial pledges on shares), as at 31 December 2018 - PLN 1 340 248 thousand. As at 31 December 2019 the most significant item is a corporate guarantee granted to a subsidiary up to EUR 168 000 thousand (PLN 715 428 thousand) and a bank guarantee in the amount of PLN 517,500 thousand issued to Bank Gospodarstwa Krajowego, which is discussed in detail in Note 40 to these financial statements.

Guarantees and collaterals granted by the Company are contingent liabilities and do not significantly affect the Company's liquidity risk.

38.3. Market risk

Market risk is associated with the possibility of a negative impact on the Company's results through fluctuations in the fair value of financial instruments or future cash flows associated with them due to changes in market prices.

The Company 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 Company.

38.3.1 Interest rate risk

The Company is exposed to the risk of interest rate changes in connection with the acquisition of capital bearing a variable interest rate and investing in assets bearing a variable and fixed interest rate. The Company is also exposed to the materialization of risk related to the lost benefits due to the decrease in interest rates, in the case of fixed interest rate debt.

The purpose of interest rate risk management is to limit negative effects of market interest rate fluctuations on the Company'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 Company entered into interest rate swap (IRS) contracts, described in detail in Note 21 hereto.

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.

Financial instruments measured at fair value are also exposed to the risk of interest rate changes: IRS, CCIRS and a loan granted to Elektrociepłownia Stalowa Wola S.A.

(in PLN thousand)

Financial instruments by interest rate type

Financial instruments	Year ended 31 December 2019			Year ended 31 December 2018		
	Fixed interest rate	Floating interest rate	Total	Fixed interest rate	Floating interest rate	Total
Financial assets						
Bonds	-	-	**-**	5 236 292	-	**5 236 292**
Loans granted	4 832 577	480 177	**5 312 754**	222 756	599 121	**821 877**
Cash and cash equivalents	-	923 728	**923 728**	-	465 925	**465 925**
Derivative instruments - IRS	19 462	-	**19 462**	4 178	-	**4 178**
Financial liabilities						
Bank overdrafts	-	21 210	**21 210**	-	767	**767**
Arm's length loans	3 603 661	5 311 330	**8 914 991**	1 581 423	2 038 520	**3 619 943**
Bonds issued	5 043 940	500 531	**5 544 471**	5 800 380	3 557 628	**9 358 008**
Derivative instruments - CCIRS	12 885	-	**12 885**	5 140	-	**5 140**
Leases liabilities	36 191	-	**36 191**	-	-	**-**

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

Interest rate risk sensitivity analysis

The analysis of sensitivity to changes in market risk factors is conducted by means of a scenario analysis. The Company relies on expert scenarios reflecting its judgment concerning the behaviour of individual market risk factors in the future. The scope of the analysis includes only those items which meet the IFRS definition of financial instruments.

The interest rate risk sensitivity analysis is conducted by the Company 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 Company to the interest rate risk as at the end of the reporting period.

The Company identifies its exposure to the risk of changes in WIBOR, EURIBOR and LIBOR USD interest rates. As at 31 December 2019 and 31 December 2018, its exposure to changes in EURIBOR and LIBOR USD rates was immaterial. The tables below present sensitivity of the gross profit/loss as well as other comprehensive income (gross) 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			
			WIBOR + 38 pb		WIBOR -38 pb	
	Carrying amount	Value at risk	*Profit/(Loss)*	*Other comprehensive income*	*Profit/(Loss)*	*Other comprehensive income*
Loans granted	5 312 754	696 195	(8 093)	-	8 608	-
Cash and cash equivalents	923 728	923 728	3 476	-	(3 476)	-
Derivatives (assets)	105 529	19 462	-	37 204	-	(37 204)
Arm's length loans	8 914 991	7 509 499	(28 536)	-	28 536	-
Bonds issued	5 544 471	1 890 465	(7 184)	-	7 184	-
Derivates (liabilities)	124 527	12 885	6 098	-	(6 098)	-
Total			**(34 239)**	**37 204**	**34 754**	**(37 204)**

The exposure to risk as at 31 December 2019 is representative for the Company'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			
			WIBOR + 34 pb		WIBOR -34 pb	
	Carrying amount	Value at risk	*Profit/(Loss)*	*Other comprehensive income*	*Profit/(Loss)*	*Other comprehensive income*
Loans granted	821 877	798 377	(6 767)	-	7 204	-
Cash and cash equivalents	465 925	465 925	873	-	(873)	-
Derivatives (assets)	220 343	4 178	-	10 315	-	(10 315)
Arm's length loans	3 619 943	2 038 520	(6 931)	-	6 931	-
Bonds issued	9 358 008	5 656 342	(19 232)	-	19 232	-
Derivates (liabilities)	240 922	5 140	6 618	-	(6 618)	-
Total			**(25 439)**	**10 315**	**25 876**	**(10 315)**

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

38.3.2 Currency risk

The tables below present the Company's exposure to currency risk by particular classes of financial instruments as at 31 December 2019 and 31 December 2018. The Company's significant exposure relates to changes in the EUR/PLN exchange rate, mainly due to external financing incurred in EUR. Company's exposure to other currencies is immaterial.

