TAURON Polska Energia S.A.

Financial Statements
compliant with the International Financial Reporting Standards
as endorsed by the European Union
for the year ended 31 December 2020

(in PLN thousand)

STATEMENT OF COMPREHENSIVE INCOME

	Note	Year ended 31 December 2020	Year ended 31 December 2019
Sales revenue	11	11 340 464	10 680 577
Cost of sales	12	(12 101 520)	(10 431 139)
Profit (loss) on sale		**(761 056)**	**249 438**
Selling and distribution expenses	12	(20 829)	(24 036)
Administrative expenses	12	(117 509)	(121 636)
Other operating income and expenses		(10 509)	(2 664)
Operating profit (loss)		**(909 903)**	**101 102**
Dividend income	14	1 082 031	1 100 861
Interest income on loans and bonds	14	325 247	389 809
Interest expense on debt	14	(409 623)	(407 866)
Revaluation of shares	14	(589 010)	(94 920)
Revaluation of loans and bonds	14	(1 453 476)	(1 394 812)
Revaluation write-off to fair value of non-current assets classified as held for sale	14	(1 393 432)	-
Other finance income and costs	14	(179 464)	(40 381)
Loss before tax		**(3 527 630)**	**(346 207)**
Income tax expense	15.1	(62 025)	(116 623)
Net loss		**(3 589 655)**	**(462 830)**
Measurement of hedging instruments	29.4	(103 172)	15 179
Income tax expense	15.1	8 635	(2 884)
Other comprehensive income subject to reclassification to profit or loss		**(94 537)**	**12 295**
Actuarial losses	35	(1 024)	(1 388)
Income tax expense	15.1	194	264
Other comprehensive income not subject to reclassification to profit or loss		**(830)**	**(1 124)**
Other comprehensive income, net of tax		**(95 367)**	**11 171**
Total comprehensive income		**(3 685 022)**	**(451 659)**
Loss per share (in PLN):			
- basic and diluted, for net loss	16	(2.05)	(0.26)

Accounting principles (policy) and additional explanatory Notes to the financial statements form 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 2020	As at 31 December 2019
ASSETS			
Non-current assets			
Investment property	**17**	28 388	19 737
Right-of-use assets	**18**	28 012	34 177
Shares	**19**	20 152 633	21 844 183
Loans granted	**20**	4 233 601	5 047 552
Derivative instruments	**21**	36 041	20 352
Deferred tax assets	**22**	-	23 418
Other financial assets	**23**	2 541	2 348
Other non-financial assets	**24**	17 267	18 823
		24 498 483	**27 010 590**
Current assets			
Inventories	**25**	394 031	149 364
Receivables from buyers	**26**	1 301 409	1 472 462
Income tax receivables	**15.3**	82 464	255 490
Loans granted	**20**	1 147 350	265 202
Derivative instruments	**21**	122 805	85 177
Other financial assets	**23**	87 303	316 949
Other non-financial assets	**24**	12 291	6 167
Cash and cash equivalents	**27**	643 134	923 728
Non-current assets classified as held for sale	**28**	418 872	-
		4 209 659	**3 474 539**
TOTAL ASSETS		**28 708 142**	**30 485 129**

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(in PLN thousand)

STATEMENT OF FINANCIAL POSITION - CONTINUED

	Note	As at 31 December 2020	As at 31 December 2019
EQUITY AND LIABILITIES			
Equity			
Issued capital	**29.1**	8 762 747	8 762 747
Reserve capital	**29.3**	6 338 754	6 801 584
Revaluation reserve from valuation of hedging instruments	**29.4**	(78 871)	15 666
Retained earnings / (Accumulated losses)	**29.5**	(3 899 475)	(771 820)
		11 123 155	**14 808 177**
Non-current liabilities			
Debt	**31**	12 117 294	10 909 597
Other financial liabilities	**32**	14 090	15 126
Derivative instruments	**21**	73 739	16 848
Other non-financial liabilities	**34**	23 830	-
Provisions for employee benefits	**35**	4 208	5 929
Provision for an onerous contract	**36**	840 458	-
Accruals, deferred income and government grants	**38**	1 184	-
		13 074 803	**10 947 500**
Current liabilities			
Debt	**31**	2 772 339	3 607 266
Liabilities to suppliers	**33**	764 096	424 486
Other financial liabilities	**32**	233 099	272 744
Derivative instruments	**21**	101 845	107 679
Other non-financial liabilities	**34**	346 471	223 035
Provisions for employee benefits	**35**	426	292
Provision for an onerous contract	**36**	269 439	-
Other provisions	**37**	4 909	77 094
Accruals, deferred income and government grants	**38**	17 560	16 856
		4 510 184	**4 729 452**
Total liabilities		**17 584 987**	**15 676 952**
TOTAL EQUITY AND LIABILITIES		**28 708 142**	**30 485 129**

Accounting principles (policy) and additional explanatory Notes to the financial statements form 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 1 January 2019		**8 762 747**	**8 511 437**	**3 371**	**(2 017 719)**	**15 259 836**
Coverage of prior years loss		-	(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**
Coverage of prior years loss	**29.3**	-	(462 830)	-	462 830	-
Transactions with shareholders		**-**	**(462 830)**	**-**	**462 830**	**-**
Net loss		-	-	-	(3 589 655)	**(3 589 655)**
Other comprehensive income		-	-	(94 537)	(830)	**(95 367)**
Total comprehensive income		**-**	**-**	**(94 537)**	**(3 590 485)**	**(3 685 022)**
As at 31 December 2020		**8 762 747**	**6 338 754**	**(78 871)**	**(3 899 475)**	**11 123 155**

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

(in PLN thousand)

STATEMENT OF CASH FLOWS

	Note	Year ended 31 December 2020	Year ended 31 December 2019
Cash flows from operating activities			
Profit (loss) before tax		(3 527 630)	(346 207)
Depreciation and amortization		14 522	13 257
Interest and dividends net		(973 218)	(950 609)
Impairment losses on shares		589 010	94 920
Impairment losses on bonds and loans		1 453 476	1 394 812
Revaluation write-off to fair value of non-current assets classified as held for sale		1 393 432	-
Exchange differences		303 464	(36 014)
Other adjustments of profit before tax		(84 178)	24 134
Change in working capital	**39.1**	1 738 680	(633 078)
Income tax paid		(112)	(59 485)
Net cash from operating activities		**907 446**	**(498 270)**
Cash flows from investing activities			
Purchase of bonds		-	(420 000)
Loans granted	**39.2**	(1 933 932)	(1 281 444)
Purchase of shares	**39.2**	(690 623)	(863 047)
Other		(15 989)	(2 860)
Total payments		**(2 640 544)**	**(2 567 351)**
Redemption of bonds		-	1 190 000
Dividends received		1 082 031	1 100 861
Investment fund units alienation		26 747	-
Repayment of loans granted	**39.2**	216 558	15 600
Interest received	**39.2**	226 638	335 316
Other		32	273
Total proceeds		**1 552 006**	**2 642 050**
Net cash from investing activities		**(1 088 538)**	**74 699**
Cash flows from financing activities			
Repayment of loans	**39.3**	(4 401 918)	(862 318)
Redemption of debt securities		(60 400)	(2 420 000)
Payment of lease liabilities		(9 288)	(8 566)
Interest paid	**39.3**	(379 871)	(405 881)
Commission paid		(21 295)	(18 710)
Total payments		**(4 872 772)**	**(3 715 475)**
Issue of debt securities		1 000 000	500 000
Contracted loans	**39.3**	3 360 000	5 150 000
Total proceeds		**4 360 000**	**5 650 000**
Net cash from financing activities		**(512 772)**	**1 934 525**
Net increase / (decrease) in cash and cash equivalents		**(693 864)**	**1 510 954**
Net foreign exchange difference		2 803	(239)
Cash and cash equivalents at the beginning of the period	**27**	**(49 080)**	**(1 560 034)**
Cash and cash equivalents at the end of the period, *of which:*	**27**	**(742 944)**	**(49 080)**
restricted cash	**27**	119 240	593 682

Accounting principles (policy) and additional explanatory Notes to the financial statements form 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, ul. Piotra Ściegiennego 3, whose shares are publicly traded.

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

The entity has been assigned the 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. focuses on:

- 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. Capital Group. ("The Group, the TAURON Group").

The financial statements prepared by the Company cover the financial year ended 31 December 2020 and include comparative figures for the year ended 31 December 2019. These financial statements were approved for publication by the Management Board on 29 March 2021.

The Company has also prepared consolidated financial statements for the year ended 31 December 2020, which were approved for publication by the Management Board on 29 March 2021.

Composition of the Management Board

As at 1 January 2021, 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 14 July 2020, the Supervisory Board dismissed all members of the Management Board of the Company in its former composition, with effect as of the end of 14 July 2020.

At the same time, the Supervisory Board of the Company appointed as of 15 July 2020 the Management Board composed of:

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

After the balance sheet day, on 28 February 2021, Mr. Wojciech Ignacok resigned from his position of President of the Management Board of TAURON Polska Energia S.A. On 24 February 2021, the Supervisory Board of the Company adopted a resolution concerning the assignment of the duties of the President of the Management Board of the Company to Mr Marek Wadowski from 1 March 2021 until the date of the appointment of the President of the Management Board of the Company.

2. Shares in related parties

As at 31 December 2020, TAURON Polska Energia S.A. held, directly and indirectly, 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	85.88%	85.88%
4	TAURON Ciepło Sp. z o.o.	Katowice	Production and distribution of heat	100.00%	100.00%
5	TAURON Serwis Sp. z o. o.	Katowice	Services	95.61%	95.61%
6	TAURON Ekoenergia Sp. z o.o.	Jelenia Góra	Generation of electricity	100.00%	100.00%
7	Marselwind Sp. z o.o.	Katowice	Generation of electricity	100.00%	100.00%
8	TEC1 Sp. z o.o.	Katowice	Head office and holding operations	100.00%	100.00%
9	TEC2 Sp. z o.o.	Katowice	Head office and holding operations	100.00%	100.00%
10	TEC3 Sp. z o.o.	Katowice	Head office and holding operations	100.00%	100.00%
11	TEC1 spółka z ograniczoną odpowiedzialnością Mogilno I sp.k.	Katowice	Generation of electricity	n/a	100.00%
12	TEC1 spółka z ograniczoną odpowiedzialnością Mogilno II sp.k.	Katowice	Generation of electricity	n/a	100.00%
13	TEC1 spółka z ograniczoną odpowiedzialnością Mogilno III sp.k.	Katowice	Generation of electricity	n/a	100.00%
14	TEC1 spółka z ograniczoną odpowiedzialnością Mogilno IV sp.k.	Katowice	Generation of electricity	n/a	100.00%
15	TEC1 spółka z ograniczoną odpowiedzialnością Mogilno V sp.k.	Katowice	Generation of electricity	n/a	100.00%
16	TEC1 spółka z ograniczoną odpowiedzialnością Mogilno VI sp.k.	Katowice	Generation of electricity	n/a	100.00%
17	TEC1 spółka z ograniczoną odpowiedzialnością EW Śniatowo sp.k.	Katowice	Generation of electricity	n/a	100.00%
18	TEC1 spółka z ograniczoną odpowiedzialnością EW Dobrzyń sp.k.	Katowice	Generation of electricity	n/a	100.00%
19	TEC1 spółka z ograniczoną odpowiedzialnością EW Gołdap sp.k.	Katowice	Generation of electricity	n/a	100.00%
20	TEC1 spółka z ograniczoną odpowiedzialnością Ino 1 sp.k.	Katowice	Generation of electricity	n/a	100.00%
21	WIND T1 Sp. z o.o.[1]	Pieńkowo	Generation of electricity	100,00%	100,00%
22	AVAL-1 Sp. z o.o.[1]	Jelenia Góra	Generation of electricity	100,00%	100,00%
23	TAURON Dystrybucja S.A.	Kraków	Distribution of electricity	99.75%	99.75%
24	TAURON Dystrybucja Pomiary Sp. z o.o.[2]	Tarnów	Services	99.75%	99.75%
25	TAURON Sprzedaż Sp. z o.o.	Kraków	Sale of electricity	100.00%	100.00%
26	TAURON Sprzedaż GZE Sp. z o.o.	Gliwice	Sale of electricity	100.00%	100.00%
27	TAURON Czech Energy s.r.o.	Ostrawa, Czech Republic	Sale of electricity	100.00%	100.00%
28	TAURON Nowe Technologie S.A.[3]	Wrocław	Services	100.00%	100.00%
29	TAURON Obsługa Klienta Sp. z o.o.	Wrocław	Services	100.00%	100.00%
30	Kopalnia Wapienia Czatkowice Sp. z o.o.	Krzeszowice	Limestone quarrying and stone quarrying	100.00%	100.00%
31	Polska Energia-Pierwsza Kompania Handlowa Sp. z o.o.	Warszawa	Sale of electricity	100.00%	100.00%
32	Finanse Grupa TAURON Sp. z.o.o.	Katowice	Services	100.00%	100.00%
33	Bioeko Grupa TAURON Sp. z o.o.	Stalowa Wola	Wholesale of fuel and derivative products	100.00%	100.00%
34	Wsparcie Grupa TAURON Sp. z o.o.[2]	Tarnów	Services	99.75%	99.75%

[1] TAURON Polska Energia S.A. holds indirect interest in WIND T1 Sp. z o.o. and AVAL-1 Sp. z o.o. through its subsidiary, TAURON Ekoenergia Sp.z o.o..
[2] TAURON Polska Energia S.A. holds indirect interest in TAURON Dystrybucja Pomiary Sp. z o.o. and Wsparcie Grupa TAURON Sp. z o.o. through its subsidiary, TAURON Dystrybucja S.A. TAURON Polska Energia S.A. is a usufructuary of TAURON Dystrybucja Pomiary Sp. z o.o. shares
[3] On 1 June 2020, the company name was changed from TAURON Dystrybucja Serwis S.A. to TAURON Nowe Technologie S.A.

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

In the year ended 31 December 2020, the capital of the subsidiary, Nowe Jaworzno Grupa TAURON Sp. z o.o. was increased, as further described in Note 19 to these financial statements. As at 31 December 2020, the share of the Company in the capital and in the governing body was 85.88% (as at 31 December 2019 - 84.76%).

Acquisition of AVAL-1 Sp. z o.o. and WIND T-1 Sp. z o.o. companies by the subsidiary - TAURON Ekoenergia Sp. z o.o.

In the year ended 31 December 2020, the subsidiary - TAURON Ekoenergia Sp. z o.o. acquired 100% shares in two companies carrying out investment tasks in the area of generating electricity from renewable energy sources: AVAL-1 Sp. z o.o. and WIND T-1 Sp. z o.o. Consequently, TAURON Polska Energia S.A. holds an indirect interest of 100% in both these companies. In the Company's opinion, AVAL-1 Sp. z o.o. and WIND T1 Sp. z o.o. companies do not constitute a business within the meaning of IFRS 3 *Business Combinations*, therefore the transaction of acquisition of the companies was accounted for as an acquisition of assets other than assets constituting a business.

As at 31 December 2020, the share of TAURON Polska Energia S.A. in the capital and in the governing body of the remaining key subsidiaries and jointly-controlled entities has not changed since 31 December 2019.

As at 31 December 2020, 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 issued 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 an indirect share in Elektrociepłownia Stalowa Wola S.A. through its subsidiary, TAURON Wytwarzanie S.A.
[2] TAURON Polska Energia S.A. holds a direct share in the issued capital and in the governing body of TAMEH HOLDING Sp. z o.o., which holds 100% interest in the issued capital and in the governing body of TAMEH POLSKA Sp. z o.o. and TAMEH Czech s.r.o.

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 comprise standards and interpretations approved by the International Accounting Standards Board ("IASB") as well as the International Financial Reporting Interpretation 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, i.e. in the period not shorter than 1 year from the balance sheet date. 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.

In the year ended 31 December 2020, the COVID-19 pandemic developed in the area of operations of the Group, disrupting the economic and administrative system in Poland and triggering significant changes in the market environment potentially affecting the financial position of the Group and the Company. The Management Board has analysed the situation in the context of COVID-19 and, based on the scenarios considered, at present it does not identify any risks for the continuity of the Group as a going concern in the foreseeable future, i.e. in the period not shorter than 1 year from the balance sheet date, in the areas of liquidity, financing and securing the hedging of continuing operations, taking into account the description of the impact of the COVID-19 pandemic on the Group's activities, as further described in Note 51 of these financial statements.

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 provided in PLN thousand, unless stated otherwise.

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

The significant accounting principles are presented in the Notes to these financial statements.

When applying the accounting policy, the professional judgement of the management, along with accounting estimates, have been of key importance, affecting the figures disclosed in these financial statements and in the explanatory Notes. The assumptions underlying the estimates are 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, no significant changes occurred in the estimates or estimation methods applied, which could affect the current or future periods, other than those described below 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 described in individual Notes to these financial statements. The most significant estimates refer to impairment losses on shares in subsidiaries and intercompany loans, as presented in detail in Notes 10, 19 and 20 to these financial statements.

Additionally, the Company makes significant estimates as regards the contingent liabilities recognised, in particular as regards litigation the Company is a party to. Contingent liabilities are presented in detail in Note 43 hereof.

Impact of COVID-19 on the level of expected credit losses and fair value measurement of financial instruments

Impact of COVID-19 on the level of expected credit losses of receivables from customers

Estimates and assumptions

With respect to receivables from customers, the Company estimates the amount of the allowance for expected credit losses based on the probability-weighted credit loss that will be incurred if any of the following events:

• there will be a significant (material) delay in payment,

• the debtor will be put into liquidation or bankruptcy or restructuring,

• the claims will be submitted to administrative enforcement, court proceedings or judicial execution.

For receivables from buyers, the Company has separated the portfolio of strategic counterparties and the portfolio of other counterparties. The risk of insolvency of strategic counterparties is assessed on the basis of ratings assigned to counterparties using an internal scoring model, appropriately transformed into the probability of default, taking into account the estimates of potential recoveries from the collateral provided.

In the case of receivables from other counterparties, it is expected that adjusted historical default data may reflect the credit risk that will be incurred in future periods. The expected credit losses for this group of counterparties have been estimated using an aging matrix of receivables, and percentage ratios assigned to particular ranges and groups (including, among others, receivables claimed in court, receivables from counterparties in bankruptcy) to estimate the value of receivables from buyers that are not expected to be repaid.

COVID-19 impact on the methodology of estimates and assumptions

The economic impact of COVID-19 is expected to affect the quality of the Company portfolios of financial assets and reduce the level of repayment of receivables from buyers. The projected impact varies depending on the economic sector in which the counterparty operates. Due to the uncertainty related to further development of COVID-19 and the expected impact of aid programs, the possibility of precise estimation of future repayment of receivables from buyers is limited.

In order to take into account the impact of future factors (including COVID-19) on the portfolio of strategic and other customers, the Company has performed:

• updating of the expected credit loss model parameters with respect to the terms of appropriate factors and recovery rate,

• includes a forecasting approach (forward-looking rate).

COVID-19 impact on the level of estimates performed

The estimates taking into account the uncertainties related to the effect of COVID-19 on the expected credit losses with regard to receivables from buyers amounted to PLN 7 530 thousand, which affected the burden on the Company's operating result for the year ended 31 December 2020. The total expected credit loss as at 31 December 2020 calculated for receivables from customers (excluding receivables claimed at court) was estimated at PLN 8 443 thousand.

The Company assumes that the volume of data available for analysis in future periods will grow and allow for extending the scope of analysis for expected credit losses for the next financial statements.

Impact of COVID-19 on the level of expected credit losses and fair value measurement on loans granted and the guarantee issued

Estimates and assumptions

For loans classified as assets measured at amortized cost, the Company estimates the amount of write-offs revaluating their value. The risk of borrowers' insolvency is estimated on the basis of ratings assigned to counterparties using an internal scoring model, appropriately transformed into probability of default, taking into account the time value of money.

The measurement of a loan classified as an asset measured at fair value is estimated as the present value of future cash flows, taking into account the borrower's credit risk.

The guarantees issued are estimated at the amount of expected credit losses.

(in PLN thousand)

COVID-19 impact on the methodology of estimates and assumptions

In order to take into account the impact of future factors (including COVID-19), the Company made adjustments to the probability of expected credit losses based on Credit Default Swap (CDS) quotations, diversified according to the internal counterparty rating.

COVID-19 impact on the level of estimates performed

The effect of considering the impact of COVID-19 on the estimation methodology for financial instruments where the Company was able to perform appropriate calculations resulted in the following changes affecting jointly the financial expenses of the Company in the year ended 31 December 2020 in the amount of PLN 19 619 thousand:

• an increase in expected credit losses calculated for loans granted by the amount of PLN 5 122 thousand (including loans granted to subsidiaries by the amount of PLN 5 079 thousand, receivables due to cash pool loans by the amount of PLN 43 thousand),

• an increase in expected credit losses calculated for contingent liabilities under the guarantee issued by the Company by the amount of PLN 14 497 thousand, which according to IFRS 9 *Financial Instruments* was recognised as an increase in financial liabilities.

As at the balance sheet date, in the context of the analyses and the valuation of the loans granted to Elektrociepłownia Stalowa Wola S.A., the Company assessed that it was unable to reliably determine the impact of COVID-19 on the reduction of the carrying amount of the loans granted to Elektrociepłowni Stalowa Wola S.A.

The Company assumes that the volume of data available for analysis in future periods will increase and will allow to extend the scope of analysis for the expected credit losses for the needs of the next financial statements.

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

The Company did not choose earlier application of any standards, amendments to standards or interpretations which were published, but have not yet entered into force up to 31 December 2020.

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

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

Standard	Effective in the EU as of *(annual periods beginning on or after the date provided)*
Amendments to IFRS 4 *Insurance Contracts*	1 January 2021
Amendments to IFRS 9 *Financial Instruments*, IAS 39 *Financial Instruments: Recognition and Measurement*, IFRS 7 *Financial Instruments: Disclosures*, IFRS 4 I*nsurance Contracts* and IFRS 16 *Leases*: *Interest Rate Benchmark Reform*	1 stycznia 2021

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

Amendments to IAS 1 *Presentation of Financial Statements: Classification of Liabilities as Current or Non-current,* which are to enter into force on 1 January 2023

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

As at the balance sheet day, the Company has revolving credit agreements under which the drawing period of the credit tranches is equal to or less than 1 year, while the period of availability of funding exceeds 12 months from the balance sheet date and the Company has the right to defer the liability by at least 12 months from the end of the reporting period. In the case of these credit agreements, the Company classifies the tranches as either a non-current liability or a current liability in accordance with the expectation regarding the repayment of the liability. As at 31 December 2020, taking into account the intentions of the Company, tranches with an aggregate nominal value of PLN 1,000,000 thousand are classified as current liabilities. Under the agreement, the Company has the right to defer the settlement of a liability for a period exceeding 12 months, thus in line with the amendments to IAS 1 *Presentation of Financial Statements* the said liability would be classified as a non-current liability.

(in PLN thousand)

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*
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 IFRS 3 *Business Combinations:* Changes to references to the Conceptual Framework	1 January 2022
Amendments to IAS 16 *Property, Plant and Equipment: Revenues earned before putting into use*	1 January 2022
Amendments to IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*	1 January 2022
Annual Improvements to IFRS (Cycle 2018-2020):	
IFRS 1 *First-time Adoption of International Financial Reporting Standards*	1 January 2022
IFRS 9 *Financial Instruments*	1 January 2022
IAS 41 *Agriculture*	1 January 2022
Amendments to IAS 1 *Presentation of Financial Statements* and IFRS Practice Statement 2: *Disclosure of Accounting Estimates*	1 January 2023
Amendments to IAS 8 *Accounting policies, Changes in Accounting Estimates and Errors: Definition of Accounting Estimates*	1 January 2023
IFRS 17 *Insurance contracts*	1 January 2023

* *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.*

8. 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 2019, except for the application of the new standards and amendments to standards and the interpretation as discussed below.

According to the Management Board, the following standards and amendments to standards have not materially impact the accounting policy 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 IFRS 3 *Business Combinations: Definition of a Business*	1 January 2020
Amendments to References to the Conceptual Framework in IFRS	1 January 2020
Amendments to IFRS 16 *Leasing*	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

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 “Sales” segment mainly recognises assets, liabilities revenues and operating costs related to sales of electricity, gas, fuels and commodity derivative instruments. The “Sales” segment includes liabilities and costs related to the provision for onerous contracts created by the Company.

The assets of the “Holding activities” segment are mainly:

- shares in subsidiaries and jointly-controlled entities;
- cash pool loan receivables from related parties, including a cash pool deposit;
- receivables arising from other loans granted to related parties;
- assets arising from valuation of hedging instruments relating to the incurred financing.

As at 31 December 2020 in the segment "Holding operations" the segment's assets also include shares in the subsidiary TAURON Ciepło Sp. z o.o. and shares in PGE EJ 1 Sp. z o.o., which have been classified as fixed assets held for sale.

The liabilities of the “Holding activity” segment are:

- bonds issued by the Company, credits received (except for credits in the account) and liabilities resulting from the valuation of hedging instruments related to the incurred financing;
- 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 revaluation write-offs on shares and stocks and loans (in the comparable period also write-offs on bonds), 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 before tax, finance income and finance costs, i.e. operating profit (loss).

EBITDA is the profit/loss before tax, finance income and finance costs, increased by amortisation/depreciation and revaluation write-offs on non-financial assets.

(in PLN thousand)

Year ended 31 December 2020

	Sales	Holding activity	Unallocated items	Total
Revenue				
Sales outside the Group	1 534 327	-	-	**1 534 327**
Sales within the Group	9 806 132	5	-	**9 806 137**
Segment revenue	**11 340 459**	**5**	**-**	**11 340 464**
Profit/(loss) of the segment	**(788 288)**	**(4 106)**	**-**	**(792 394)**
Unallocated expenses	-	-	(117 509)	**(117 509)**
EBIT	**(788 288)**	**(4 106)**	**(117 509)**	**(909 903)**
Revaluation of shares	**-**	(589 010)	**-**	**(589 010)**
Revaluation of loans	**-**	(1 453 476)	-	**(1 453 476)**
Revaluation write-off to fair value of non-current assets classified as held for sale	**-**	(1 393 432)	**-**	**(1 393 432)**
Other net finance income/(costs)	-	687 111	131 080	**818 191**
Profit/(loss) before income tax	**(788 288)**	**(2 752 913)**	**13 571**	**(3 527 630)**
Income tax expense	-	-	(62 025)	**(62 025)**
Net profit/(loss) for the period	**(788 288)**	**(2 752 913)**	**(48 454)**	**(3 589 655)**
Assets and liabilities				
Segment assets	2 578 505	25 974 415	-	**28 552 920**
Unallocated assets	-	-	155 222	**155 222**
Total assets	**2 578 505**	**25 974 415**	**155 222**	**28 708 142**
Segment liabilities	2 359 838	14 955 850	**-**	**17 315 688**
Unallocated liabilities	-	-	269 299	**269 299**
Total liabilities	**2 359 838**	**14 955 850**	**269 299**	**17 584 987**
EBIT	**(788 288)**	**(4 106)**	**(117 509)**	**(909 903)**
Depreciation/amortization	**(14 522)**	**-**	**-**	**(14 522)**
Impairment	**(991)**	**-**	**-**	**(991)**
EBITDA	**(772 775)**	**(4 106)**	**(117 509)**	**(894 390)**
Other segment information				
Capital expenditure *	16 375	-	-	**16 375**

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

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 loans and bonds	-	(1 394 812)	-	**(1 394 812)**
Other 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 period	**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.*

The loss of the “Sales” segment in the year ended 31 December 2020 results mainly from the creation by the Company of a provision for onerous contract in the amount of PLN 1 109 897 thousand, which is described in more detail in Note 36 to these financial statements.

In the financial year ended 31 December 2020, revenue from sales to two major clients belonging to TAURON Group accounted for 70% and 10% of the Company's total revenue in the “Sales” segment and amounted to PLN 7 942 404 thousand and PLN 1 082 379 thousand, respectively.

In the financial year ended 31 December 2019, revenue from sales to two major clients from the TAURON Group constituted 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.

9.2. Geographical areas of operations

The activity of the Company is mostly carried out on the territory of Poland. In the years ended 31 December 2020 and 31 December 2019, export sales amounted to PLN 22 723 thousand and PLN 35 974 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 cover shares in subsidiaries, 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.

The Company recognizes an allowance for expected credit losses on debt instruments measured at amortized cost in accordance with the approach described in Notes 20 and 41.1.2. of these financial statements, and revises the fair value for debt and equity instruments measured at fair value. Credit risk analyzes carried out as at the balance sheet date include, i.a. estimating future cash flows that may indicate impairment due to credit risk (measurement step 3).

As at 31 December 2020, the Company carried out impairment tests focusing on shares in subsidiaries, as well as analyses of the valuation of intra-group loans, 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 prices of CO_2 emission allowances;
- significant fluctuations of energy prices on the future/forward market;
- decline in the domestic electricity consumption due to rising winter temperatures and the impact of the COVID-19 pandemic;
- 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-fired units to participate in the power market after 1 July 2025;
- tightening of emission standards persisting unfavourable market conditions for the conventional power industry;
- a decrease in the risk-free rate.

Total exposure to subsidiaries, including apart from shares also intra-group loans, accounted for about 88% 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 2030 and the estimated residual value, excluding power generating and mining units for which detailed projections cover the entire period of their operation.

(in PLN thousand)

The operation of mining units was assumed until 2049. Compared to the tests carried out as at 31 December 2019, the current projections assume: reduction in the operating period of the ZG Sobieski and ZG Janina (originally 2060, now 2049); reduction in the operating period of the ZG Brzeszcze (originally 2059, now 2040).

The operation of TAURON Wytwarzanie S.A. generation units was assumed until 2035. In relation to the tests carried out as at 31 December 2019, the current projections assume: early withdrawal of one of the unit in Jaworzno III Unit with the capacity of 225 MWe (originally 2029, now 2025) and taking over production by two units in Jaworzno III Unit with the total capacity of 445 MWe; early withdrawal of two units in Jaworzno III Unit with the total capacity of 445 MWe (originally 2029, now 2028); early withdrawal of units 2 and 3 in Jaworzno II Unit (originally 2038, now 2030); early withdrawal of unit 10 in Łagisza Unit with a capacity of 460 MWe (originally 2042, now 2035). The operation of the Nowe Jaworzno Grupa TAURON Sp. z o.o. generation unit was assumed until 2060. The forecast for hydroelectric power plants covers the period until 2066 while for wind farms - until 2040.

The use of forecasts longer than 5 years results in particular from long-term investment processes in the energy sector. The macroeconomic and sector-oriented assumptions adopted for projections are updated as frequently as any indications for their modification are observed on the market. The projections also take into account changes in the regulatory environment known as at the date of the test.

Key assumptions in the scope of tests performed as at 31 December 2020

Category	Description
Coal	Coal prices show a nominal upward trend in the coming three years. The price will be subject to a nominal upward pressure resulting from the sustainable upward trends observed in the domestic mining cost. However, in the long term (2025-2040), coal prices willdecrease due to the accelerated implementation of the decarbonisation policy promoted by the European Union, aimed at reaching the climate neutrality in Europe by 2050. Its manifestation is the definite abandonment of coal by individual countries (including Germany, the Czech Republic and Poland). Another of its aspects is the increase in the share of energy from RES sources in the energy balance of European Union Member States. After 2025, the price of coal in Poland will start to fall, as a result of a decline in electricity generation with using of this raw material as well as an expected increase in import volumes in view of high levels of mining cost in the country. A real decrease in power coal prices by 0.6% was assumed in the years 2021-2040.
Electricity	The electricity wholesale price projections for the years 2021-2040, due to uncertainties about the final shape of the market architecture and the introduction of the scarcity pricing mechanism has been updated and adapted in the first period to the current market price levels for 2021-2023. Between 2024 and 2040, the wholesale electricity price (in constant prices) will increase by 16.8%. The forecast of wholesale electricity prices is affected by the current and expected situation in the national power system, fuel price forecasts and the costs of purchase of CO_2 emission allowances. In 2021, a slight increase in energy prices by 1.5% compared to 2020 was assumed due to, among others, the anticipated further impact of the COVID-19 pandemic on fuel prices and declining levels of margins earned on the sales of electricity from coal-fired sources. The increase in prices by 2029 results from the growth in prices of CO_2 emission allowances and planned shutdowns of coal-fired and nuclear units in Germany directly affecting the level of the interconnection exchange balance. Relative to 2021, the price increase projected to 2029 is 12.9%, whereas in the years 2030-2040 a price increase of 4.4% relative to 2029 has been 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 the expected level of margin.
CO_2	CO_2 emission limits for heat generation have been adopted in line with the regulation of the Council of Ministers and adjusted by the level of operations, i.e. generation of heat. The CO_2 emission allowances price growth path has been adopted throughout the forecasting horizon. In 2021, the 2% higher price of CO_2 emission allowances has been assumed compared to the average price in 2020. In the years 2022-2026, the stabilisation of CO_2 emission allowances prices was assumed at a level of EUR 30/Mg (EUR 28/Mg in fixed prices) due to the announced lack of the European Commission intervention in the EU ETS until at least 2026. In the years 2026-2028, CO_2 emission allowances price will increase by 16.6% due to the assumption of an increase in the Linear Reduction Factor (LRF) to the minimum level of 3.5% from the current 2.2% and higher emission reduction targets by 2030. The projected CO_2 emission allowances price in 2029 compared to the average price in 2020 will be higher by 42.6%. In the years 2029-2040, a further increase in prices of CO_2 emission allowances relative to 2028 (in fixed prices) has been assumed, totalling by 31.9%. This results from the assumed increase in the economy decarbonisation rate and the strive to reach climate neutrality for Europe in 2050.
Energy dertificates	The price path assumed for emission certificates and the obligatory redemption in the subsequent years are based on the Act on Renewable Energy Sources.

Category	Description
Capacity 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 units that received multi-annual contracts until 31 December 2019 but not meet the EPS 550 criterion, maintaining of payments until the end of the contract effectiveness period has been assumed.
RES	Limited support periods for green energy have been assumed in accordance with the Act on Renewable Energy Sources, which provides for new support mechanisms for renewable energy. The support period has been limited to 15 years as from the date of the first supply of electricity qualifying for an energy certificate to the network.
WACC	The weighted average cost of capital (WACC) during the projection period, for particular CGUs, as used in the calculations, ranges from 6.44% to 14.99% in nominal terms before tax, taking into account the risk free rate determined by reference to the yield on 10-year treasury bonds (1.99%) and the risk premium for operations appropriate for the power industry (6.75%). 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 2020 increased compared to the level as at 31 December 2019 in the Generation and Mining segments, mainly due to recognising the additional risks specific to coal assets, whereas its decline was recorded in the RES and Distribution sectors, mainly due to the fall in the risk-free rate.
Regulated 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. In the years 2021-2030, an increase in electricity supplies by 1.15% year-on-year has been assumed.
Sales volume and production capacity	The assumed sales volume to end customers was based on GDP growth, the competitive situation on the market, a significant increase in financial costs (trade credit costs) charged to the sales companies. This resulted in a decrease in volume in the years 2021-2023. From 2024, it is planned to gradually recover the lost volume. Periods of economic utility of fixed assets and maintenance of production capacity as a result of replacement and development investments were taken into account.

At the Court of Justice of the European Union, a complaint against the European Commission's decision on the conformity of the Capacity Market Act with the European law is pending. In the opinion of the Management Board, the risk of settlement resulting in the lack of possibilities of the Capacity Market functioning in Poland is low, even in the case of temporary suspension of the Capacity Market, therefore the implementation of the Capacity Market mechanism was taken into account, in accordance with the adopted and notified Act on the Capacity Market and the Capacity Market Rules.