Currency position as at 31 December 2019

	Total carrying amount in PLN	EUR	
		in currency	in PLN
Financial assets			
Receivables from buyers	1 472 462	285	1 214
Other financial receivables	292 675	49 784	212 005
Cash and cash equivalents	923 728	1 503	6 400
Derivatives (assets)	105 529	14 214	60 531
Total	**2 794 394**	**65 786**	**280 150**
Financial liabilities			
Arm's length loans	8 914 991	166 950	710 957
Overdraft	21 210	4 804	20 456
Bonds issued	5 544 471	683 776	2 911 861
Liabilities to suppliers	424 486	267	1 137
Other financial liabilities	287 819	2 530	10 774
Derivatives (liabilities)	124 527	13 206	56 238
Total	**15 317 504**	**871 533**	**3 711 423**
Net currency position		**(805 747)**	**(3 431 273)**

Currency position as at 31 December 2018

	Total carrying amount in PLN	EUR	
		in currency	in PLN
Financial assets			
Receivables from buyers	819 563	327	1 406
Other financial receivables	222 462	38 731	166 543
Cash and cash equivalents	465 925	48 019	206 482
Derivatives (assets)	220 343	35 511	152 697
Total	**1 728 293**	**122 588**	**527 128**
Financial liabilities			
Arm's length loans	3 619 943	169 941	730 747
Bonds issued	9 358 008	686 463	2 951 789
Liabilities to supplier	525 986	174	748
Other financial liabilities	388 936	57 866	248 824
Derivatives (liabilities)	240 922	39 493	169 820
Total	**14 133 795**	**953 937**	**4 101 928**
Net currency position		**(831 349)**	**(3 574 800)**

(in PLN thousand)

TAURON Polska Energia S.A. uses forward contracts for currency risk management purposes. Transactions concluded in 2019 were intended to protect the Company 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.

Measurement at fair value of FX forward contracts (as at 31 December 2019 liabilities arising from negative valuation of derivatives occurred in amount of PLN 29 823 thousand) and CCIRS transactions (as at 31 December 2019 liabilities arising from negative valuation of derivatives occurred in amount of PLN 12 885 thousand), whose fair value measurement is exposed to the risk of changes in the EUR/PLN exchange rate. These transactions are not subject to hedge accounting.

Currency risk sensitivity analysis

The analysis of sensitivity to changes in market risk factors is conducted by means of a scenario analysis. The Company relies on expert scenarios reflecting its judgment concerning the behaviour of individual market risk factors in the future. The scope of the analysis includes only those items which meet the IFRS definition of financial instruments.

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

The Company identifies its exposure to foreign currency risk related to EUR/PLN, USD/PLN, GBP/PLN, CZK/PLN. Significant risk exposure regards EUR; other currencies do not generate material risk for the Company. The tables below present sensitivity of the gross financial profit/loss to reasonably possible changes in the EUR/PLN exchange rate 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	1 472 462	1 214	51	(51)
Other financial receivables	292 675	212 005	8 989	(8 989)
Cash and cash equivalents	923 728	6 400	271	(271)
Derivatives (assets)	105 529	60 531	2 567	(2 567)
Arm's length loans	8 914 991	710 957	(30 145)	30 145
Overdraft	21 210	20 456	(867)	867
Bonds issued	5 544 471	2 911 861	(123 463)	123 463
Liabilities to suppliers	424 486	1 137	(48)	48
Other financial liabilities	287 819	10 774	(457)	457
Derivatives (liabilities)	124 527	98 946	79 408	(79 408)
Total			**(63 694)**	**63 694**

The exposure to risk as at 31 December 2019 is representative for the Company'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 currency risk as at 31 December 2018	
	Carrying amount	EUR/PLN		
		Value at risk	exchange rate EUR/PLN +5.85%	exchange rate EUR/PLN -5.85%
Receivables from buyers	819 563	1 406	82	(82)
Other financial receivables	222 462	166 543	9 743	(9 743)
Cash and cash equivalents	465 925	206 482	12 079	(12 079)
Derivatives (assets)	220 343	152 697	8 933	(8 933)
Arm's length loans	3 619 943	730 747	(42 749)	42 749
Bonds issued	9 358 008	2 951 789	(172 680)	172 680
Liabilities to suppliers	525 986	748	(44)	44
Other financial liabilities	388 936	248 824	(14 556)	14 556
Derivatives (liabilities)	240 922	177 439	38 838	(38 838)
Total			**(160 354)**	**160 354**

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

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

Commodity derivatives

The Company concludes derivative contracts, with underlying instruments being commodities and raw materials. The Company'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 Company limits price risk related to commodity derivatives concluding offsetting transactions. The risk is limited to open long and short positions concerning a given commodity or raw material, i.e. concern unbalanced portfolio.

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

Participation units

As at 31 December 2019, the Company 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 Company's gross profit/loss.

39. Operational risk

The Company is exposed to adverse effects of risks related to changes in cash flows and financial performance in the domestic currency due to changes in prices of goods in the open market position.

Commercial operational risk is managed at the level of the TAURON Group, which has been discussed in more detail in Note 49 to the consolidated financial statements of the TAURON Polska Energia S.A. Capital Group for the year ended 31 December 2019. The Company manages its commercial risk following the Commercial risk management policy developed and adopted in the TAURON Group.

The Company's exposure to the risk of prices of goods reflects the volume of electricity and gas acquired. The volume and cost of electricity and gas acquired have been presented below.

(in PLN thousand)

Fuel type	Unit	2019		2018	
		Volume	Purchase cost	Volume	Purchase cost
Electricity	MWh	38 811 497	9 371 915	38 870 705	7 207 929
Gas	MWh	3 595 490	351 085	3 203 779	297 451
Total			**9 723 000**		**7 505 380**

As for trading in coal, the Company is not exposed to the price risk, as it acts as an agent generating revenue from agency services only.

OTHER INFORMATION

40. Contingent liabilities

As at 31 December 2019 and 31 December 2018 the Company's contingent liabilities were mainly the effect of securities and guarantees given to related parties and were as follows:

Type of contingent liability	Company in respect of which contingent liability has been granted	Beneficiary	Validity	As at 31 December 2019		As at 31 December 2018	
				Currency	PLN	Currency	PLN
corporate guarantee	Finanse Grupa TAURON Sp. z o.o. (formerly TAURON Sweden Energy AB (publ))	Bondholders	3.12.2029	EUR 168 000	715 428	168 000	722 400
	TAURON Ekoenergia Sp. z o.o.	Business entities and buyers being parties to contracts with TAURON Ekoenergia Sp. z o.o. based on the electricity trading licence issued by the President of the Energy Regulatory Office	-		-		16 400
blank promissory note with a promissory note declaration	TAURON Wytwarzanie S.A.	Regional Fund for Environmental Protection and Water Management in Katowice	15.12.2022		40 000		40 000
	TAURON Ciepło Sp. z o.o.		15.12.2022		30 000		30 000
registered pledges and financial pledge of shares in TAMEH HOLDING Sp. z o.o.	TAMEH Czech s.r.o. TAMEH POLSKA Sp. z o.o.	RAIFFEISEN BANK INTERNATIONAL AG	31.12.2028[1]		415 852		415 852
surety contract	Kopalnia Wapienia Czatkowice Sp. z o.o.	Regional Fund for Environmental Protection and Water Management in Kraków	15.06.2021		914		914
			31.12.2023		293		293
	Nowe Jaworzno Grupa TAURON Sp. z o.o.	Fund Advisors	28.09.2025		2 500		2 500
		Polskie Sieci Elektroenergetyczne S.A.	31.12.2020		33 024		33 024
	TAURON Wytwarzanie S.A.	Polskie Sieci Elektroenergetyczne S.A.	indefinite		5 000		5 000
	TAURON Sprzedaż Sp. z o.o.	Polska Spółka Gazownictwa Sp. z o.o.	30.11.2019		20 000		20 000
	Elektrociepłownia Stalowa Wola S.A.	Operator Gazociągów Przesyłowych GAZ-SYSTEM S.A.	30.07.2020		1 667		1 667
		Bank Gospodarstwa Krajowego	30.01.2021		9 959		9 959
			30.07.2020-24.04.2021	USD 4 993	18 962		-
liability towards CaixaBank S.A. being result of guarantees issued by the bank for subsidiaries	TAURON Ciepło Sp. z o.o.	Elektrobudowa S.A.	-		-		12 300
	other subsidiaries	various entities	31.12.2019[2]-28.07.2029		8 821		1 791
liability towards MUFG Bank, Ltd. under guarantees issued by the bank for jointly-controlled entity	Elektrociepłownia Stalowa Wola S.A.	Bank Gospodarstwa Krajowego	11.04.2020		517 500		444 000

[1] 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.
[2] Under the annexe concluded, the term of the bank guarantee for PKP S.A. in the amount of PLN 106 thousand as at 31 December 2019 was extended until 31 December 2020.

The most significant items of contingent liabilities concern:

- Corporate guarantee for the amount of EUR 168 000 thousand

  Corporate guarantee given in 2014 to secure the bonds Finanse Grupa TAURON Sp. z o.o. (issued by TAURON Sweden Energy AB (publ)). The guarantee remains valid until 3 December 2029, i.e. until the date of redemption of bonds, and amounts to EUR 168 000 thousand (PLN 715 428 thousand). The beneficiaries of the guarantee are the bondholders who purchased the issued bonds.

- Registered and financial pledges on shares

  Under the agreement of 15 May 2015, annexed on 15 September 2016, TAURON Polska Energia S.A. established on 3 293 403 shares in the share capital of TAMEH HOLDING Sp. z o.o, constituting approximately 50% of the shares in the share capital, a financial pledge and registered pledges for RAIFFEISEN BANK INTERNATIONAL AG, i.e. a first lien registered pledge on the shares up to the maximum security amounting to CZK 3 950 000 thousand, and a first ranking registered pledge on the shares up to the maximum collateral amount of PLN 1 370 000 thousand. 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.