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

Necessity to impairment losses on shares in TAURON Wydobycie S.A. and TAURON Ekoenergia Sp. z o.o. and decrease in the balance sheet value of loans granted to TAURON Wydobycie S.A. and Elektrociepłownia Stalowa Wola S.A. as further described in Note 20 hereto, resulted in particular from:

- an increase in the prices of CO_2 emission allowances resulting from a change in the nature of the market, the reform of the EU ETS system as well as the climate policy of the European Union strongly targeted at accelerating the pace of decarbonisation in pursuit of the climate neutrality of Europe,
- the projected decline in market margins in the short to mid-term perspective as a result of growing prices of CO_2 emission allowances and an increasing share of renewable energy sources and new, more effective conventional sources in the domestic energy mix, which negatively affects the forecast energy prices,
- reduced projected demand for power coal as a result of progressive decarbonisation in Europe and limiting the period of operation of hard coal mines in connection with the adjustment to the energy policy of Poland,
- changes in the assumed periods of cash flow generation by companies above, as described in detail above.

Sensitivity analysis for the Mining and Generation units

Sensitivity analyses conducted by the Company reveal that the projected prices of electricity, those of CO_2 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. The table below presents the estimated changes in write-offs on shares and changes in the value of intra-group loans in mining and generation companies recognising also the impact of its reversal as at 31 December 2020 as a result of changes in the most significant assumptions, are presented below.

Parameter	Change	Impact on the value of financial assets *(in PLN million)*					Impact on the value of financial assets *(in PLN million)*	
		TAURON Wydobycie S.A.	TAURON Wytwarzanie S.A.		TAURON Ekoenergia Sp. z o.o.			
		Decrease of impairment loss (net)	Increase of impairment loss (net)	Decrease of impairment loss (net)	Increase of impairment loss (net)	Decrease of impairment loss (net)	Increase of impairment loss (net)	Decrease of impairment loss (net)
Change of electricity prices in the forecast period	+1%	-	-	102	-	24	-	126
	-1%	7	102	-	24	-	119	-
Change of CO_2 emission allowances prices in the forecast period	+1%	-	46	-	-	-	46	-
	-1%	-	-	46	-	-	-	46
Change of WACC (net)	+0.1 p.p.	-	59	-	16	-	75	-
	-0.1 p.p.	15	-	60	-	17	-	92
Change of coal prices in the forecast period	+1%	69	43	-	-	-	-	26
	-1%	-	-	43	-	-	-	43
No revenue from the Capacity Market	-100%	-	763	-	49	-	812	-

Results of the tests and loans granted valuation analyses

The impairment tests carried out in line with IAS 36 *Impairment of Assets* as at 31 December 2020 indicated impairment losses on the carrying amount of shares and loans of TAURON Wytwarzanie S.A. and TAURON Ekoenergia Sp. z o.o. Moreover, the analyses performed indicated the legitimacy of reducing the carrying amount of the loans granted by the Company to TAURON Wydobycie S.A. and to Elektrociepłownia Stalowa Wola S.A. to a value of respectively PLN 0 and PLN 98 713 thousand, as further described in Note 20 hereto.

Company	WACC* assumed in tests as at			Recoverable amount of shares, intra-group loans	The amount of the recognized impairment losses on shares	The amount of the reduction in the carrying amount of the loans
	31 December 2020	30 June 2020 *(unaudited)*	31 December 2019	As at 31 December 2020	Year ended 31 December 2020	
TAURON Wydobycie S.A.	14.85%	14.99%	14.01%	(11 936)	-	(312 312)
TAURON Wytwarzanie S.A.	9.47%	9.49%	8.60%	762 611	(194 467)	-
TAURON Ekoenergia Sp. z o.o.	8.00%	8.31%	8.76%	1 716 440	(376 106)	-
Elektrociepłownia Stalowa Wola S.A.	10.06%	8.78%	8.58%	98 713	-	(235 714)
Total					**(570 573)**	**(548 026)**

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

EXPLANATORY NOTE 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 recognised in 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 recognised 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.

The revenue includes amounts the Company expects to receive from sales of electricity, gaseous fuels, CO_2 emission allowances and other products, adjusted by granted rebates, discounts and excise duty.

Revenue from sales of goods includes the total positive result on transactions on CO2 emission allowances, concluded within the trading portfolio, i.e. intended for sale and to accomplish 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 CO_2 emission allowances.

(in PLN thousand)

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 the purchase and sales of other commodities.

	Year ended 31 December 2020	Year ended 31 December 2019
Revenue from sales of goods for resale and materials	**11 199 496**	**10 526 854**
Electricity	10 513 901	9 468 482
Gas	333 414	347 631
CO_2 emission allowances	339 632	701 607
Other	12 549	9 134
Rendering of services	**140 968**	**153 723**
Trading income	107 672	110 256
Using trademark	26 960	37 466
Other	6 336	6 001
Total	**11 340 464**	**10 680 577**

The increase in revenue on sales of electricity in the year ended 31 December 2020 compared to the comparative period is mainly related to the accomplishment of sales of contracted energy in the forward electricity market at a higher volume with a simultaneous higher price. The increase in volume is a result of higher electricity volumes sold to generation companies in order to perform the concluded contracts and a decline in the volume to companies of the Sales segment as a result of lower demand.

The decrease in revenue on sales of CO_2 emission allowances is a result of the sale in 2019 of a larger volume of allowances for the redemption needs of TAURON Wytwarzanie S.A. and TAURON Ciepło Sp. z o.o. compared to 2020. The above-mentioned decrease is the result of a change in the Company strategy in the scope of securing the redemption needs related to CO_2 emission allowances of the Generation area, accordingly, the sale of CO_2 emission rights under the redemption obligation of 2020 took partly place in 2020, however, a significant volume will be sold in March 2021.

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. The Company recognises revenue from agency services (supply management) in the trading income in rendering of services. In the year ended 31 December 2020, the value of raw materials purchased and subsequently resold as a result of the aforementioned transactions amounted to PLN 1 403 938 thousand. The Company recognised revenue of PLN 33 413 thousand on account of the agency service.

12. Expenses by type

SELECTED ACCOUNTING PRINCIPLES

The Company presents costs by function.

They include:

- cost of goods, materials and services sold incurred during a given reporting period, including any impairment losses on property, plant and equipment, intangible assets, right-of-use assets, receivables and inventories,
- total selling and distribution expenses, and administrative expenses incurred in the reporting period (recognised 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 accomplish 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 affect 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 affect the profit or loss in the portion pertaining to the given reporting period, and match the revenue or other economic benefits.

(in PLN thousand)

	Year ended 31 December 2020	Year ended 31 December 2019
Depreciation of property, plant and equipment, right-of-use assets and amortization of intangible assets	(14 522)	(13 257)
Materials and energy	(1 790)	(1 533)
External services	(41 177)	(47 064)
Taxes and charges	(5 869)	(4 605)
Employee benefits expense	(96 085)	(101 710)
Advertising expenses	(17 011)	(23 943)
Other	(8 269)	(2 862)
Total costs by type	**(184 723)**	**(194 974)**
Costs of performances intended for internal purposes	250	162
Selling and distribution expenses	20 829	24 036
Administrative expenses	117 509	121 636
Cost of goods for resale and materials sold	(12 055 385)	(10 381 999)
Cost of sales	**(12 101 520)**	**(10 431 139)**

In the year ended 31 December 2020, the cost of goods for resale and materials sold increased by PLN 1 670 381 thousand compared to the comparable period, mainly due to:

- recognition of the effects of creating a provision for an onerous contract in the amount of PLN 1 109 897 thousand, as further described in Note 36 hereto;
- purchase of a higher volume of electricity at higher average electricity purchase prices. At the same time, a decrease in the cost of resold CO2 emission allowances occurred, which mainly results from the sale of a lower volume in 2020 compared to 2019 due to the postponement of the sale of CO2 emission allowances from December 2020 to March 2021;
- effects of the change in the strategy for securing the redemption needs for CO2 emission allowances of the Generation area. The transactions concluded as part of the implementation of the strategy change had an impact on charging the value of the Company goods for resale and materials sold in the amount of PLN 123 792 thousand.

As part of its management of the portfolio of CO_2 emission allowances of its subsidiaries, the Company purchases allowances for redemption purposes of the Group's generation companies. The main purpose of concluding the above-mentioned transactions by the Company is to secure the expected volume and cost of purchase of CO_2 emission allowances, which the Group's generating companies are obliged to redeem. In the first quarter of 2020, the Group decided to change its strategy in the scope of hedging the redemption needs of the Generation area, consisting of a one-off swap of exchange contracts with a delivery date in December 2020 to OTC contracts with a delivery date in March 2021. The decision to change the strategy was made taking into account current market circumstances which were difficult to predict at the time of concluding the transaction. These circumstances included, in particular, the increasing cost of maintaining a position on the stock exchange, which was related, among other things, to the need for ongoing contributions to stock exchange deposits, the change in legal and market circumstances in the area of CO_2 emission allowances trading related to Brexit and the COVID-19 pandemic. In implementing the above change of the strategy, the Company sold off the forward position with a delivery date in December 2020 held on the exchange (it entered into an opposite transaction on the exchange), while purchasing the same volume in contracts with a delivery date in March 2021 from counterparties on the OTC market. As a result of conclusion of the countertrade, the original contract will not be settled by physical delivery and therefore the Company recognised this contract and the countertrade in accordance with IFRS 9 *Financial Instruments* at a fair value (these contracts were settled in December 2020). All new transactions concluded on the OTC market will be used for the purpose of meeting the redemption obligation of the TAURON Group generating companies and therefore as excluded from the scope of IFRS 9 *Financial Instruments* are not measured at a fair value. In the Company's opinion, the change in the strategy makes it possible, in the current market situation, to secure the redemption needs of the Group's generating companies in a manner mitigating the risks to which the Group is exposed.

(in PLN thousand)

13. Employee benefit expenses

	Year ended 31 December 2020	Year ended 31 December 2019
Wages and salaries	(79 917)	(82 321)
Social security costs	(12 234)	(11 879)
Appropriations to the Social Fund	(745)	(606)
Post-employment benefits expenses, *including*:	(1 144)	(3 579)
Retirement, disability and similar benefits	(815)	(410)
Special electricity rates and charges	2 935	(265)
Social Fund	(55)	(25)
Costs of employee retirement plans	(3 209)	(2 879)
Other employee benefits expenses	(2 045)	(3 325)
Total	**(96 085)**	**(101 710)**
Items included in cost of sales	(17 631)	(19 040)
Items included in costs of performances intended for internal purposes	(250)	(162)
Items included in selling and distribution expenses	(7 358)	(7 498)
Items included in administrative expenses	(70 846)	(75 010)

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, incuding 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);
- changes in the amount of lease liabilities (effect of discount reversal);
- 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 in a foreign currency are translated into PLN at initial recognition according to the average exchange rate determined for a given currency by the National Bank of Poland as at the day preceding such a day. As at balance sheet day:

- 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 as at the date of the original transaction, and
- non-monetary items measured at the fair value in a foreign currency are translated using the exchange rate at the day 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 2020	31 December 2019
EUR	4.6148	4.2585
USD	3.7584	3.7977
CZK	0.1753	0.1676

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

(in PLN thousand)

	Year ended 31 December 2020	Year ended 31 December 2019
Dividend income	1 082 031	1 100 861
Interest income on loans and bonds	325 247	389 809
Interest expense	(409 623)	(407 866)
Realuation of shares	(589 010)	(94 920)
Revaluation of bonds and loans	(1 453 476)	(1 394 812)
Revaluation write-off to fair value of non-current assets classified as held for sale	(1 393 432)	-
Other finance income and costs, *of which:*	**(179 464)**	**(40 381)**
Other interest income	4 659	8 563
Gain/(loss) on derivative instruments	125 514	(53 233)
Commissions due to external financing	(18 209)	(20 319)
Exchange differences	(303 046)	28 739
Provision release	24 732	-
Other finance income	9 279	7 579
Other finance costs	(22 393)	(11 710)
Total, *of which:*	**(2 617 727)**	**(447 309)**
Income and costs from financial instruments	(2 642 169)	(445 893)
Other finance income and costs	24 442	(1 416)

Significant changes in the items of financial income and expenses in the year ended 31 December 2020 resulted mainly from recognising:

- of a write-off for the revaluation to fair value of non-current assets classified as held for sale, including mainly shares in TAURON Ciepło Sp. z o.o. in the amount of PLN 1 394 167 thousand due to the classification of shares as non-current assets classified as held for sale;
- of net cost from revaluation of loans in the amount of PLN 1 453 476 thousand, which resulted mainly from:
  - the valuation of loans granted to the subsidiary TAURON Wydobycie S.A., therefore the financial result of the Company was charged with a negative valuation in the total amount of PLN 1 159 739 thousand, as further described in None 20.1 hereto;
  - the valuation of loans granted to a joint venture of Elektrociepłownia Stalowa Wola S.A. resulting mainly from credit risk analyses of the loans granted performed as at the balance sheet date, which resulted in a decrease of their carrying amount in the total amount of PLN 235 714 thousand (discussed in more detail in Note 20.2 to these financial statements);
  - recognition in accordance with IFRS 9 *Financial Instruments* a loss of PLN 62 131 thousand due to modification of financial instruments, in connection with change in the contractual provisions of intragroup loans;
- surplus of negative exchange rate differences over positive ones in the amount of PLN 303 046 thousand (in the comparable period there was a surplus of positive exchange rate differences over negative ones in the amount of PLN 28 739 thousand. Exchange differences are mainly exchange differences related to the Company's debt in the EUR, i.e. a loan obtained from a subsidiary, subordinated bonds and eurobonds;
- a positive result on derivatives due to the measurement and realization mainly of FX forwards and CCIRS;
- the reversal of the provision in the amount of PLN 24 497 thousand is related to the reversal of the provision for audit proceedings in the part relating to interest, which is discussed in more detail in Note 37 of these financial statements.

15. Income Tax

SELECTED ACCOUNTING PRINCIPLES

Current Tax

Income tax recognised in profit or loss for the period includes actual tax charge for the given reporting period 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 accounting policy related to deferred income tax is described in Note 22 to these financial statements.

(in PLN thousand)

15.1. Tax expense in the statement of comprehensive income

	Year ended 31 December 2020	Year ended 31 December 2019
Current income tax	**(29 779)**	**5 519**
Current income tax expense	(29 485)	(4 275)
Adjustments of current income tax from prior years	(294)	9 794
Deferred tax	**(32 246)**	**(122 142)**
Income tax expense in profit or loss	**(62 025)**	**(116 623)**
Income tax expense in other comprehensive income	**8 829**	**(2 620)**

The decrease in deferred tax expense in the year ended 31 December 2020 is mainly related to the increase in deferred tax assets on debt liabilities and the discontinuation of recognition of deferred tax assets on impairment losses on loans granted in the comparative period.

15.2. Reconciliation of the effective tax rate

	Year ended 31 December 2020	Year ended 31 December 2019
Loss before tax	**(3 527 630)**	**(346 207)**
Tax at Poland's statutory tax rate of 19%	**670 250**	**65 779**
Adjustments to income tax from previous years	(294)	9 794
Tax resulting from tax non-deductible costs	(499 197)	(446 540)
Impairment loss on shares, bonds and loans in subsidiaries	(284 627)	(421 076)
Recognition of non-deductible provisions	(212 264)	(798)
Other	(2 306)	(24 666)
Tax resulting from income not included in taxable base	211 865	254 695
Reversal of impairment loss on shares in subsidiaries	-	35 183
Dividends	205 586	209 164
Other	6 279	10 348
Settlement of the TCG	5 691	(731)
Write-off of deferred tax assets	(451 317)	-
Other	977	380
Tax at the effective tax rate of -1.8% (2019: -33.7%)	**(62 025)**	**(116 623)**
Income tax expense in profit/(loss)	(62 025)	(116 623)

In the year ended 31 December 2020, the Company recognized an impairment loss on deferred tax assets, as described in detail in Note 22 hereto, of which PLN 451 318 thousand was charged to the financial result.

15.3. Tax Capital Group

The Tax Group Agreement for 2018-2020 was registered on 30 October 2017. Main companies forming the Tax Capital 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.

On 14 December 2020, the Tax Capital Group Agreement for the years 2021-2023 was registered by the Head of the First Silesian Tax Office in Sosnowiec. Main companies forming the Tax Group since 1 January 2021: TAURON Polska Energia S.A., TAURON Wytwarzanie S.A., Nowe Jaworzno Grupa TAURON sp. z o.o., TAURON Dystrybucja S.A., TAURON Sprzedaż Sp. z o.o., TAURON Sprzedaż GZE Sp. z o.o., TAURON Obsługa Klienta Sp. z o.o., TAURON Ekoenergia Sp. z o.o., TEC1 sp. z o.o., TEC2 sp. z o.o., TEC3 sp. z o.o. i Kopalnia Wapienia Czatkowice Sp. z o.o.

As at 31 December 2020, the Tax Capital Group had an income tax receivables of PLN 82 464 thousand, which mainly represents receivables of the TCG for the year ended 31 December 2020, representing the surplus of advance payments in the amount of PLN 287 300 thousand over the tax charge of the TCG in the amount of PLN 204 935 thousand.

(in PLN thousand)

At the same time, due to the Company's settlements as a Representative Company with subsidiaries belonging to the Tax Capital Group, the Company had a liability to these subsidiaries due to overpayment of tax in the amount of PLN 91 106 thousand, which was presented in the statement of financial position as "Other financial liabilities", and a receivable from the subsidiaries forming the Tax Capital Group due to underpayment of tax in the amount of PLN 21 869 thousand, recognised as “Other financial assets”.

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

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.