The carrying amount of shares in TAMEH HOLDING Sp. z o.o. as at December 31, 2019 was PLN 415 852 thousand.

- Blank promissory notes with a promissory notes declarations

  The Company issued two blank promissory notes with a promissory notes declarations with a total value of PLN 70 000 thousand in order to secure loan agreements received by its subsidiaries from the Regional Fund for Environmental Protection and Water Management (WFOŚiGW) in Katowice. The collateral in the form of promissory notes is valid until all liabilities to the lender are paid by the subsidiaries. Blank promissory notes are valid until 15 December 2022. As at the balance sheet date, the outstanding amount of loans secured with the promissory notes was PLN 12 000 thousand.

- Liability towards MUFG Bank, Ltd.

  At the Company's request, MUFG Bank, Ltd. issued a bank guarantee to secure Bank Gospodarstwa Krajowego'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.

  As at 31 December 2019 and 31 December 2018, the contingent liability towards MUFG Bank, Ltd. resulting from the bank guarantee issued amounted to PLN 517 500 thousand and PLN 444 000 thousand respectively. The bank guarantee of PLN 444 000 thousand was valid until 11 April 2019. On 7 February 2019, per Company's order, an annex was issued to the bank guarantee, pursuant to which as of 12 April 2019, the guarantee amount will be increased to PLN 517 500 thousand and the expiration date postponed to 11 April 2020. The annex to the bank guarantee agreement 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 October 2021.

  After the end of 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 PLN 517 500 thousand, 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 expected credit losses, amounting to PLN 15 265 thousand as at 31 December 2019 (as at 31 December 2018 equal to PLN 11 994 thousand).

Significant items of the Company's contingent liabilities due to court proceedings and concluded agreements:

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 submitted by Polska Energia-Pierwsza Kompania Handlowa Sp. z o.o. with regard to power purchase and property rights concluded with these companies ineffective. In the course of court proceedings, plaintiffs extend their scope raising claims for damages and contractual penalty claims related to contract termination. On 2 September 2019 Amon Sp. z o.o. (the Polenergia Group company) filed a new filed a number of a new cases regarding claims in total amount of PLN 29 009 thousand. After the end of the reporting period, 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 49 to these financial statements.   As at the date of approval of these financial statements for publication, the amount of damages claimed in the claims is: in.ventus group companies - EUR 20 397 thousand, 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 damages. The judgement is not valid. Polska Energia-Pierwsza Kompania Handlowa Sp. z o.o. disagrees with the judgement and on 25 October 2019 appealed against the judgement.   After the end of the reporting period, 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 49 to these financial statements.   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. on 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 filed 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 the 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 of these 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 financial statements for publication, the amount of compensation sought in the claims is: in.ventus Group companies – EUR 12 286 thousand, Polenergia Group companies – PLN 78 855 thousand, 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: in.ventus Group companies - EUR 35 706 thousand, Polenergia Group companies - PLN 265 227 thousand, Wind Invest Group companies - 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 financial statements for publication, the Company's chances of obtaining a favourable resolution of the disputes should be assessed positively, i.e. the chances of losing are not higher than the chances of winning.

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 of these financial statements), the cases 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 favourable resolution of the dispute as positive. The case was closed (as a result of the withdrawal of the claim by Dobiesław Wind Invest Sp. z o.o., the proceedings were discontinued - the 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 totaling PLN 36 252 thousand and liquidated damages totaling PLN 196 627 thousand.

In connection with the purchase of wind farms (described in detail in Note 2 to these 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 as a result the parties jointly applied for discontinuance 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 within the investment process related to the construction of a nuclear power plant. (hereinafter: the agreement"), filed claims against PGE EJ 1 Sp. z o.o. - in a call for payment to the 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 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 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 provision was 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 ERO 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 ERO dated 12 October 2001.

In this case, the courts of the first and second instance passed judgements favourable for GZE; however, in its judgement of 29 November 2011 the Supreme Court overruled the judgement of the Court of Appeals and remanded the case for re-examination by that Court. On 5 June 2012, the Court of Appeals overruled the decision of the Regional Court and remanded the case for re-examination by the latter. Since 27 November 2012 the case was heard by the court of first instance. By judgement of 28 May 2019, the Regional Court in Warsaw dismissed Huta's claim in its entirety and ruled that Huta reimbursed each of the defendant for the costs of the proceedings. The judgement is not 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 the 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 regard 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 the extension of the suit 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 application for the extension of the suit to the date of payment). 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 4074 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.