Loss per share (in PLN)	Year ended 31 December 2020	Year ended 31 December 2019
Basic and diluted, for net loss for the period	(2.05)	(0.26)

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 2020	Year ended 31 December 2019
Net loss attributable to ordinary shareholders	(3 589 655)	(462 830)
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 2020	Year ended 31 December 2019
COST		
Opening balance	**41 513**	**40 095**
Impact of IFRS 16 *Leases*	-	1 526
Restated opening balance	**41 513**	**41 621**
Direct purchase	12 447	-
Increase/(decrease) due to lease changes	404	(108)
Closing balance	**54 365**	**41 513**
ACCUMULATED DEPRECIATION		
Opening balance	**(21 776)**	**(18 085)**
Depreciation for the period	(4 201)	(3 691)
Closing balance	**(25 977)**	**(21 776)**
NET CARRYING AMOUNT AT THE BEGINNING OF THE PERIOD	**19 737**	**22 010**
NET CARRYING AMOUNT AT THE END OF THE PERIOD, *of which:*	**28 388**	**19 737**
Buildings	21 755	14 468
Perpetual usufruct of land	6 633	5 269

(in PLN thousand)

The investment property is mainly 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 2020 amounted to PLN 6 005 thousand. The Company estimates that as at the end of the reporting period the fair value of the property amounts to approximately PLN 37 000 thousand.

In the year ended 31 December 2020, the increase in investment property related mainly to the purchase of the right of perpetual usufruct of the land and the building and structures located in Katowice Szopienice at ul. Lwowska 23 from the subsidiary, TAURON Wytwarzanie S.A.

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.

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 JUDGEMENT AND ESTIMATES

At the date of commencement of the lease, the Company measures an rights-of-use assets including in the current value of the lease payments remaining to be paid on that date. Lease payments are discounted using the interest rate of the lease if that rate can be easily determined. Otherwise, the 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 2020

	Perpetual usufruct right	Buildings and premises	Motor vehicles	Total right-of-use assets
COST				
Opening balance	**-**	**40 262**	**1 817**	**42 079**
Increase due to a new lease contract	45	-	-	**45**
Increase/(decrease) due to lease changes	-	2 571	-	**2 571**
Liquidation	-	-	(34)	**(34)**
Closing balance	**45**	**42 833**	**1 783**	**44 661**
ACCUMULATED DEPRECIATION				
Opening balance	**-**	**(7 226)**	**(676)**	**(7 902)**
Depreciation for the period	-	(8 054)	(710)	**(8 764)**
Liquidation	-	-	17	**17**
Closing balance	**-**	**(15 280)**	**(1 369)**	**(16 649)**
NET CARRYING AMOUNT AT THE BEGINNING OF THE PERIOD	**-**	**33 036**	**1 141**	**34 177**
NET CARRYING AMOUNT AT THE END OF THE PERIOD	**45**	**27 553**	**414**	**28 012**

(in PLN thousand)

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

	Buildings and premises	Motor vehicles	Total right-of-use assets
COST			
Opening balance	**-**	**-**	**-**
Impact of IFRS 16 *Leases*	38 468	1 502	**39 970**
Restarted 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**

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 JUDGEMENT 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 2020

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	(1 341 755)	-	(1 341 755)	-	-
2	TAURON Wytwarzanie S.A.	7 865 701	-	7 865 701	(7 635 126)	(194 467)	(7 829 593)	230 575	36 108
3	TAURON Ciepło Sp. z o.o.	1 928 043	(1 928 043)	-	(168 140)	168 140	-	1 759 903	-
4	TAURON Ekoenergia Sp. z o.o.	1 939 765	-	1 939 765	-	(376 106)	(376 106)	1 939 765	1 563 659
5	Marselwind Sp. z o.o.	307	110	417	-	-	-	307	417
6	TAURON Serwis Sp. z o.o.	1 268	-	1 268	-	-	-	1 268	1 268
7	Nowe Jaworzno Grupa TAURON Sp. z o.o.	4 861 026	645 100	5 506 126	-	-	-	4 861 026	5 506 126
8	TAURON Dystrybucja S.A.	10 511 628	-	10 511 628	-	-	-	10 511 628	10 511 628
9	TAURON Nowe Technologie S.A. [1]	640 362	9 500	649 862	-	-	-	640 362	649 862
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	17 616	78 672	(61 056)	(17 616)	(78 672)	-	-
15	Bioeko Grupa TAURON Sp. z o.o.	1 269	-	1 269	-	-	-	1 269	1 269
16	TAURON Obsługa Klienta Sp. z o.o.	39 831	-	39 831	-	-	-	39 831	39 831
17	Finanse Grupa TAURON Sp. z o.o.	28 482	-	28 482	(23 925)	-	(23 925)	4 557	4 557
18	TAMEH HOLDING Sp. z o.o.	415 852	-	415 852	-	-	-	415 852	415 852
19	PGE EJ 1 Sp. z o.o. [2]	14 402	(14 402)	-	-	-	-	14 402	-
20	Magenta Grupa TAURON Sp. z o.o.	9 500	(9 500)	-	-	-	-	9 500	-
21	ElectroMobility Poland S.A. [2]	11 847	(821)	11 026	-	-	-	11 847	11 026
22	EEC Magenta Sp. z o.o. ASI spółka komandytowo–akcyjna [2]	1 058	773	1 831	-	-	-	1 058	1 831
23	EEC Magenta Sp. z o.o. 2 ASI spółka komandytowo–akcyjna [2]	10 950	8 166	19 116	-	-	-	10 950	19 116
24	TEC1 Sp. z o.o.	725	-	725	-	-	-	725	725
25	TEC2 Sp. z o.o.	225	-	225	-	-	-	225	225
26	TEC3 Sp. z o.o.	600 025	-	600 025	-	-	-	600 025	600 025
27	Other [2]	379	-	379	-	-	-	379	379
	Total	**31 074 185**	**(1 271 501)**	**29 802 684**	**(9 230 002)**	**(420 049)**	**(9 650 051)**	**21 844 183**	**20 152 633**

[1] *On 1 June 2020, the name of the company was changed from former TAURON Dystrybucja Serwis S.A. to TAURON Nowe Technologie S.A.*
[2] *Companies valued at fair value.*

Classification of shares in TAURON Ciepło Sp. z o.o. as non-current assets held for sale

As the prerequisites for the classification of shares in the subsidiary TAURON Ciepło Sp. z o.o. as held for sale were met, the Company reclassified shares in TAURON Ciepło Sp. z o.o. to assets held for sale, valuing them at their fair value of PLN 365 736 thousand, as described in more detail Note 28 of these financial statements.

Merger of TAURON Dystrybucja Serwis S.A. (now: TAURON Nowe Technologie 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. (now: TAURON Nowe Technologie 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. (now: TAURON Nowe Technologie S.A., the acqiuer) 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.

As a result of the merger, the Company relocated its shares in Magenta Grupa TAURON Sp. z o.o. in the net amount of PLN 9 500 thousand to the value of shares in TAURON Nowe Technologie S.A.

Increase in the share capital and classification of shares in PGE EJ1 Sp. z o.o as non-current assets held for sale

On 23 November 2020, the Extraordinary General Shareholders' Meeting of PGE EJ Sp. z o.o adopted a resolution to increase the company's share capital by PLN 379 999 thousand. As a result of the foregoing, TAURON Polska Energia S.A. acquired in the increased share capital of the company PGE EJ1 Sp. z o.o. 269 503 new shares with a nominal value of PLN 141 per share, with a total nominal value of PLN 37 999 thousand. The increase in the share capital was registered on 8 December 2020.

As the prerequisites for the classification of shares in PGE EJ1 Sp. z o.o. as held for sale were met, the Company reclassified shares in PGE EJ1 Sp. z o.o. to assets held for sale, valuing them at their fair value of PLN 53 136 thousand, as described in more detail Note 28 of these financial statements.

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

In the year ended 31 December 2020, the Extraordinary General Meeting of Shareholders of Polska Energia-Pierwsza Kompania Handlowa Sp. z o.o. adopted resolutions on making additional payments to the company's capital:

- on 8 January 2020 in the amount of PLN 8 016 thousand;
- on 16 June 2020 in the amount of PLN 9 600 thousand.

Increase in the share capital of Nowe Jaworzno 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 share capital by PLN 4 551 thousand. All the shares were acquired by the Company for the total amount of PLN 455 100 thousand. On 5 March 2020, the Company provided funds for capital increase. As a result of the transaction, the Company's share in the issued capital and the governing body increased from 84.76% to 85.88% The increase in the share capital was registered on 18 May 2020.

On 3 December 2020, the Extraordinary General Shareholders' Meeting of Nowe Jaworzno Grupa TAURON Sp. z o.o. adopted a resolution to increase the company's share capital by PLN 1 900 thousand. All the shares were acquired by the Company for the total amount of PLN 190 000 thousand. On 7 December 2020, the Company provided funds for capital increase. As a result of the transaction, the Company's share in the issued capital and the governing body will be increased from 85.88% to 86.29%. After the balance sheet day, on 13 January 2021, the increase in the share capital was registered.

Other changes in long-term investments that took place during the year ended 31 December 2020 resulted from the issued capital increases of the following companies:

- EEC Magenta Sp. z o.o. 2 ASI spółka komandytowo-akcyjna in the amount of PLN 8 166 thousand;
- EEC Magenta Sp. z o.o. ASI spółka komandytowo-akcyjna in the amount of PLN 773 thousand

and capital contribution to Marselwind Sp. z o.o. in the amount of PLN 110 thousand.

(in PLN thousand)

Impairment losses on shares

In the year ended 31 December 2020, the Company recognised the creation of impairment losses on shares in subsidiaries in the amount of PLN 588 189 thousand, including as a result of impairment testing in the total amount of PLN 570 573 thousand, as further described in Note 10 to these financial statements.

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 Nowe Technologie S.A. [1]	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. [2]	18 651	(4 249)	14 402	-	-	-	18 651	14 402
21	Magenta Grupa TAURON Sp. z o.o. [2]	9 500	-	9 500	-	-	-	9 500	9 500
22	ElectroMobility Poland S.A. [2]	17 500	(5 653)	11 847	-	-	-	17 500	11 847
23	EEC Magenta Sp. z o.o. ASI spółka komandytowo–akcyjna [2]	12	1 046	1 058	-	-	-	12	1 058
24	EEC Magenta Sp. z o.o. 2 ASI spółka komandytowo–akcyjna [2]	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 [2]	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**

[1] *On 1 June 2020, the name of the company was changed from former TAURON Dystrybucja Serwis S.A. to TAURON Nowe Technologie S.A.*
[2] *Companies valued at fair value.*

20. Loans granted

SELECTED ACCOUNTING PRINCIPLES

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 are 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 JUDGEMENT AND ESTIMATES

The Company makes appropriate classification and valuation of the loans granted. Loans granted 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. As at 31 December 2020, the nominal value of loans with a repayment term of less than one year, which had been classified as long-term due to the expectation of the Company at the balance sheet date regarding the repayment term of loans more than 12 months after the balance sheet date, amounted to PLN 1 900 000 thousand.

In accordance with the requirements of *IFRS 9 Financial Instruments*, in the case of loans measured at amortized cost, the Company estimates the amount of impairment losses on loans, as described in detail below and in Note 41.1.2 of these financial statements.

Loans granted by the Company as at 31 December 2020 and 31 December 2019 are presented in the table below.

(in PLN thousand)

	As at 31 December 2020			As at 31 December 2019		
	Gross value	Impairment loss	Carrying amount	Gross value	Impairment loss	Carrying amount
Loans measured at amortized cost						
Loans granted to subsidiaries	5 074 636	(71 113)	**5 003 523**	4 623 619	(37 284)	**4 586 335**
Loans granted to EC Stalowa Wola S.A.	27 670	(1 480)	**26 190**	27 746	(730)	**27 016**
Loans granted to PGE EJ 1 Sp. z o.o.	-	-	**-**	8 252	(45)	**8 207**
Loans granted under cash pool agreement	312 756	(34 041)	**278 715**	537 404	(62 226)	**475 178**
Loans measured at fair value						
Loans granted to EC Stalowa Wola S.A.	72 523	n.a.	**72 523**	216 018	n.a	**216 018**
Total	**5 487 585**	**(106 634)**	**5 380 951**	**5 413 039**	**(100 285)**	**5 312 754**
Non-current	4 336 528	(102 927)	**4 233 601**	5 139 751	(92 199)	**5 047 552**
Current	1 151 057	(3 707)	**1 147 350**	273 288	(8 086)	**265 202**

20.1. Loans granted to subsidiaries

As part of the operation of intra-group financing, the Company grants loans to its subsidiaries.

The table below presents the balance of loans granted to subsidiaries as at 31 December 2020 and 31 December 2019, broken down by individual companies.

Company	As at 31 December 2020				As at 31 December 2019			
	Contractual loan value	Gross value	Impairment loss	Carrying amount	Contractual loan value	Gross value	Impairment loss	Carrying amount
TAURON Dystrybucja S.A.	3 250 000	3 284 433	(10 781)	**3 273 652**	3 000 000	3 014 526	(7 453)	**3 007 073**
TAURON Ciepło Sp. z o.o.	975 000	977 318	(1 054)	**976 264**	975 000	978 752	(19 879)	**958 873**
TAURON Wydobycie S.A.	2 868 354	-	-	**-**	1 970 000	268 576	(3 596)	**264 980**
TAURON Wytwarzanie S.A.	500 000	504 226	(53 784)	**450 442**	200 000	200 768	(5 582)	**195 186**
TAURON Ekoenergia Sp. z o.o.	160 000	154 121	(1 340)	**152 781**	160 000	160 997	(774)	**160 223**
TAURON Sprzedaż Sp. z o.o.	100 000	100 330	(1 856)	**98 474**	-	-	-	**-**
Other	53 992	54 208	(2 298)	**51 910**	-	-	-	**-**
Total	**7 907 346**	**5 074 636**	**(71 113)**	**5 003 523**	**6 305 000**	**4 623 619**	**(37 284)**	**4 586 335**
Non-current		3 929 234	(67 516)	**3 861 718**		4 612 447	(33 632)	**4 578 815**
Current		1 145 402	(3 597)	**1 141 805**		11 172	(3 652)	**7 520**

As at the balance sheet date, the loans granted to TAURON Ciepło Sp. z o.o. were classified as short-term assets, including loans with a total nominal value of PLN 70 000 thousand, whose repayment date exceeds one year from the end of the reporting period. The above classification is related to the project conducted by the Company aimed at market verification of the possibility of selling shares in the subsidiary TAURON Ciepło Sp. z o.o. and to the reclassification, as at the balance sheet date, of the shares in TAURON Ciepło Sp. z o.o. held by the Company to assets held for sale, which is described in more detail in Note 28 of these financial statements. The Company believes a possible sale of TAURON Ciepło shares will involve an earlier termination of the debt financing of TAURON Ciepło Sp. z o.o. by the Company.

In the first quarter of 2020, the Company amended the loan agreements granted to its subsidiaries with regard to changes in the interest rate. In accordance with IFRS 9 *Financial Instruments*, the Company recognised the change in the contractual provisions as a modification of financial instruments, therefore a loss of PLN 62 131 thousand was recognised in financial expenses, which decreased the gross value of loans.

In the year ended 31 December 2020, the Company, within the intra-group financing, granted a loans to a subsidiary TAURON Wydobycie S.A. with a nominal value of PLN 898 354 thousand, which was initially recognised as an impaired financial asset due to credit risk, with the result that the loss on the initial measurement of PLN 851 022 thousand reduced the gross value of the loan and charged to the Company's profit/(loss). 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 most recent asset impairment test.

Analyses of credit risk of the loans granted to TAURON Wydobycie S.A. carried out as at the balance sheet date, including among others the estimation of the future cash flows of the company, showed that it was justified to assess the carrying amount of the above loans at a zero value, which resulted in additional charge of the financial result of the company in the amount of PLN 312 312 thousand. In 2020, the Company also recognized a change in impairment losses on accrued interest, which increased the financial result by PLN 3 595 thousand. In the year ended 31 December 2020, the Company received from its subsidiary TAURON Wydobycie S.A. interest on loans granted in the amount of PLN 125 802 thousand.

Taking into account the impact epidemiological situation related to COVID-19, resulted in an increase in impairment losses on loans granted to subsidiaries by PLN 5 122 thousand, as further described in Note 6 to these financial statements.

(in PLN thousand)

After the end of the reporting period, the Company granted loans to its subsidiaries with a nominal value of PLN 820 000 thousand.

Change in loans and impairment losses

	Year ended 31 December 2020				Year ended 31 December 2019			
	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)	Instruments purchased with an 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)	Instruments purchased with an impairment	Total
Gross value								
Opening balance	**4 052 722**	**302 321**	**268 576**	**4 623 619**	**4 387 594**	**1 016 115**	**-**	**5 403 709**
Buy-back of bonds / loan repayment	(200 000)	-	-	**(200 000)**	(720 000)	(670 000)	-	**(1 390 000)**
Issue of bonds / loan granting	903 992	-	43 736	**947 728**	420 000	-	264 980	**684 980**
Reclassification between the levels	(511 000)	511 000	-	**-**	-	-	-	**-**
Significant modifications	302 321	(302 321)	-	-	-	-	-	**-**
Conversion of bonds into loans	-	-	-	**-**	14 025	(623)	-	**13 402**
Modification of loans	(62 131)	-	-	**(62 131)**	-	-	-	**-**
Impairment	-	-	(312 312)	**(312 312)**	-	-	-	**-**
Interest accrued	168 012	10 300	125 802	**304 114**	199 126	43 943	3 596	**246 665**
Interest received	(94 505)	(6 075)	(125 802)	**(226 382)**	(248 023)	(87 114)	-	**(335 137)**
Closing balance	**4 559 411**	**515 225**	**-**	**5 074 636**	**4 052 722**	**302 321**	**268 576**	**4 623 619**
Impairment loss								
Opening balance	**(17 525)**	**(16 163)**	**(3 596)**	**(37 284)**	**(19 164)**	**(148 253)**	**-**	**(167 417)**
Recognition	(3 453)	(55 716)	-	**(59 169)**	(1 753)	(12 131)	(3 596)	**(17 480)**
Reversal	5 581	16 163	-	**21 744**	3 392	641	-	**4 033**
Utilized	-	-	3 596	**3 596**	-	143 580	-	**143 580**
Closing balance	**(15 397)**	**(55 716)**	**-**	**(71 113)**	**(17 525)**	**(16 163)**	**(3 596)**	**(37 284)**
Net carrying amount at the beginning of the period	**4 035 197**	**286 158**	**264 980**	**4 586 335**	**4 368 430**	**867 862**	**-**	**5 236 292**
Net carrying amount at the end of the period	**4 544 014**	**459 509**	**-**	**5 003 523**	**4 035 197**	**286 158**	**264 980**	**4 586 335**

20.2. Loans granted to joint ventures

Loans granted to the joint venture Elektrociepłownia Stalowa Wola S.A. as at 31 December 2020 and as at 31 December 2019 are presented in the table below.