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 Investment 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 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 a potential need to include in the financial statements an obligation to repurchase from the Closed Investment Funds the shares in the subsidiary Nowe Jaworzno Grupa TAURON Sp. z o.o. held by those Funds, in the amount invested by the Funds in the shares, increased by an 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 end of 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 financial statements for publication, the Company does not identify any risk of material breach of the agreement and is of the opinion that there is no real possibility, also in the future, of occurrence of material breaches of the agreement 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 Investment Funds hold shares of Nowe Jaworzno Grupa TAURON Sp. z o.o. in the amount of PLN 880 000 thousand.

(in PLN thousand)

41. Security for liabilities

The most significant types of collateral securing the Company's liabilities are presented in the table below.

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
Bank account madates			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
Blank promissory notes to secure the payment of the Company's liabilities			7 560	-	Security for adequate performance of obligations under the concluded financing agreements

On 20 December 2019, an annex to the overdraft facility agreement with Bank Gospodarstwa Krajowego was concluded extending its term until 31 December 2020, under which a new power of attorney was granted to manage the 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 end of the reporting period:

- 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 29.2 of these 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 Izba Rozliczeniowa Giełd Towarowych S.A., 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 11 000 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 49 of these financial statements), 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 Izba Rozliczeniowa Giełd Towarowych S.A. 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 49 to these financial statements), up to the amount of PLN 600 000 thousand with maturity date of 31 December 2030.

Collateral for transactions on the Polish Power Exchange

In order to secure liabilities of the Company resulting from the transactions entered into by the Company on the Polish Power Exchange (POLPX) the contracts of transfer of CO_2 emission allowances in favour of the Izba Rozliczeniowa Giełd Towarowych S.A. (IRGiT) have been concluded :

- 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 tonnes.

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 end of 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. On the date of approval of the present financial statement for publication the balance of collaterals provided in favour of the IRGiT amounts to 6 084 453 tonnes of CO_2 emission allowances.

In case when the IRGiT sells the CO_2 emission allowances being subject of the transfer of ownership, which is possible only in strictly specified in the agreements situations connected with the Company's failure to satisfy justified claims of other members of the House or IRGiT, 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 surrender the CO_2 emission allowances for 2019.

On 10 February 2020, two agreements of transfer of ownership for security purposes concerning the property rights of the certificates of origin were concluded between the Company, the subsidiary TAURON Sprzedaż Sp. z o.o. and the IRGiT as well as between the Company, the subsidiary TAURON Sprzedaż GZE Sp. z o.o. and the IRGiT. As at the date of approval this financial statements for publication under the agreements entered into, the subsidiaries submitted to the Certificates of Origin Register kept by the Polish Power Exchange an instruction to block the property rights held in total number 3 352 058,31 MWh.

42. Capital commitments

As at 31 December 2019 and 31 December 2018, the Company did not have any material capital commitments.

(in PLN thousand)

43. Related-party disclosures

43.1. Transactions with related parties and State Treasury companies

The Company enters into transactions with related parties, as presented in Note 2 to these financial statements. In addition, due to the fact that the State Treasury of the Republic of Poland is the Company's majority shareholder, State Treasury companies are treated as related parties. Transactions with State Treasury companies are mainly related to the operating activities of the Company and are made on an arm's length terms.

The total value of transactions with the aforementioned entities and the balances of receivables and liabilities have been presented in the tables below.

Revenue and expenses

	Year ended 31 December 2019	Year ended 31 December 2018
Revenue from subsidiaries	**12 328 267**	**9 842 724**
Revenue from operating activities	10 831 010	8 701 280
Dividend income	1 065 648	800 777
Other operating income	5 463	7 241
Other finance income	426 146	333 426
Revenue from jointly-controlled entities	**145 866**	**59 109**
Revenue from State Treasury companies	**253 360**	**164 556**
Costs from subsidiaries	**(1 928 766)**	**(2 145 541)**
Costs of operating activities	(1 884 774)	(2 094 757)
Finance costs	(43 992)	(50 784)
Costs incurred with relation to transactions with jointly-controlled entities	**(9 149)**	**(4 958)**
Costs from State Treasury companies	**(954 395)**	**(1 000 560)**

Receivables and liabilities

	As at 31 December 2019	As at 31 December 2018
Loans granted to subsidiaries and receivables from subsidiaries	**8 322 763**	**7 045 063**
Receivables from buyers	1 434 004	777 825
Loans granted under cash pool agreement with interest accrued	532 174	806 301
Other loans granted and bonds	6 351 775	5 403 709
Receivables from the TCG	-	54 454
Other financial receivables	178	178
Other non-financial receivables	4 632	2 596
Loans granted to jointly-controlled entities and receivables from jointly-controlled entities	**388 189**	**354 744**
Receivables from State Treasury companies	**25 912**	**21 346**
Liabilities to subsidiaries	**2 392 415**	**3 078 690**
Liabilities to suppliers	264 063	236 030
Loans received under cash pool agreement plus interest accrued	1 189 214	2 021 198
Other loans received	710 956	730 747
Liabilities arising from the TCG	212 446	90 490
Other financial liabilities	15 015	18
Other non-financial liabilities	721	207
Liabilities to jointly-controlled entities	**633**	**225**
Liabilities to State Treasury companies	**73 399**	**166 901**

Revenue from subsidiaries include revenue from the sale of coal to TAURON Wytwarzanie S.A., TAURON Ciepło Sp. z o.o. and Nowe Jaworzno Grupa TAURON Sp. z o.o, which is presented in the statement of comprehensive income less cost in the amount of the surplus constituting the revenue due to agency services, presented in detail in Note 11 to these financial statements.