	Loan amount	As at 31 December 2020			As at 31 December 2019			Maturity date	Interest rate
		Gross value	Impairment loss	Carrying amount	Gross value	Impairment loss	Carrying amount		
Loans measured at fair value									
Debt consolidation agreement	609 951	72 523	n.a.	**72 523**	216 018	n.a.	**216 018**	30.06.2033	fixed
Loans measured at amortized cost									
VAT loan	15 000	2 453	(33)	**2 420**	5 109	(110)	**4 999**	31.03.2021	WIBOR 1M+mark-up
Other loans	7 290	1 986	(353)	**1 633**	7 955	(218)	**7 737**	30.06.2033	fixed
	9 500	2 295	(304)	**1 991**	9 197	(252)	**8 945**		
	5 175	1 372	(165)	**1 207**	5 485	(150)	**5 335**		
	59 175	14 404	(598)	**13 806**	-	-	**-**		
	35 000	5 160	(27)	**5 133**	-	-	-		
Total		**100 193**	**(1 480)**	**98 713**	**243 764**	**(730)**	**243 034**		
Non-current		97 740	(1 447)	**96 293**	238 655	(620)	**238 035**		
Current		2 453	(33)	**2 420**	5 109	(110)	**4 999**		

Under 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 the loans granted and not repaid by 28 February 2018 were renewed. As at the balance sheet date, the par value of the loan 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, valued as at the balance sheet date at fair value of PLN 72 523 thousand.

The decrease in the gross value of the VAT loan in the amount of PLN 2 656 thousand results mainly from granting loan tranches in the year ended 31 December 2020 in the total amount of PLN 13 600 thousand and the repayment of the loan tranche by Elektrociepłownia Stalowa Wola S.A. in the amount of PLN 16 250 thousand.

The following loan agreements were concluded between the Company and Elektrociepłownia Stalowa Wola S.A. in 2020:

- Agreement of 20 February 2020 up to the amount of PLN 59 175 thousand to finance liabilities related mainly to the completion of the construction of the gas-steam unit and the Back-Up Heat Source in Stalowa Wola. As at the balance sheet date, the amount of the loan granted was equal to the maximum amount resulting from the agreement in question;
- Agreement of 16 October 2020 up to the amount of PLN 35 000 thousand to secure the operational activities and electricity trading activities. As at the balance sheet date, under the agreement, the Company provided the borrower with tranches in the total amount of PLN 22 000 thousand.

(in PLN thousand)

The repayment of the two loans described above, accrued interest and costs and other amounts due to the Company under the agreements are secured by the borrower's blank promissory Notes including the promissory Note declarations.

Analyses of credit risk of loans granted to Elektrociepłownia Stalowa Wola S.A. performed as at the balance sheet date, taking into account, among others, the estimated future cash flows of Elektrociepłownia Stalowa Wola S.A., indicated an impairment losses due to credit risk (valuation level 3) resulting in a decrease in the carrying amount of the loans granted in the total amount of PLN 235 714 thousand, of which the fair value of the debt consolidation agreement was reduced by PLN 156 881 thousand, while in relation to other loans measured at amortised cost, gross value of loans granted was adjusted by PLN 72 943 thousand, interest was adjusted by PLN 4 442 thousand and additional impairment losses were recognised in the amount of PLN 1 448 thousand. The amount of credit loss as at the date of recognition has been estimated taking into account the entire lifetime of the financial instrument. As at 31 December 2019 the allowance for expected credit losses was measured at an amount equal to 12-month expected credit losses.

20.3. Loans granted under cash pool agreement

In order to optimise cash and liquidity management, TAURON Group has implemented a cash pool mechanizm. Cash pooling is carried out under the agreement concluded with Santander Bank Polska S.A. on 8 December 2020 for the operation of a cash management system for a group of accounts, with the effective term until 31 December 2023. As a result of the cash pool mechanism, cash is transferred between the accounts of the service participants and the pool leader's account whose function is performed by TAURON Polska Energia S.A.

The above agreement replaced the existing agreement for the provision of the actual cash pooling service, which expired in December 2020 (agreement of 9 October 2017 concluded with PKO Bank Polski S.A.).

The balance of receivables due to cash pooling as at 31 December 2020 and 31 December 2019 is presented in the table below.

	As at 31 December 2020			As at 31 December 2019		
	Gross value	Impairment loss	Carrying amount	Gross value	Impairment loss	Carrying amount
Receivables from cash pool transatcions	312 216	(34 041)	278 175	525 938	(62 226)	463 712
Interest eceivable from cash pool transatcions	540	-	540	11 466	-	11 466
Total	**312 756**	**(34 041)**	**278 715**	**537 404**	**(62 226)**	**475 178**
Non-current	309 554	(33 964)	275 590	283 551	(57 917)	225 634
Current	3 202	(77)	3 125	253 853	(4 309)	249 544

Information on liabilities due to cash pooling is presented in Note 31.5 of these financial statements.

Recognising in the calculation of expected credit losses of the impact of the epidemiological situation related to COVID-19, resulted in an increase in impairment losses on loans granted under the cash pool agreement by PLN 43 thousand, as further discussed in Note 6 to these financial statements.

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 debt 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:

(in PLN thousand)

- 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 JUDGEMENT AND ESTIMATES

The Company measures fair value at each balance sheet date. The methodology is presented below.

Derivative instrument	Methodology of determining fair value
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 a result of the delayed commissioning of the Jaworzno power unit, as at the balance sheet date the Company held a significant surplus of CO_2 emission allowances contracted to be purchased for resale to a subsidiary on account of redemption in connection with the 2020 issue. As at the end of the reporting period, the Company intended to purchase CO_2 emission allowances at maturity and therefore these contracts were recognised as excluded from IFRS 9 *Financial Instruments* and were not measured at a fair value as at the balance sheet date.

As at the balance sheet date, the Company holds the following derivative instruments:

Instrument	Description
Derivative instruments subject to hedge accounting	
IRS	IRS (Interest Rate Swap) instruments are used to hedge a portion of the interest rate risk on the cash flows associated with the exposure to WIBOR 6M designated under the dynamic risk management strategy, i.e: • interest on a loan with a nominal value of PLN 750 000 thousand, for periods commencing respectively from July 2020 and expiring in December 2024; • interest on bonds with a total nominal value of PLN 3 090 000 thousand, for periods beginning in December 2019 and expiring successively from 2023 to 2029. Under the terms of the transaction, the Company pays interest based on a fixed interest rate in PLN, while receiving payments at a floating interest rate in PLN.
Derivative instruments measured at a fair value through the profit and loss other than subject to hedge accounting	
CCIRS	CCIRS (Coupon Only Cross Currency Swap fixed-fixed) derivatives involve an exchange of interest payments on a total notional amount of EUR 500 000 thousand. The transaction matures in July 2027. Under the terms of the transaction, the Company pays interest based on a fixed interest rate in PLN, while receiving payments at a fixed interest rate in EUR. CCIRS derivatives aimed at securing the currency flows generated by interest payments on Eurobonds issued.
Commodity forward/future	Derivative instruments (future, forward) comprise forward transactions for the purchase and sale of CO2 emission allowances and other commodities.
FX forward	FX forward derivative instruments aimed at hedging currency flows generated due to the activities conducted.

The valuation of derivatives as at the respective balance sheet dates is presented in the table below:

(in PLN thousand)

	As at 31 December 2020				As at 31 December 2019			
	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
Derivative instruments subject to hedge accounting								
IRS	(6 230)	(83 831)	**-**	**(90 061)**	121	19 341	**19 462**	**-**
Derivative instruments measured at fair value through profit or loss								
CCIRS	3 268	-	**5 023**	**(1 755)**	(12 885)	-	**-**	**(12 885)**
Commodity future/forward	2 321	-	**86 089**	**(83 768)**	4 248	-	**86 067**	**(81 819)**
Currency forward	67 734	-	**67 734**	**-**	(29 823)	-	**-**	**(29 823)**
Total			**158 846**	**(175 584)**			**105 529**	**(124 527)**
Non-current			36 041	(73 739)			20 352	(16 848)
Current			122 805	(101 845)			85 177	(107 679)

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

	As at 31 December 2020		As at 31 December 2019	
	1 level	2 level	1 level	2 level
Assets				
Derivative instruments - commodity	86 089	-	86 067	-
Derivative instruments - currency	-	67 734	-	-
Derivative instruments - IRS	-	-	-	19 462
Derivative instruments - CCIRS	-	5 023	-	-
Total	**86 089**	**72 757**	**86 067**	**19 462**
Liabilities				
Derivative instruments - commodity	83 768	-	81 819	-
Derivative instruments - currency	-	-	-	29 823
Derivative instruments - IRS	-	90 061	-	-
Derivative instruments - CCIRS	-	1 755	-	12 885
Total	**83 768**	**91 816**	**81 819**	**42 708**

22. Deferred income tax

SELECTED ACCOUNTING PRINCIPLES

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.

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.

(in PLN thousand)

	As at 31 December 2020	As at 31 December 2019
difference between tax base and carrying amount of financial assets	39 326	23 181
difference between tax base and carrying amount of property, plant and equipment and intangible assets and right-of-use assets	5 810	7 599
valuation of hedging instruments	-	3 698
difference between tax base and carrying amount of ficiancial liabilities	326	7 884
other	1 159	-
Deferred tax liabilities	**46 621**	**42 362**
difference between tax base and carrying amount of financial assets	2 874	5 367
difference between tax base and carrying amount of financial liabilities	85 159	38 976
valuation of hedging instruments	17 112	-
difference between tax base and carrying amount of non-current assets classified as held for sale	366 180	-
different timing of recognition of revenue and cost of sales for tax purposes	30 961	14 851
provisions and accruals	3 306	3 594
difference between tax base and carrying amount of fixed and intangible assets	2 319	2 458
other	995	534
Deferred tax assets	**508 906**	**65 780**
Write-off of deferred tax assets in correspondence with the financial result	(451 317)	-
Write-off of deferred tax assets in correspondence with other comprehensive income	(10 968)	-
Deferred tax assets/(liabilities), net	**-**	**23 418**

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 9 650 051 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 the year ended 31 December 2020, the Company recognised a deferred tax asset of PLN 362 872 thousand related to the difference between the tax and balance sheet value of shares in the subsidiary TAURON Ciepło Sp. z o.o. in connection with the intention to sell and the classification of the shares as assets held for sale, while recognising an impairment loss on this deferred tax asset due to the impossibility of realising it in the foreseeable future.

In connection with the analyses performed indicating uncertainty as to the possibility of tax profits in the Company in future years, in the financial statements, deferred tax assets on all negative temporary differences other than those described above were recognised only up to the amount of the deferred tax liability, which had an impact on the financial result charged in the amount of PLN 88 445 thousand and other comprehensive income in the amount of PLN 10 968 thousand.

23. Other financial assets

SELECTED ACCOUNTING PRINCIPLES

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

(in PLN thousand)

	As at 31 December 2020	As at 31 December 2019
Initial deposits arising from stock exchange transactions	48 663	184 353
Receivables arising from income tax settlements of the TCG companies	21 869	-
Bid bonds, deposits, collateral transferred	19 161	82 951
Variation margin deposits arising from stock exchange transactions	-	25 113
Units in investment funds	-	26 622
Other	151	258
Total	**89 844**	**319 297**
Non-current	2 541	2 348
Current	87 303	316 949

The value of initial deposits (in the comparable period also of variation margin deposits) are related mostly to futures transactions on the CO_2 emission allowances concluded on foreign regulated markets. The change in the value of initial deposits compared to the comparative period results mainly from the Company's position on the stock exchange as at the balance sheet date and changes in CO_2 emission allowances prices. The reduction in the volume of exchange-traded futures contracts for CO_2 emission allowances is mainly related to the change in the strategy of securing the Group's redemption needs, consisting in a one-off replacement of exchange contracts with OTC contracts (more information in Note 12 of these financial statements) and the conclusion of new contracts for redemption purposes of the Group's companies on OTC market.

The decrease in the value of the bid bonds, deposit and collaterals transferred versus the comparative period in the amount of PLN 63 790 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 2020, the collaterals amounted to PLN 12 443 thousand and as at 31 December 2019 - PLN 80 237 thousand.

24. 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 2020	As at 31 December 2019
Prepaid expenses, *including:*	14 076	15 126
Prepaid fee on debt	*13 707*	*14 563*
VAT receivables	4 316	-
Advance payments for deliveries	3 888	4 957
Other	7 278	4 907
Total	**29 558**	**24 990**
Non-current	17 267	18 823
Current	12 291	6 167

25. Inventories

SELECTED ACCOUNTING PRINCIPLES

The Company's inventories include acquired CO_2 emission allowances, property rights arising from certificates of energy generated using renewable sources and property rights arising from energy efficiency certificates, 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.

(in PLN thousand)

Releases of CO_2 emission allowances and of the purchased rights arising from certificates of energy origin are measured with the FIFO method.

	As at 31 December 2020	As at 31 December 2019
Gross Value		
CO_2 emission allowances	394 810	149 151
Energy certificates	250	250
Materials	-	-
Total	**395 060**	**149 401**
Measurement to net realisable value		
CO_2 emission allowances	(987)	-
Energy certificates	(42)	(37)
Measurement to fair value		
CO_2 emission allowances	-	-
Total	**(1 029)**	**(37)**
Net value		
CO_2 emission allowances	393 823	149 151
Energy certificates	208	213
Materials	-	-
Total	**394 031**	**149 364**

26. 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.

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

PROFESSIONAL JUDGEMENT AND ESTIMATES

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.

(in PLN thousand)

	As at 31 December 2020	As at 31 December 2019
Gross Value		
Receivables from buyers	1 309 852	1 474 635
Receivables claimed at court	1 039	1 005
Total	**1 310 891**	**1 475 640**
Allowance/write-down		
Receivables from buyers	(8 443)	(2 173)
Receivables claimed at court	(1 039)	(1 005)
Total	**(9 482)**	**(3 178)**
Net Value		
Receivables from buyers	1 301 409	1 472 462
Receivables claimed at court	-	-
Total	**1 301 409**	**1 472 462**

As at 31 December 2020 and 31 December 2019, the largest item of receivables from buyers was receivables from TAURON Sprzedaż Sp. z o.o., a subsidiary, amounting to PLN 748 448 thousand and PLN 694 511 thousand, respectively.

The impact of COVID-19 on the level of allowance for expected credit losses for receivables from buyers is further described in Note 6 of these financial statements.

Ageing of receivables from buyers as at 31 December 2020

	Not past due	*Past due*			**Total**
		<30 days	*30-360 days*	*>360 days*	
Value of item before allowance/write-down	1 309 488	-	397	1 006	**1 310 891**
Percentage of allowance/write-down	1%	-	99%	100%	-
Allowance/write-down	(8 084)	-	(392)	(1 006)	**(9 482)**
Net Value	**1 301 404**	**-**	**5**	**-**	**1 301 409**

Ageing of receivables from customers 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**

Impairment allowances on receivables from buyers

In the year ended 31 December 2020 and in the comparative period, allowances for receivables from buyers were created in the amount of PLN 6 304 thousand and PLN 1 317 thousand respectively.

Transactions with related parties and balances of settlements with these entities are presented in Note 46.1 of these financial statements.

27. Cash and equivalents

SELECTED ACCOUNTING PRINCIPLES

Cash and short-term deposits presented in the statement of financial position comprise, in particular, cash in hand and at bank and short-term deposits with the original maturity period not exceeding three months.

The balance of cash and cash equivalents shown in the cash flow statement consists of cash and cash equivalents as defined above. 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 an ongoing basis.

(in PLN thousand)

	As at 31 December 2020	As at 31 December 2019
Cash at bank and in hand	393 129	923 721
Short-term deposits (up to 3 months)	250 005	7
Total cash and cash equivalents presented in the statement of financial position, *including*:	**643 134**	**923 728**
restricted cash, *including:*	119 240	593 682
collateral of settlements with Izba Rozliczeniowa Giełd Towarowych S.A.	*108 917*	*571 699*
Cash pool	(1 383 241)	(951 564)
Overdraft	-	(21 210)
Foreign exchange	(2 837)	(34)
Total cash and cash equivalents presented in the statement of cash flows	**(742 944)**	**(49 080)**

The decrease in the balance of restricted cash compared to the comparable period in the total amount of PLN 474 442 thousand relates mainly to settlements with Izba Rozliczeniowa Giełd Towarowych S.A. (a decrease in the cash balance on this account by PLN 462 782 thousand) and results from a decline in the value of required margins.

Information on balances arising from the cash pool agreement is presented in Notes 20.3 and 31.5 of these financial statements.

28. Non-current assets classified as held for sale

SELECTED ACCOUNTING PRINCIPLES

The Company classifies a non-current asset classified as held for sale if it meets the following criteria:

- representatives of the competent governing body of the Company are committed to implement the plan to sell,
- the assets are available for immediate sale in their current status,
- an active programme to locate a potential buyer has been initiated,
- the sale is highly probable and may be performed within 12 months of the decision,
- the sales price is reasonable in relation to the current fair value,
- it is unlikely that the plan to dispose of such assets will be significantly changed.

Fixed assets or groups of assets classified as held for sale are measured at the lower of the carrying amount and the fair value less costs of sales, except for deferred tax assets, assets arising from employee benefits and financial assets within the scope of IFRS 9 *Financial Instruments*.

PROFESSIONAL JUDGEMENT AND ESTIMATES

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

	As at 31 December 2020
Shares in TAURON Ciepło Sp. z o.o.	365 736
Shares in PGE EJ1 Sp. z o.o.	53 136
Non-current assets classified as held for sale	**418 872**

Within non-current assets classified as held for sale the Company presents shares in the subsidiary TAURON Ciepło Sp. z o.o. and shares in the PGE EJ 1 Sp. z o.o.

TAURON Ciepło Sp. z o.o.

	As at 31 December 2020
Shares carrying amount at the moment of reclassification to assets held for sale	1 759 903
Book value of loans granted	976 264
The total book value of the capital involvment in TAURON Ciepło Sp. z o.o.	2 736 167
Fair value of the capital involvment in TAURON Ciepło Sp. z o.o.	1 342 000
Write-off for revaluation to fair value less selling costs	**(1 394 167)**

(in PLN thousand)

	As at 31 December 2020
Current book value of shares	1 759 903
Revaluation to fair value less sale costs	(1 394 167)
Fair value of shares less sale costs	**365 736**

The purpose of the disposal of shares in TAURON Ciepło Sp. z o.o. is in line with the update of the strategic directions, adopted by the Management Board of the Company and approved by the Supervisory Board in May 2019, which supplement the TAURON Group Strategy for 2016-2025. 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, inter alia, a 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. The above option includes, among others, market verification of the possibility of selling shares in the subsidiary TAURON Ciepło Sp. z o.o.

As a result of the above events, the Company launched a project aimed at market verification of the possibility of selling shares of the subsidiary TAURON Ciepło Sp. z o.o. and possible continuation of the sales process. As part of the project, on 22 November 2019, the Management Board of the Company received preliminary non-binding offers to purchase shares in TAURON Ciepło Sp. z o.o., among others, decided to admit bidders to the due diligence of the company.

On 16 June 2020 the Management Board of the Company decided to proceed to the next stage of the process of selling shares in TAURON Ciepło Sp. z o.o. and commencement of negotiations on an agreement on the sale of shares in TAURON Ciepło Sp. z .o.o. with Polskie Górnictwo Naftowe i Gazownictwo S.A. in the exclusivity mode established for a period of six weeks, which was subsequently extended until 30 November 2020. On 30 November 2020, the Management Board of the Company decided to further extend the negotiations until 31 January 2021. After the end of reporting period, on 29 January 2021, Polskie Górnictwo Naftowe i Gazownictwo S.A. expressed its intention to discontinue the negotiations aimed at the acquisition of shares in the TAURON Ciepło Sp. z o.o.

Due to the failure to conclude the transaction, the Management Board of the Company decided to commence analyses concerning the heat area, taking into account the projected changes in the external environment, including regulatory and market changes as well as taking into account the outlook of the Polish heat sector, which may affect further decisions on the sale of shares in TAURON Ciepło Sp. z o.o. or keeping TAURON Ciepło Sp. z o.o. in TAURON Group.

As at the balance sheet date, the Company assessed that in relation to the shares in TAURON Ciepło Sp. z o.o. the conditions of IFRS 5 *Non-current assets held for sale and discontinued operations* were met as regards the classification of the above assets as held for sale, in particular the shares are, in the Company's opinion, available for immediate sale in their current state, taking into account only normal and customary conditions for sales, therefore the Company reclassified the shares in TAURON Ciepło Sp. z o.o. as non-current assets classified as assets for sale as at 30 June 2020. As at the balance sheet date, the Company assessed to fair value the total involvement in TAURON Ciepło in the form of its shares with a balance sheet value of PLN 1 759 903 thousand, and whereas, in the Company's opinion, a possible sale of TAURON Ciepło Sp. z o.o.'s shares will involve an earlier termination of the company's debt financing of the intra-group loans granted to TAURON Ciepło Sp. z o.o. with a value of PLN 976 264 thousand. The fair value of the said involvement was estimated at the level of PLN 1 342 000 thousand, based on the information collected in the course of the market sales process of shares in TAURON Ciepło Sp. z o.o. Due to the fact that the fair value less costs of sale is lower than the accounting value of the shares held to date and loans granted, the Company recognised non-current assets classified as held for sale at fair value less costs of sale and recognised financial costs due to revaluation of shares to fair value in the amount of PLN 1 394 167.

PGE EJ 1 Sp. z o.o.

On 1 October 2020, the Company signed a letter of intent with the State Treasury concerning the acquisition of 100% of the shares in PGE EJ 1 Sp. z o.o. by the State Treasury. The Letter of Intent was signed by all entities holding shares in PGE EJ 1 Sp. z o.o. (apart from TAURON Polska Energia S.A., they include: PGE Polska Grupa Energetyczna S.A., Enea S.A. and KGHM Polska Miedź S.A.), which is responsible for the preparation and implementation of the investment consisting in the construction and operation of the first Polish nuclear power plant. The Company holds 10% of shares in PGE EJ1 sp. z o.o..

The entities signing the Letter of Intent undertook to carry out in good faith all actions necessary to prepare and execute the transaction consisting in the acquisition of shares in PGE EJ 1 Sp. z o.o. by the State Treasury. The letter of intent does not entail a commitment by the parties to conclude the transaction. The decision to proceed with the transaction will depend on the outcome of negotiations in this regard and the fulfilment of other conditions stipulated by law or corporate documents.

(in PLN thousand)

As at the balance sheet date, the Company assessed that in relation to the shares in PGE EJ 1 Sp. z o.o. the prerequisites resulting from IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* were met, in particular the shares are, in the Company's opinion, available for immediate sale in their present condition subject only to the terms and conditions that are usual and customary for sale; therefore, as at 31 December 2020 the Company reclassified the shares in PGE EJ 1 Sp. z o.o. to fixed assets classified as assets held for sale. As at the balance sheet date, the Company carried out a fair value measurement of shares in PGE EJ 1 Sp. z o.o., which was estimated at PLN 53 136 thousand, based on information gathered in the course of the sale process of shares in PGE EJ 1 Sp. z o.o.

29. Equity

29.1. 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 debt. 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 2020

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**	

At 31 December 2020, the value of issued capital, the number of shares and the par value of the shares has not changed since 31 December 2019.

29.2. Major Shareholders

Shareholding structure as at 31 December 2020 *(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 2020 has not changed since 31 December 2019.

(in PLN thousand)

29.3. Reserve capital

On 15 July 2020, the Ordinary General Shareholders' Meeting of the Company adopted a resolution to cover the net loss for the financial year 2019 in the amount of PLN 462 830 thousand from the Company reserve capital.

29.4. Revaluation reserve from valuation of hedging instruments

	Year ended 31 December 2020	Year ended 31 December 2019
Opening balance	**15 666**	**3 371**
Remeasurement of hedging instruments	(96 821)	15 074
Remeasurement of hedging instruments charged to profit or loss	(6 351)	105
Deferred income tax	19 603	(2 884)
Write-off of deferred tax assets	(10 968)	-
Closing balance	**(78 871)**	**15 666**

The revaluation reserve from valuation of hedging instruments results from valuation of Interest Rate Swaps (IRS) hedging the interest rate risk arising from debt, which has been discussed in more detail in Note 21 to these financial statements.

For concluded hedging transactions covered by the financial risk management policy, the Company applies hedge accounting.

As at 31 December 2020, the Company recognised the amount of PLN (67 903) thousand of revaluation reserve from valuation of hedging instruments. This amount represents the liability arising from the measurement of IRS instruments as at the end of the reporting period in the amount of PLN 90 061 thousand, adjusted by the portion of valuation relating to interest accrued on debt as at the end of the reporting period, including deferred tax.

Due to the recognition of the deferred tax asset in the financial statements only up to the amount of the deferred tax liability, as described in more detail in Note 22 to these financial statements, the revaluation reserve on hedging instruments was charged with the amount of PLN 10 967 thousand.

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

Reserve capital — dividend limitation

	As at 31 December 2020	As at 31 December 2019
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	**1 452 234**	**1 915 064**
Decrease in the value of issued capital	1 217 354	1 680 184
Settlement of mergers with subsidiaries	234 880	234 880
Total reserve capital	**6 338 754**	**6 801 584**

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.

Retained earnings/ (Accumulated losses) - dividend limitation

	As at 31 December 2020	As at 31 December 2019
Distributable amounts or losses to be covered	**(3 589 642)**	**(462 817)**
Loss for the year ended 31 December 2020	(3 589 655)	-
Loss for the year ended 31 December 2019	-	(462 830)
Adjustment of prior years profit	13	13
Non-distributable/coverage amounts	**(309 833)**	**(309 003)**
Actuarial gains and losses on provisions for post-employment benefits	(1 800)	(970)
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)	**(3 899 475)**	**(771 820)**

(in PLN thousand)

The Management Board of the Company recommends to cover the net loss for 2020 in the amount of PLN 3 589 655 thousand from reserve capital of the Company.

30. Dividends paid and proposed for disbursement

In the year ended 31 December 2020 and the comparative period, the Company did not propose to pay or paid any dividends to the shareholders of the Company.

31. 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 JUDGEMENT 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 or with a repayment date at the end of the interest period, 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 ability 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 individual rating, taking into account a breakdown by lease term.

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	As at 31 December 2020	As at 31 December 2019
Long-term portion of debt		
Unsubordinated bonds	4 550 767	3 544 236
Subordinated bonds	1 993 876	1 908 871
Bank loans	4 782 363	4 719 385
Loans from the subsidiary	768 185	708 831
Lease	22 103	28 274
Total	**12 117 294**	**10 909 597**
Short-term portion of debt		
Unsubordinated bonds	200 518	86 808
Subordinated bonds	4 491	4 556
Bank loans	1 169 924	2 300 443
Loans from the subsidiary	2 309	2 125
Cash pool loans received	1 386 443	1 205 417
Lease	8 654	7 917
Total	**2 772 339**	**3 607 266**

(in PLN thousand)

31.1. Bonds issued

Bonds issued as at 31 December 2020

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)*			
					Total carrying amount	Accrued interest	Principal at amortized cost	up to 1 year	1-2 years	2 - 5 years	over 5 years
Bank Gospodarstwa Krajowego	floating, based on WIBOR 6M	PLN	800 000	2021-2028	799 393	448	798 945	99 953	99 917	299 607	299 468
			630 000	2021-2029	630 105	342	629 763	69 990	69 983	209 924	279 866
A series bonds (TPE 1025)	floating, based on WIBOR 6M	PLN	1 000 000	30.10.2025	1 000 115	2 760	997 355	-	-	997 355	-
Eurobonds	fixed	EUR	500 000	5.07.2027	2 321 672	27 025	2 294 647	-	-	-	2 294 647
Unsubordinated bonds					**4 751 285**	**30 575**	**4 720 710**	**169 943**	**169 900**	**1 506 886**	**2 873 981**
Bank Gospodarstwa Krajowego	floating, based on WIBOR 6M	PLN	400 000	29.03.2031[2]	400 026	559	399 467	-	-	-	399 467
European Investment Bank	fixed[1]	EUR	190 000	16.12.2034[2]	864 530	1 767	862 763	-	-	862 763	-
		PLN	400 000	17.12.2030[2]	391 458	1 243	390 215	-	-	390 215	-
		PLN	350 000	19.12.2030[2]	342 353	922	341 431	-	-	341 431	-
Subordinated bonds					**1 998 367**	**4 491**	**1 993 876**	**-**	**-**	**1 594 409**	**399 467**
Total bonds					**6 749 652**	**35 066**	**6 714 586**	**169 943**	**169 900**	**3 101 295**	**3 273 448**

[1] 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.
[2] In the case of subordinated bonds, the maturity date shall take into account two financing periods, as referred to below. The maturity dates presented in the table above are the final terms of redemption according to agreement, after two period of financing. Measurement of bonds as at the end of the reporting period, includes earlier redemption, intention of bonds redemption is after end of first period of financing. Ageing takes into account estimation of redemption after first period of financing.

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)*			
					Total carrying amount	Accrued interest	Principal at amortized cost	up to 1 year	1-2 years	2 - 5 years	over 5 years
Bank Gospodarstwa Krajowego	floating, based on WIBOR 6M	PLN	800 000	2021-2028	799 551	856	798 695	-	99 906	299 568	399 221
			630 000	2021-2029	630 368	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	3 123	24	3 099	3 099	-	-	-
			6 300	9.11.2020	6 323	27	6 296	6 296	-	-	-
			51 000	29.12.2020	50 979	13	50 966	50 966	-	-	-
Eurobonds	fixed	EUR	500 000	5.07.2027	2 140 700	24 870	2 115 830	-	-	-	2 115 830
Unsubordinated bonds					**3 631 044**	**26 447**	**3 604 597**	**60 361**	**169 886**	**509 482**	**2 864 868**
Bank Gospodarstwa Krajowego	floating, based on WIBOR 6M	PLN	400 000	29.03.2031[3]	400 123	761	399 362	-	-	-	399 362
European Investment Bank	fixed[2]	EUR	190 000	16.12.2034[3]	771 161	1 630	769 531	-	-	769 531	-
		PLN	400 000	17.12.2030[3]	395 901	1 243	394 658	-	-	-	394 658
		PLN	350 000	19.12.2030[3]	346 242	922	345 320	-	-	-	345 320
Subordinated bonds					**1 913 427**	**4 556**	**1 908 871**	**-**	**-**	**769 531**	**1 139 340**
Total bonds					**5 544 471**	**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 the table above are the final terms of redemption according to agreement, after two period of financing. Measurement of bonds as at the end of the reporting period, includes earlier redemption, intention of bonds redemption is after end of first period of financing. Ageing 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 99.44% of the par value. The Eurobonds were admitted to trading on the regulated market of the London Stock Exchange.

Bonds subscribed 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 some 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 PLN thousand)

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 7-year period (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 2020 and in the comparative period, have been presented in below table. The change in the valuation of the bonds is mainly due to the currency valuation of the liabilities contracted in EUR.

	Year ended 31 December 2020	Year ended 31 December 2019
Opening balance	**5 513 468**	**9 317 854**
Issue*	997 318	499 312
Redemption	(60 400)	(2 420 000)
Replacing the bond issue scheme by the loan arrangement	-	(1 839 600)
Measurement change	264 200	(44 098)
Closing balance	**6 714 586**	**5 513 468**

**Costs of issue have been included.*

In the year ended 31 December 2020, the Company carried out the following bond issue and redemption transactions:

Agreement/ Scheme	Description	Date of issue/ Date of redemption	Year ended 31 December 2020	
			Par value of issue	Redemption
BNP Paribas Bank Polska S.A.	Redemption of bonds according to maturity date	25.03.2020		(3 100)
		9.11.2020		(6 300)
		29.12.2020		(51 000)
A series bonds (TPE 1025)	Issue of bonds in the total nominal amount of PLN 1 000 000 thousand under the Scheme Agreement with Santander Bank Polska S.A. of 6 February 2020	30.10.2020	1 000 000	-
Total			**1 000 000**	**(60 400)**

Establishment of a bond issue scheme (A series bonds – TPE 1025)

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") up to PLN 2 000 000 thousand. Funds from the bond issue will support the implementation of the Group's energy transformation, including increasing the share of low- and zero-carbon sources in its productions structure.

On 30 October 2020, under the Scheme, the Company issued bonds in the total nominal amount of PLN 1 000 000 thousand. The bonds are unsecured bearer securities, denominated in PLN, with a maturity of 5 years. The Bonds have been listed in the alternative trading system Catalyst operated by the Warsaw Stock Exchange since 19 January 2021.

The terms and conditions of the bond issue include sustainability indicators in the form of the CO_2 emission reduction rate and a RES capacity expansion rate, the achievement of which determined the level of the bond margin.

(in PLN thousand)

New subordinated bond issue scheme

After the end of the reporting period, on 11 March 2021, TAURON Polska Energia S.A. concluded the agreement with Bank Gospodarstwa Krajowego on the new scheme for the issue of subordinated bonds up to PLN 450 000 thousand, as described in detail in Note 52 of these financial statements.

31.2. Bank loans

Borrowing institution	Purpose	Interest rate	Maturity date	As at 31 December 2020	As at 31 December 2019
Consortium of banks I [1]	Redemption of bonds, investment and Group's general expenditures	floating	28.06.2020 [3]	-	1 839 159
			02.09.2020 [3]	-	151 376
			10.09.2020 [3]	-	302 555
			01.10.2020 [3]	-	604 070
			14.10.2020 [3]	-	301 714
			31.01.2020	-	502 358
			30.04.2020	-	502 330
			28.02.2020	-	501 195
			13.01.2020	-	600 868
			14.04.2021 [3]	601 673	-
			30.04.2021 [3]	200 429	-
			29.06.2021 [3]	1 099 541	-
			10.09.2021 [3]	100 366	-
			25.01.2021	300 100	-
			28.01.2021	600 089	-
			29.01.2021	100 007	-
Bank Gospodarstwa Krajowego	Group's capital expenditures and refinancing of a portion of debt	floating	20.12.2033	998 232	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	20 354	40 047
	Construction and start-up of a co-generation unit at EC Bielsko Biała	fixed	15.12.2021	29 105	57 294
	Modernization and extension of power grid	fixed	15.06.2024	137 682	175 298
		fixed	15.09.2024	72 151	89 820
		fixed	15.09.2024	90 440	112 661
	Modernization and extension of power grid and improvement of hydropower plants	fixed	15.03.2027	190 532	219 415
Intesa Sanpaolo S.p.A.	Group's investment expenditure, except for financing or refinancing projects related to coal assets	floating	19.12.2024	250 832	-
				250 758	-
				250 526	-
SMBC BANK EU AG	Group's general corporate expenses, excluding financing and refinancing of coal-fired power plants	fixed	23.03.2025	498 860	-
Consortium of banks II [2]	Group's general corporate expenses, excluding financing of any new coal assets-related projects	floating	10.03.2021 [3]	160 610	-
Bank Gospodarstwa Krajowego (bank overdrafts)	Financing of CO_2 emission allowance, electricity and gas transactions on european stock exchanges	floating	30.12.2021	-	20 456
mBank (bank overdrafts)	Financing of performance bonds and commodity transactions	floating	31.03.2020	-	754
Total				**5 952 287**	**7 019 828**

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

(in PLN thousand)

Pursuant to the provisions of the loan agreement of 19 June 2019 concluded with the bank consortium (Consortium of banks I), the maximum period for drawing individual loan tranches is 12 months. The financing available under the agreement is renewable and the deadline for its availability is end 2022. Due to the intention and ability to maintain financing under the said agreement for a period exceeding 12 months from the balance sheet date, tranches with the total nominal value of PLN 2 000 000 thousand are presented as a long-term liability as at the balance sheet date. Tranches with a total nominal value of PLN 1 000 000 thousand are classified as current liabilities as at 31 December 2020.