(in PLN thousand)

In the year ended 31 December 2019, the major contracting party as regards sales revenue from transactions made by TAURON Polska Energia S.A. with State Treasury companies was PSE S.A. Sales to that entity accounted for 76% of the total revenue from State Treasury companies.

In the year ended 31 December 2019, Polska Grupa Górnicza S.A., Węglokoks S.A. and Jastrzębska Spółka Węglowa S.A. were the major contracting parties of TAURON Polska Energia S.A. as regards costs incurred in relation to transactions with State Treasury companies. Costs incurred in transactions with those entities represented 96% of total costs incurred in purchase transactions entered into with State Treasury companies.

The Company concludes material transactions on the energy market through Izba Rozliczeniowa Giełd Towarowych S.A. As it is only responsible for organization of commodities exchange trading, the Company does not classify purchase and sale transactions made through this entity as related-party transactions.

43.2. Compensation of the executives

The amount of compensation and other benefits paid or payable to the Management Board, Supervisory Board and other key executives of the Company 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
Management Board	**5 209**	**5 661**
Short-term benefits (with surcharges)	4 650	4 931
Temination benefits	541	695
Other	18	35
Supervisory Board	**898**	**833**
Short-term employee benefits (salaries and surcharges)	898	833
Other members of key management personnel	**17 805**	**16 370**
Short-term employee benefits (salaries and surcharges)	15 707	14 330
Temination benefits	933	898
Other	1 165	1 142
Total	**23 912**	**22 864**

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

No loans have been granted from the Company's Social Benefit Fund to members of the Management Board, Supervisory Board or other key executives.

44. Finance and capital management

Finance and capital management is carried out at the level of TAURON Polska Energia S.A. Capital Group. During the period covered by these financial statements, there were no significant changes in the objectives, principles and procedures of capital and financial management. Capital and finance management has been discussed in more detail in Note 53 to the Consolidated Financial Statements for the year ended 31 December 2019.

45. Employment structure

The following note presents average headcount in the annual periods ended 31 December 2019 and 31 December 2018.

	Year ended 31 December 2019	Year ended 31 December 2018
Administration	385	366
Sales department	95	90
Total	**480**	**456**

The above table does not include persons covered by contracts for the provision of management services.

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

Information on the auditor's remuneration is presented in section 6. in the Management Board's reports on the activities of TAURON Polska Energia S.A. and TAURON Capital Group for the financial year 2019.

(in PLN thousand)

47. Structure of financial statements broken down by business activity type in line with Article 44 of the Energy Law

Under Article 44.2 of the Energy Law, TAURON Polska Energia S.A., as an energy company, is obliged to disclose specific items of the balance sheet and the statement of profit or loss broken down by individual types of business activity in notes to these financial statements.

In accordance with Article 44.2 of the Energy Law, The Company has identified the two types of business activities, i.e.: trade in gaseous fuels and other activity.

The principles of preparing a statement of comprehensive income (statement of profit or loss) broken down by type of business activity

The Company keeps accounting records which enable separate calculation of expense and revenue and the profit/loss for individual types of activities.

The Company has directly separated sales revenue and cost of sales related to individual types of activities.

Costs of sells related to the entire sales process carried out by the Company have been divided proportionally to the sales revenue generated by the Company.

Other operating and financing activities have been identified as those related to other business activities of the Company.

Administrative expenses of the Company are incurred for the benefit of the entire Capital Group, hence they have been recognized in the statement of comprehensive income as unallocated items and are not directly attributable to a specific business activity, as such attribution would be unjustified. Also CIT charged to profit or loss has been presented under unallocated items.

Statement of comprehensive income by type of activity for the 2019 financial year

	Gas	Other activity	Unallocated items	Total
Sales revenue	353 537	10 327 040	-	**10 680 577**
Cost of sales	(350 901)	(10 080 238)	-	**(10 431 139)**
Profit on sale	**2 636**	**246 802**	**-**	**249 438**
Selling and distribution expenses	(795)	(23 241)	-	**(24 036)**
Administrative expenses	**-**	**-**	(121 636)	**(121 636)**
Other operating income and expenses	-	(2 664)	-	**(2 664)**
Operating profit (loss)	**1 841**	**220 897**	**(121 636)**	**101 102**
Dividend income	-	1 100 861	-	**1 100 861**
Interest income on bonds and loans	-	389 809	-	**389 809**
Interest expense on debt	-	(407 866)	-	**(407 866)**
Revaluation of shares	-	(94 920)	-	**(94 920)**
Revaluation of bonds and loans	-	(1 394 812)	-	**(1 394 812)**
Other finance income and costs	-	(40 381)	-	**(40 381)**
Profit (loss) before tax	**1 841**	**(226 412)**	**(121 636)**	**(346 207)**
Income tax expense	**-**	**-**	(116 623)	**(116 623)**
Net profit (loss)	**1 841**	**(226 412)**	**(238 259)**	**(462 830)**