Likewise, the syndicated loan taken out under the agreement of 25 March 2020 (Consortium of Banks II) is of revolving nature. The Company may raise financing against available financing with a selected interest period. Under the agreement, the repayment occurs at the end of the interest period, whereas the Company has the option to re-borrow. Due to the intention and ability to maintain financing under the said agreement for a period exceeding 12 months from the balance sheet date, the drawdown used is classified as a long-term liability as of the balance sheet date.

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, the funds from which are used to finance the general corporate purposes of the Group, excluding the construction, acquisition, expansion of coal-fired power plants and refinancing of any financial liabilities contracted or expenses incurred for such purposes. On 23 March 2020, the Company drew down funds under the said agreement in the amount of PLN 500 000 thousand.

Syndicated loan agreement (Consortium of banks II)

On 25 March 2020, TAURON Polska Energia S.A. concluded a syndicated loan agreement for the amount of PLN 500 000 thousand with Banca IMI S.P.A., London Branch, Banca IMI S.A.P., Intesa Sanpaolo S.P.A. acting through intermediation of Intesa Sanpaolo S.P.A. S.A. Branch in Poland and China Construction Bank (Europe) S.A. acting through intermediation of China Construction Bank (Europe) S.A. Branch in Poland.

The funds of the loan agreement are intended to finance general corporate purposes of the Company and the TAURON Group, excluding the financing of any new projects related to coal assets.

Pursuant to the loan agreement, the financing period is 5 years from the date of conclusion of the loan agreement with a possibility of two one-year extensions, i.e. up to a maximum of 7 years. The interest rate is calculated on the basis of a variable WIBOR interest rate, appropriate to the interest period in question, plus a margin which depends, among others, on the extent to which the loan is used and the fulfilment of pro-ecological contractual conditions, i.e. reduction of emissions and increasing the share of renewable energy sources in the TAURON Group's generation structure.

On 10 September 2020, the Company drew down funds under the said agreement in the amount of PLN 160 000 thousand.

Changes in the balance of and loans, excluding interest increasing their carrying amount, in the year ended 31 December 2020 and in the comparative period, are presented in the table below.

	Year ended 31 December 2020	Year ended 31 December 2019
Opening balance	**6 996 963**	**846 751**
Movement in bank overdrafts	**(21 210)**	**20 443**
Movement in loans (excluding bank overdrafts):	**(1 035 307)**	**6 129 769**
Repaid	(9 451 918)	(1 362 318)
Taken*	8 403 709	5 646 173
Replacing the bond issue scheme by the loan arrangement	-	1 837 822
Change in valuation	12 902	8 092
Closing balance	**5 940 446**	**6 996 963**
Interest increasing the carrying amount	11 841	22 865
Total bank loans	**5 952 287**	**7 019 828**

** Inclusive of the borrowing costs*

In the year ended 31 December 2020, the Company carried out the following transactions relating to bank loans (at a nominal value), excluding overdraft facilities:

(in PLN thousand)

Lender	Description	Year ended 31 December 2020	
		Drawdown	Repayment
Consortium of banks I	Drawdown of new tranches and repayment of tranches according to maturity date	7 000 000	(9 289 600)
Intesa Sanpaolo S.p.A.	Drawdown of 3 tranches of PLN 250 000 thousand each (total available financing)	750 000	
SMBC BANK EU AG	Drawdown of total of available financing	500 000	
Consortium of banks II	First tranche drawdown	160 000	
European Investment Bank	Repayment of capital instalments according to schedule		(162 318)
Total, *including:*		**8 410 000**	**(9 451 918)**
Cash flows		3 360 000	(4 401 918)
Net settlement (without cash flow)		5 050 000	(5 050 000)

After the end of the reporting period, under the agreement of 19 June 2019 (Consortium of Banks I), the Company has drawn tranches with a total nominal value of PLN 1 750 000 thousand and repaid tranches in accordance with the repayment schedule in the aggregate amount of PLN 2 300 000 thousand.

Bank overdrafts

The Company has available financing under current account overdraft facilities. As at 31 December 2020, the Company had no overdrafts liabilities (PLN 21 210 thousand as at 31 December 2019).

31.3. 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 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 calculated on the basis of consolidated data as at 30 June and 31 December.

As at 31 December 2020, the net debt/EBITDA ratio was 2.51 thus, the covenant was not exceeded.

31.4. 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 770 494 thousand (EUR 166 961 thousand), including interest accrued as at the balance sheet date of PLN 2 309 thousand (EUR 500 thousand). As at 31 December 2018, the carrying amount of the loan from the subsidiary was PLN 710 956 thousand (EUR 166 950 thousand), including interest of PLN 2 125 thousand (EUR 499 thousand) accrued as at the end of the reporting period.

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.

31.5. Loans received under the cash pool service

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

	As at 31 December 2020	As at 31 December 2019
Liabilities from cash pool transactions	1 386 443	1 204 453
Interest liabilities from cash pool transactions	-	964
Total, *of which:*	**1 386 443**	**1 205 417**
Current	1 386 443	1 205 417

At the same time, the Company has receivables arising from cash pool transactions, as presented in Note 20.3 of these financial statements.

The cash surplus raised by the Company under the cash pool agreement is invested in interest-bearing bank accounts.

(in PLN thousand)

31.6. Lease liabilities

As at 31 December 2020, the Company had a lease liability of PLN 30 757 thousand. The liability concerns the right of perpetual usufruct of land, lease of office and warehouse premises, parking spaces and cars.

Ageing of the lease liability

Maturity within *(after the balance sheet date)*	As at 31 December 2020	As at 31 December 2019
Within 1 year	9 502	9 339
Within 1 to 5 years	21 318	29 116
Within 5 to 10 years	411	331
Within 10 to 20 years	822	662
More than 20 years	4 088	3 356
Gross lease liabilities	**36 141**	**42 804**
Discount	(5 384)	(6 613)
Present value of lease payments	**30 757**	**36 191**

32. 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 2020	As at 31 December 2019
Liabilities arising from income tax settlements of the TCG companies	91 106	212 598
Margin deposits arising from stock exchange transactions	73 221	104
Bid bonds, deposits and collateral received	25 331	16 164
Measurement of financial guarantee	28 184	15 265
Commissions related to borrowings	4 999	7 564
Wages and salaries as well as other employee related liabilities	7 387	7 571
Other	16 961	28 604
Total	**247 189**	**287 870**
Non-current	14 090	15 126
Current	233 099	272 744

The value of margin deposits is related mostly to futures transactions in CO_2 emission allowances concluded on foreign regulated markets. The change in the value of margin deposits to the comparable period results mainly from the significant increase in the price of allowances, while taking into account the number of exchange contracts open as at the balance sheet date. The margin deposits represented funds received by the Company on account of current exchange clearing, in connection with the change in the valuation of the concluded futures contracts open as at the balance sheet date.

Liabilities due to income tax settlements of the Tax Capital Group are described in more detail in Note 15.3 to these financial statements.

33. Liabilities to suppliers

SELECTED ACCOUNTING PRINCIPLES

Current liabilities to suppliers are recognised at the amount due.

As at 31 December 2020, the highest balance of liabilities to suppliers were liabilities towards subsidiaries, Nowe Jaworzno Grupa TAURON Sp. z o.o., TAURON Sprzedaż Sp. z o.o. and TAURON Wydobycie S.A. and amounted to PLN 162 665 thousand, PLN 143 459 thousand and PLN 94 459 thousand respectively.

As at 31 December 2019, the highest balance of liabilities to suppliers were liabilities towards subsidiaries, TAURON Sprzedaż Sp. z o.o. and TAURON Wytwarzanie S.A. and towards 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.

(in PLN thousand)

34. Other non-financial liabilities

SELECTED ACCOUNTING PRINCIPLES

Other non-financial liabilities include, in particular, liabilities on account of advances received which are settled by the delivery of goods as well as liabilities arising from taxes and charges, which include:

- VAT settlements;
- Personal income tax and social security settlements;
- Environmental fees and other regulatory settlements.

	As at 31 December 2020	As at 31 December 2019
Advances received for deliveries	355 403	-
VAT	7 655	215 605
Social security	5 341	5 200
Personal Income Tax	1 856	2 186
Other	46	44
Total	**370 301**	**223 035**
Non-current	23 830	-
Current	346 471	223 035

Under the advances received for supplies, the Company presents advances received from a subsidiary TAURON Wytwarzanie S.A. for the delivery of CO_2 emission allowances resulting from transaction agreements.

The decrease in VAT liabilities results mainly from the settlement in the first quarter of 2020 of a VAT liability as at 31 December 2019 in the amount of PLN 160 528 thousand resulting from the disposal of CO_2 emission allowances by the Company to subsidiaries TAURON Wytwarzanie S.A. and TAURON Ciepło Sp. z o.o.

35. 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;
- 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 JUDGEMENT 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 2020	31 December 2019
Discount rate (%)	1.20%	2.10%
Estimated inflation rate (%)	2.50%	2.50%
Employee rotation rate (%)	8.79%	8.98%
Estimated salary increase rate (%)	2.50%	2.50%
Estimated electricity price increase rate (%)	-	3.50%
Estimated increase rate for contribution to the Social Fund (%)	3.50%	3.50%
Remaining average employment period	21.62	22.67

(in PLN thousand)

Change in provisions for employee benefits for the year ended 31 December 2020

	Provision for retirement, disability and similar benefits	Employee electricity rates	Social Fund	Provisions, total
Opening balance	**3 274**	**2 695**	**252**	**6 221**
Current service costs	815	238	55	**1 108**
Actuarial gains and losses, *of which*:	206	672	146	**1 024**
arising from changes in financial assumptions	390	736	91	**1 217**
arising from other changes	(184)	(64)	55	**(193)**
Benefits paid	(180)	-	(2)	**(182)**
Costs of past employment	-	(3 627)	-	**(3 627)**
Interest expense	63	22	5	**90**
Closing balance	**4 178**	**-**	**456**	**4 634**
Non-current	3 755	-	453	**4 208**
Current	423	-	3	**426**

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**

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 2020	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	4 178	4 423	3 955	3 961	4 413
Social Fund	456	518	401	402	516
Total	**4 634**	**4 941**	**4 356**	**4 363**	**4 929**

36. Provision for onerous contract

SELECTED ACCOUNTING PRINCIPLES

Provision for onerous contract

The Company creates the provision for the onerous contract because it is a party to the contract pursuant to which unavoidable costs of fulfilling the obligation outweigh the benefits will be obtained under it. The present obligation resulting from such an agreement is recognized by the Company and measured as a provision.

The unavoidable costs arising from the contract comprise, at least, net costs of contract termination, corresponding to the costs of fulfilment of the contract or costs of any damages or penalties arising for the failure to fulfil it, whichever is lower. The unavoidable costs of meeting the obligation shall be increased by the value of the interest due if it can be estimated reliably.

(in PLN thousand)

As at 31 December 2020, the Company recognised the provision for the onerous contract in the amount of PLN 1 109 897 thousand (of which the current portion amounts to PLN 269 439 thousand), resulting from the effects of a multi-annual agreement for the purchase of electricity generated in the 910 MW unit in Jaworzno by the Company from its the subsidiary, Nowe Jaworzno Grupa TAURON Sp. z o.o. (hereafter referred to as: the "Agreement"). The Agreement was concluded in 2018 and is part of the transaction documentation related to the investment of the Closed End Investment Funds managed by Polski Fundusz Rozwoju S.A. in the company Nowe Jaworzno Grupa TAURON Sp. z o.o. (at the time of singing the project implementing the 910 MW power unit in Jaworzno. The Company and Nowe Jaworzno Grupa TAURON Sp. z o.o. concluded an advance pricing agreement (the so-called APA) with the tax authority regarding the principles adopted in the Agreement for determining prices of electricity generated by the 910 MW unit and sold to the Company, which was approved in 2018 by the decision of the Head of the National Revenue Administration. On 13 November 2020, the 910 MW unit was put into operation.

The provision created in accordance with IAS 37 *Provisions*, *Contingent Liabilities and Contingent Assets* was calculated assuming the purchase by the Company from the company Nowe Jaworzno Grupa TAURON sp. z o.o. of the volume of electricity generated by the 910 MW unit at prices specified in the Agreement. The calculation of the provision was based on the difference between the purchase price of electricity purchased from Nowe Jaworzno Grupa TAURON Sp. z o.o. in the cost-plus formula enabling the company Nowe Jaworzno Grupa TAURON Sp. z o.o. to achieve the determined return on assets and the selling price of electricity to the subsidiaries, TAURON Sprzedaż Sp. z o.o. and TAURON Sprzedaż GZE Sp. z o.o. The average annual volume of electricity purchased from Nowe Jaworzno by the TAURON Group was estimated at a level of 7 TWh.

The sales price was calculated on the basis of the following detailed assumptions:

- the calculation of the price for 2021-2023 was based on the contracting status as at the time of developing the assumptions for the Company financial plan,
- the volume for the above three years is profiled on an hourly basis and measured based on, among other things, BASE and PEAK price, SPOT market, profile risk, unbalancing risk, trading costs, implied spread and other portfolio assumptions to the best of the company knowledge,
- the open position price for 2021 was calculated based on medium-term energy price paths,
- the price for the 2022 and 2023 open position was calculated based on sectoral energy price paths,
- the price for 2024-2030 takes into account the profiling but is treated entirely as an open position,
- the price for 2031-2060 was calculated based on the BASE electricity market price path adjusted by the average level of BASE and PEAK customer profiling for 2021-2030.

The purchase price was estimated based on the estimated cost of generating electricity by the 910 MW unit, adjusted appropriately in order to achieve the profitability of assets of Nowe Jaworzno Grupa TAURON sp.z o.o. as specified in the Agreement. The assumptions underlying the determination of the cost of electricity generation in terms of the prices of CO2 emission allowances, coal prices and the capacity market are consistent with those adopted for asset impairment tests and are described in Note 10 to these financial statements.

The provision was calculated over the term of the agreement, i.e. 40 years, covering the years 2021-2060.

Sensitivity analysis

A sensitivity analysis of the provision for onerous contract for profiling of key factors is presented in the table below:

Parameter	Change	Impact on the value of provision	
		Increase	Decrease
Change of electricity prices in the forecast period	+1%		1 109 897
	-1%	(1 711 555)	
Change of CO_2 emission allowances prices in the forecast period	+1%	(220 737)	
	-1%		220 737
Change of coal prices in the forecast period	+1%	(154 293)	
	-1%		154 293
No revenue from the Capacity Market		(1 320 397)	

(in PLN thousand)

37. Other provisions

SELECTED ACCOUNTING PRINCIPLES

Provisions are recognised 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 and the provision for recourse claims against the Company.

	Year ended 31 December 2020	Year ended 31 December 2019
Opening balance	**77 094**	**72 894**
Recognision	7 281	4 200
Reversal	(24 732)	-
Utilisation	(54 734)	-
Closing balance	**4 909**	**77 094**
Current	4 909	77 094

In the current reporting period and in the comparable period, the Company updated provisions for tax risks due to the control proceedings instigated in 2014 and 2016 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.

On 17 September 2020, the Head of the Mazowiecki Customs and Tax Office in Warsaw issued a decision terminating the control proceedings initiated in 2014, which was received on 7 October 2020. Therefore, the Company revaluated the provision accordingly:

- the provision of PLN 54 734 thousand was used in connection with the determination of the liability;
- the provision of PLN 24 497 thousand was released in the scope of interest accrued.

The payment of the liability in the total amount of PLN 54 734 thousand (of which PLN 51 819 thousand was the principal and PLN 2 915 thousand was the interest due until the date the proceedings were initiated) was made in October 2020. At the same time, on 20 October 2020, the Company filed an appeal against the decision of the Head of the Mazowiecki Customs and Tax Office in Warsaw of 17 September 2020. The appeal, together with the case files was forwarded to the second instance authority, i.e. the Director of the Revenue Administration Chamber in Katowice. On 18 December 2020 the Director of the Revenue Administration Chamber in Katowice had issued a decision setting a new deadline for the conclusion of the appeal proceedings. The new deadline was set for 15 April 2021.

As regards the control proceedings initiated in 2016, in November 2020 the Company received the result of the control, i.e. a document ending the control proceedings, in which no irregularities were found as regards the subject matter of the control. The Company did not create provisions for the effects of these proceedings.

As regards the next control proceedings initiated in 2016, after the end of the reporting period, on 15 January 2021, the Head of the Mazowiecki Customs and Tax Office in Warsaw issued a decision ending the control proceedings. On 3 February 2021, the Company paid the amount of the liability covered by the decision including interest in the total amount of PLN 798 thousand.