(in PLN thousand)

Statement of comprehensive income by type of activity for the 2018 financial year

	Gas	Other activity	Unallocated items	Total
Sales revenue	282 828	8 335 814	-	**8 618 642**
Cost of sales	(280 241)	(8 192 407)	-	**(8 472 648)**
Profit on sale	**2 587**	**143 407**	**-**	**145 994**
Selling and distribution expenses	(679)	(20 013)	-	**(20 692)**
Administrative expenses	**-**	**-**	(98 716)	**(98 716)**
Other operating income and expenses	-	(3 927)	-	**(3 927)**
Operating profit (loss)	**1 908**	**119 467**	**(98 716)**	**22 659**
Dividend income	-	819 437	-	**819 437**
Interest income on bonds and loans	-	327 447	-	**327 447**
Interest expense on debt	-	(298 602)	-	**(298 602)**
Revaluation of shares	-	(2 469 069)	-	**(2 469 069)**
Revaluation of bonds and loans	-	15 493	-	**15 493**
Other finance income and costs	-	(149 648)	-	**(149 648)**
Profit (loss) before tax	**1 908**	**(1 635 475)**	**(98 716)**	**(1 732 283)**
Income tax expense	**-**	**-**	22 430	**22 430**
Net profit (loss)	**1 908**	**(1 635 475)**	**(76 286)**	**(1 709 853)**

The principles of preparing a statement of financial position (balance sheet) broken down by type of business activity

The Company has directly separated receivables from buyers, liabilities to suppliers, other receivables and liabilities, as well as derivatives related to individual types of its business activities.

Equity, provisions for employee benefits, cash, receivables and liabilities relating to taxes and charges and deferred tax asset / liability have been presented as unallocated items in the statement of financial position.

The remaining assets and liabilities are related to other activities of the Company.

Statement of financial position by type of activity as at 31 December 2019

	Gas	Other activity	Unallocated items	Total
ASSETS				
Non-current assets, *of which:*	**530**	**26 986 642**	**23 418**	**27 010 590**
Shares	-	21 844 183	-	**21 844 183**
Bonds and loans granted	-	5 047 552	-	**5 047 552**
Derivative instruments	104	20 248	-	**20 352**
Deferred tax assets	-	-	23 418	**23 418**
Other financial assets	426	1 922	-	**2 348**
Current assets, *of which*:	**33 938**	**2 261 383**	**1 179 218**	**3 474 539**
Receivables from buyers	33 291	1 439 171	-	**1 472 462**
Income tax receivables	-	-	255 490	**255 490**
Bonds and loans granted	-	265 202	-	**265 202**
Derivative instruments	644	84 533	-	**85 177**
Other financial assets	3	316 946	-	**316 949**
Other non-financial assets	-	6 167	-	**6 167**
Cash and cash equivalents	-	-	923 728	**923 728**
TOTAL ASSETS	**34 468**	**29 248 025**	**1 202 636**	**30 485 129**
EQUITY AND LIABILITIES				
Equity	**-**	**-**	**14 808 177**	**14 808 177**
Non-current liabilities, *of which:*	**-**	**10 941 571**	**5 929**	**10 947 500**
Debt	-	10 909 597	-	**10 909 597**
Derivative instruments	-	16 848	-	**16 848**
Provisions for employee benefits	-	-	5 929	**5 929**
Current liabilities, *of which:*	**4 127**	**4 501 998**	**223 327**	**4 729 452**
Debt	-	3 607 266	-	**3 607 266**
Liabilities to suppliers	3 379	421 107	-	**424 486**
Other financial liabilities	104	272 640	-	**272 744**
Derivative instruments	644	107 035	-	**107 679**
Other non-financial liabilities	-	-	223 035	**223 035**
Provisions for employee benefits	-	-	292	**292**
TOTAL EQUITY AND LIABILITIES	**4 127**	**15 443 569**	**15 037 433**	**30 485 129**

(in PLN thousand)

Statement of financial position by type of activity as at 31 December 2018

	Gas	Other activity	Unallocated items	Total
ASSETS				
Non-current assets, *of which:*	**923**	**27 017 397**	**148 180**	**27 166 500**
Shares	-	21 076 056	-	**21 076 056**
Bonds	-	5 043 981	-	**5 043 981**
Loans granted	-	808 760	-	**808 760**
Derivative instruments	63	43 781	-	**43 844**
Deferred tax assets	-	-	148 180	**148 180**
Other financial assets	860	1 944	-	**2 804**
Current assets, *of which*:	**32 858**	**1 829 050**	**484 582**	**2 346 490**
Receivables from buyers	31 812	787 751	-	**819 563**
Income tax receivables	-	-	13 921	**13 921**
Bonds	-	192 311	-	**192 311**
Loans granted	-	13 117	-	**13 117**
Derivative instruments	31	176 468	-	**176 499**
Other financial assets	1 015	244 706	-	**245 721**
Other non-financial assets	-	5 110	4 736	**9 846**
Cash and cash equivalents	-	-	465 925	**465 925**
TOTAL ASSETS	**33 781**	**28 846 447**	**632 762**	**29 512 990**
EQUITY AND LIABILITIES				
Equity	**-**	**-**	**15 259 836**	**15 259 836**
Non-current liabilities, *of which:*	**27**	**8 529 976**	**3 787**	**8 533 790**
Debt	-	8 474 344	-	**8 474 344**
Derivative instruments	27	37 903	-	**37 930**
Provisions for employee benefits	-	-	3 787	**3 787**
Current liabilities, *of which:*	**10 886**	**5 683 607**	**24 871**	**5 719 364**
Debt	-	4 504 374	-	**4 504 374**
Liabilities to suppliers	10 819	515 167	-	**525 986**
Other financial liabilities	36	371 610	-	**371 646**
Derivative instruments	31	202 961	-	**202 992**
Other non-financial liabilities	-	-	24 626	**24 626**
Provisions for employee benefits	-	-	245	**245**
TOTAL EQUITY AND LIABILITIES	**10 913**	**14 213 583**	**15 288 494**	**29 512 990**

48. Other material information

Judgement 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.

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.

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. 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 other things, 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 December 10, 2019, the Company decided to complete the search for a potential investor interested in acquiring the Zakład Górniczy Janina due to the failure to receive purchase offers within the prescribed deadline. As at the balance sheet date, the Company assessed that in relation to the shares in TAURON Ciepło Sp. z o.o., the conditions resulting from IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*, as regards the classification of the above assets as held for sale, in particular the legal requirements for considering the sale of the above assets as highly probable are not met.

Main 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 were held by PSE S.A. in line with the Act on the Capacity Market of 8 December 2017. The closing price of the auction, 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 TAURON Capital Group for the financial year 2019.

49. Events after the end of the reporting period

Merger of TAURON Dystrybucja Serwis S.A. with Magenta Grupa TAURON Sp. z o.o.

On 29 October 2019, the Extraordinary General Meeting of Shareholders of TAURON Dystrybucja Serwis S.A. with its registered office in Wrocław and the Extraordinary General Meeting of Shareholders of Magenta Grupa TAURON Sp. z o.o. with its registered office in Katowice adopted resolutions on the merger of TAURON Dystrybucja Serwis S.A. (the acquirer) with Magenta Grupa TAURON Sp. z o.o. (the acquiree).

On 2 January 2020, the merger was registered in the National Court Register maintained by the District Court in Wrocław.

Additional payments to the capital of Polska Energia-Pierwsza Kompania Handlowa Sp. z o.o.

On 8 January 2020 , the Extraordinary General Meeting of Shareholders of Polska Energia-Pierwsza Kompania Handlowa Sp. z o.o. adopted a resolution on the contribution to the company's share capital in the amount of PLN 8 016 thousand. The cash was contributed by the Company on 10 January 2020.

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 three 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 filed 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 judgement 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.

Increase of issued capital in Nowe Jaworzno Grupa TAURON Sp. z o.o.

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 taken up 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 share in the issued capital and in votes at the General Meeting after the said transaction will change and will amount to 85.88%

Increase of issued capital in EEC Magenta Sp. z o.o. ASI spółka komandytowo–akcyjna

On 2 March 2020, the Extraordinary Meeting of Shareholders of EEC Magenta spółka z ograniczoną odpowiedzialnością ASI spółka komandytowo-akcyjna adopted a resolution on increasing the company's issued capital by PLN 6 thousand by creating 5 750 new shares with a nominal value of PLN 1 each. The Company acquired 1 432 shares for PLN 100 per share, i.e. for the total amount of PLN 143 thousand. On 11 March 2020, the Company provided funds for capital increase. The Company's share in the issued capital and in votes at the General Meeting after the said transaction will not change and will amount to 24.9%

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, 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 Company does not identify, as of the date of approval of these financial statements for publication, any difficulties in meeting the commissioning date described above due to the impact of the epidemic.

Signing a loan agreement with SMBC BANK EU AG

On 16 March 2020, TAURON Polska Energia S.A. concluded a loan 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 loan shall be repaid within five years from the date of conclusion of the loan agreement. The interest rate will be calculated on the basis of a fixed interest rate.

Concluding of syndicated loan agreements

On 25 March 2020, TAURON Polska Energia S.A. concluded a syndicated loan agreement, for total 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 TAURO Group's and the Company’s general corporate objectives, excluding financing of any new projects related to coal assets.

In accordance with loan agreement, the financing period is 5 years from the date of concluding 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, 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.

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 in the Company to assess the situation in particular areas of activity and to prepare detailed plans in case of disturb of 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 COVID-19 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