38. Accruals, deferred income and government grants

	As at 31 December 2020	As at 31 December 2019
Bonuses	8 178	8 006
Unused holidays	3 019	2 689
Other	7 547	6 161
Total	**18 744**	**16 856**
Non-current	1 184	-
Current	17 560	16 856

(in PLN thousand)

EXPLANATORY NOTE TO THE STATEMENT OF CASH FLOWS

SELECTED ACCOUNTING PRINCIPLES

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

39. Significant items of the statement of cash flows

39.1. Cash flows from operating activities

Change in working capital

	Year ended 31 December 2020	Year ended 31 December 2019
Change in receivables	395 753	(777 570)
Change in inventories	(244 667)	260 223
Change in payables excluding loans	553 961	(121 826)
Change in other non-current and current assets	(3 356)	942
Change in deferred income, government grants and accruals	1 888	152
Change in provisions	1 035 101	5 001
Change in working capital	**1 738 680**	**(633 078)**

39.2. Cash flows from investing activities

Loans granted

The granting of loans in the amount of PLN 1 933 932 thousand included:

- granting a loan to the subsidiaries:
  - TAURON Wydobycie S.A. in the amount of PLN 898 354 thousand;
  - TAURON Wytwarzanie S.A. in the amount of PLN 500 000 thousand;
  - TAURON Dystrybucja S.A. in the amount of PLN 250 000 thousand;
  - TAURON Sprzedaż Sp. z o.o in the amount of PLN 100 000 thousand;
  - TEC 1 Sp. z o.o. EW Śniatowo sp. k. in the amount of PLN 34 000 thousand;
  - TAURON Serwis Sp. z o.o in the amount of PLN 11 000 thousand;
  - AVAL -1 Sp. z o.o in the amount of PLN 9 300 thousand;
- granting tranches of a loan to the jointly controlled entity, Elektrociepłownia Stalowa Wola S.A. in the total amount of PLN 94 775 thousand;
- granting a loan to the subsidiary, PGE EJ1 Sp. z o.o in the amount of PLN 10 500 thousand;
- change of the balance of loans granted to subsidiaries under the long-term cash pool agreement in the amount of PLN 26 003 thousand.

Acquisition of shares

Payments to acquire shares of PLN 690 623 thousand were related to the Company's transfer of funds to increase the capital of the following companies:

- Nowe Jaworzno Grupa TAURON Sp. z o.o. in the amount of PLN 645 100 thousand;
- PGE EJ1 Sp. z o.o in the amount of PLN 18 858 thousand;
- EEC Magenta Sp. z o.o. 2 ASI spółka komandytowo-akcyjna in the amount of PLN 8 166 thousand;
- EEC Magenta Sp. z o.o. ASI spółka komandytowo-akcyjna in the amount of PLN 773 thousand;

and capital contribution to Polska Energia – Pierwsza Kompania Handlowa Sp. z o.o. of PLN 17 616 thousand and Marselwind Sp. z o.o. of PLN 110 thousand.

Repayment of loans granted

Repayment of loans granted in the amount of PLN 216 558 thousand related mainly to repayment of the loan granted to the subsidiary, TAURON Wytwarzanie in the amount of PLN 200 000 thousand.

(in PLN thousand)

Interest received

	Year ended 31 December 2020	Year ended 31 December 2019
Interest received in relation to debt securities	-	334 996
Interest received in relation to loans granted	226 638	320
Total	**226 638**	**335 316**

39.3. Cash flows from financing activities

Loans repaid

Expenditure on repayment of loans related to repayment by the Company in the year ended 31 December 2020:

- tranches of loans to the consortium of banks (Consortium of banks I) in the amount of PLN 4 239 600 thousand;
- instalments of the loan to the European Investment Bank in the amount of PLN 162 318 thousand.

Interest paid

	Year ended 31 December 2020	Year ended 31 December 2019
Interest paid in relation to loans	(205 710)	(114 878)
Interest paid in relation to debt securities	(173 850)	(290 531)
Interest paid in relation to the lease	(311)	(400)
Other interest	-	(72)
Total	**(379 871)**	**(405 881)**

Loans taken

Proceeds from loans in the amount of PLN 3 360 000 thousand in the year ended 31 December 2020 related to the drawdown of:

- tranches of the loan under the agreement concluded with the consortium of banks (Consortium of banks I) in the amount of PLN 1 950 000 thousand;
- all available financing under the loan agreement concluded with Intesa Sanpaolo S.p.A. bank, acting through Intesa Sanpaolo S.p.A. S.A. Branch in Poland, in the amount of PLN 750 000 thousand;
- all available financing under the loan agreement concluded with SMBC BANK EU AG in the amount of PLN 500 000 thousand;
- a tranche of a loan in the amount of PLN 160 000 thousand under the syndicated loan agreement of 25 March 2020 (Consortium of banks II), as described in more detail in Note 31.2 to these financial statements.

FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT

40. Financial instruments

SELECTED ACCOUNTING PRINCIPLES

Financial assets held by the Company under IFRS 9 *Financial Instruments* are classified into the following classes of financial instruments:

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

As at the balance sheet date, the Company had no financial assets measured at a 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*.

The Company divides the liabilities into the following classes:

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

(in PLN thousand)

PROFESSIONAL JUDGEMENT 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 day. The Company recognises the 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 26 and 41.1.2. hereof.

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

Categories and classes of financial assets	As at 31 December 2020		As at 31 December 2019	
	Carrying amount	Fair value	Carrying amount	Fair value
1 Financial assets measured at amortized cost	**6 632 136**	**6 632 136**	**6 569 821**	**6 569 821**
Receivables from buyers	1 301 409	1 301 409	1 472 462	1 472 462
Loans granted under cash pool agreement	278 715	278 715	475 178	475 178
Other loans granted	5 029 713	5 029 713	4 621 558	4 621 558
Other financial receivables	22 299	22 299	623	623
2 Financial assets measured at fair value through profit or loss (FVTPL)	**1 027 536**	**1 027 536**	**1 592 623**	**1 592 623**
Derivative instruments	158 846	158 846	86 067	86 067
Long-term shares	32 352	32 352	48 136	48 136
Shares classified as non-current assets held for sale	53 136	53 136	-	-
Loans granted	72 523	72 523	216 018	216 018
Other financial receivables	67 545	67 545	292 052	292 052
Investment fund units	-	-	26 622	26 622
Cash and cash equivalents	643 134	643 134	923 728	923 728
3 Derivative hedging instruments	**-**	**-**	**19 462**	**19 462**
4 Financial assets excluded from the scope of IFRS 9 *Finanical Instruments*	**20 486 017**		**21 796 047**	
Shares in subsidiaries	19 704 429		21 380 195	
Shares in a subsidiary classified as non-current assets held for sale	365 736	365 736	-	-
Shares in jointly-controlled entities	415 852		415 852	
Total financial assets, *of which in the statement of financial position:*	**28 145 689**		**29 977 953**	
Non-current assets	**24 424 816**		**26 914 435**	
Shares	20 152 633		21 844 183	
Loans granted	4 233 601		5 047 552	
Derivative instruments	36 041		20 352	
Other financial assets	2 541		2 348	
Current assets	**3 720 873**		**3 063 518**	
Receivables from buyers	1 301 409		1 472 462	
Loans granted	1 147 350		265 202	
Derivative instruments	122 805		85 177	
Other financial assets	87 303		316 949	
Cash and cash equivalents	643 134		923 728	
Non-current assets classified as held for sale	418 872		-	

(in PLN thousand)

Categories and classes of financial liabilities	As at 31 December 2020		As at 31 December 2019	
	Carrying amount	Fair value	Carrying amount	Fair value
1 Financial liabilities measured at amortized cost	**15 870 161**	**16 312 262**	**15 193 028**	**15 483 307**
Arm's length loans, *of which:*	8 109 224	8 244 276	8 914 991	9 001 735
Liability under the cash pool loan	1 386 443	1 386 443	1 205 417	1 205 417
Bank loans	5 952 287	5 984 104	6 998 618	7 014 391
Loans from the subsidiary	770 494	873 729	710 956	781 927
Overdraft	-	-	21 210	21 210
Bonds issued	6 749 652	7 056 701	5 544 471	5 748 006
Liabilities to suppliers	764 096	764 096	424 486	424 486
Other financial liabilities	246 661	246 661	287 819	287 819
Liabilities due to purchases of fixed and intangible assets	528	528	51	51
2 Financial liabilities measured at fair value through profit or loss (FVTPL)	**85 523**	**85 523**	**124 527**	**124 527**
Derivative instruments	85 523	85 523	124 527	124 527
3 Derivative hedging instruments	**90 061**	**90 061**	**-**	**-**
4 Financial liabilities excluded from the scope of IFRS 9 *Finanical Instruments*	**30 757**		**36 191**	
Liabilities under leases	30 757		36 191	
Total financial liabilities, *of which in the statement of financial position:*	**16 076 502**		**15 353 746**	
Non-current liabilities	**12 205 123**		**10 941 571**	
Debt	12 117 294		10 909 597	
Other financial liabilities	14 090		15 126	
Derivative instruments	73 739		16 848	
Current liabilities	**3 871 379**		**4 412 175**	
Debt	2 772 339		3 607 266	
Liabilities to suppliers	764 096		424 486	
Derivative instruments	101 845		107 679	
Other financial liabilities	233 099		272 744	

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:*		Derivatives have been measured in line with the methodology presented in Note 21 hereto.
IRS and CCIRS	2	
Currency forwards	2	
Commodity forwards and futures	1	
Non-current shares	3	The Company estimated the fair value of shares held in other entities 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. In justify cases, 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.
		Financial liabilities whose fair value is disclosed
Loans, borrowings and bonds issued	2	Liabilities arising from fixed interest debt are measured at fair value. The fair value measurement was carried out based on the present value of future cash flows discounted using an interest rate applicable to given bonds or loans, i.e. applying market interest rates.

The fair value of other financial instruments as at 31 December 2020 and 31 December 2019 (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.

(in PLN thousand)

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 2020 no changes occurred in the measurement methodology applied to the above financial instruments.

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 at the 3rd level of the fair value hierarchy

	Year ended 31 December 2020		Year ended 31 December 2019	
	Not quoted shares	Loans granted	Not quoted shares	Loans granted
Opening balance	**48 136**	**216 018**	**46 066**	**199 256**
Gains/(losses) for the period recognized in financial revenue/costs	(87)	(143 495)	(9 902)	16 762
Purchased	46 939	-	11 972	-
Other changes	(9 500)	-	-	-
Closing balance	**85 488**	**72 523**	**48 136**	**216 018**

In the year ended 31 December 2020 and 31 December 2019, no reclassification occurred between level 1 and 2 of the fair value hierarchy; nor did such classification occur from or to level 3 of that hierarchy.

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

Year ended 31 December 2020

	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	4 463	-	-	-	1 077 568	**1 082 031**
Interest income/(expense)	3 762	325 389	(378 241)	(29 465)	(1 162)	**(79 717)**
Commissions	-	-	(18 209)	-	-	**(18 209)**
Exchange differences	(4 918)	5 705	(303 833)	-	-	**(303 046)**
Impairment / revaluation	111 674	(1 453 507)	(12 919)	(34)	(1 982 355)	**(3 337 141)**
Gain/loss on disposal of investments	2 073	-	-	-	-	**2 073**
Gain/(loss) on realized derivative instruments*	11 838	-	-	-	-	**11 838**
Net financial income/(costs)	**128 892**	**(1 122 413)**	**(713 202)**	**(29 499)**	**(905 949)**	**(2 642 171)**
Revaluation	(1 926)	(6 273)	-	-	-	**(8 199)**
Gain/(loss) on realized derivative instruments*	(136 382)	-	-	-	-	**(136 382)**
Net operating income/(costs)	**(138 308)**	**(6 273)**	-	-	-	**(144 581)**
Remeasurement of IRS	-	-	-	(103 172)	-	**(103 172)**
Other comprehensive income	-	-	-	**(103 172)**	-	**(103 172)**

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

The loss on realised derivative financial instruments in the amount of PLN 136 382 thousand also includes the result of closing forward transactions maturing in December 2020 in connection with the change in the strategy for securing the redemption needs related to CO_2 emission allowances of the Generation area (loss of PLN 123 792 thousand), as further discussed in Note 12 to these financial statements.

(in PLN thousand)

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.*

41. 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 risk;
  - exchange rate risk;
  - raw material and commodity price risk related to commodity derivative instruments.

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 are presented in the table below.

Risk exposure	Risk management	Regulation
	Credit risk	
Possible loss resulting from the counterparty default on contractual obligations. The credit exposure involves a default risk (the amount that may be lost if a counterparty defaults on 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

Risk exposure	Risk management	Regulation
	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. 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, the Company'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.	TAURON Group manages the currency risk and the interest rate risk on the basis of the TAURON Group Financial Risk Management Policy developed and adopted for use, as well as the Risk Tolerance, the Global Limit for Financial Risk and its decomposition into individual types of financial risk approved by the Management Board. The key objective of such risk management is to 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

41.1. 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 2020	As at 31 December 2019
Receivables from buyers	1 301 409	1 472 462
Loans granted	5 380 951	5 312 754
Cash and cash equivalents	643 134	923 728
Derivative instruments	158 846	105 529
Other financial receivables	89 844	292 675

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.

41.1.1 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.

In an environment of uncertainty and dynamic changes caused by the COVID-19 pandemic, TAURON Group's credit risk measures focus on early identification of potential counterparties exposed to increased levels of credit risk. These measures include, among others, tightening of the rules for assessing the financial standing of counterparties, continuous monitoring of receivables, monitoring of industry information and the macroeconomic environment.

Company's exposure to credit risk related to receivables from buyers, including aging, impairment and risk concentration of risk, is presented in Note 26 to these financial statements.

41.1.2 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 analysed beginning from the initial recognition of a given asset.

When analysing 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 2020 and 31 December 2019 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 the Company's opinion, no additional credit risk occurs at stage 1 and 2 that would exceed the level determined by the allowance for expected credit losses, recognised for each item of loans granted. At stage 3, the Company recognised impaired loans measured at amortised cost for which interest was accrued on the net carrying amount (net of allowance).

Measurement of the loan granted to the joint venture Elektrociepłownia Stalowa Wola S.A., classified as financial assets measured at fair value through profit or loss, with the carrying amount of PLN 72 523 thousand, includes credit risk effects. The loan is collateralized with a blank promissory Note accompanied by a promissory note agreement.

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.

(in PLN thousand)

Loans measured at amortised cost by ratings used in the Company

	Year ended 31 December 2020					Year ended 31 December 2019				
	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	Instruments purchased with an 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	Level 3: allowance for expected credit losses over the life period - with impairment	Instruments purchased with an impairment	Total
AAA do A	-	-	-	-	**-**	3 014 527	-	-	-	**3 014 527**
A- do BBB-	4 458 974	-	-	-	**4 458 974**	160 997	-	-	-	**160 997**
BB+ do BB	-	-	-	-	**-**	666 984	320 020	-	-	**987 004**
BB- do B	103 061	825 357	27 670	-	**956 088**	652 422	11 362	-	-	**663 784**
B- do D	-	-	-	-	**-**	5 230	96 903	-	268 576	**370 709**
Gross value	**4 562 035**	**825 357**	**27 670**	**-**	**5 415 062**	**4 500 160**	**428 285**	**-**	**268 576**	**5 197 021**
impairment loss	(15 474)	(89 680)	(1 480)	-	**(106 634)**	(27 883)	(68 806)	-	(3 596)	**(100 285)**
Net value	**4 546 561**	**735 677**	**26 190**	**-**	**5 308 428**	**4 472 277**	**359 479**	**-**	**264 980**	**5 096 736**

41.1.3 Credit risk related to other financial assets

Cash and equivalents

The Company manages its cash credit risk by diversifying the banks where surplus cash can be deposited while reducing the cost of holding cash in accounts. These are banks holding investment grade ratings.

As at 31 December 2020, the share of three banks in which the Company holds the highest cash balances amounted to 96%, of which the highest balance of cash was held in accounts with Bank Gospodarstwa Krajowego - 56%.

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

	As at 31 December 2020	As at 31 December 2019
Initial and variation margin deposits arising from stock exchange transactions	48 663	209 466
Receivables due to income tax settlement by TCG companies	21 869	-
Bid bonds, deposits and collateral transferred	19 161	82 951
Other	151	258
Total	**89 844**	**292 675**

The main item comprises initial margins and other collaterals resulting from transactions concluded on exchanges. Commodity exchange mechanisms and collateral used materially mitigate the credit risk.

41.2. 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.

(in PLN thousand)

TAURON Group carries out a centralized finance management policy, allowing effective management in this respect on the Capital Group level. Among others, the Group has adopted *Liquidity management policy for the TAURON Group*, which facilitates optimization of liquidity management at the 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 mitigate a possibility of cash flow disruption and liquidity risk, the TAURON Group uses the cash pooling mechanism. The cash pooling structure enables the Group companies that experience short-term shortage of funds to use cash provided by companies with cash surplus, without the need to obtain borrowings from third parties.

The Company also has available financing under the concluded overdraft agreements up to the amount of EUR 45 000 thousand allocated for financing transactions on the European exchanges. The purpose of concluding a FX loan agreement is to mitigate the exchange rate risk associated with euro-denominated trade transactions. As at 31 December 2020, the Company did not have any liabilities arising from the aforementioned loan.

In addition, the Company primarily has available financing under syndicated loan agreements which can be used for general corporate purposes, including securing the Group's current liquidity position.

The policy pursued with regard to the acquisition of financing sources enables, above all, an increase in the possibility of obtaining financing for general corporate purposes and capital expenditure, a reduction in the cost of external capital, a reduction in the amount and forms of collateral established on TAURON Group assets and covenants required by financial institutions, and allows a decrease in administrative expenses. The centralized financing model allows access to funding sources inaccessible for individual companies.

In terms of liquidity, the Company was obliged, as a result of the high price volatility in the electricity and related products market, which was affected by the COVID-19 pandemic, to pay (especially in the first half of 2020) high amounts of the required variation margins both to the IRGiT and to the ICE exchange, which consequently translated into the level of cash committed for this purpose. In order to mitigate the impact of the pandemic on its liquidity position, the Company has under taken a number of measures including, but not limited to, entering into additional agreements to allow the required collateral to be lodged with the IRGiT in non-cash form, as further described in Note 51 to these financial statements.

In 2020, the Company was fully able to pay its liabilities at maturity.

The tables below show the ageing of the Company financial liabilities by undiscounted contractual payments.

Financial liabilities as at 31 December 2020

	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	**14 858 876**	**(16 913 848)**	(2 437 580)	(584 219)	(2 560 796)	(613 482)	(5 377 045)	(5 340 726)
Liabilities to suppliers	**764 096**	**(764 096)**	(764 096)	-	-	-	-	-
Liabilities due to purchases of fixed and intangible assets	**528**	**(528)**	(208)	-	(160)	(160)	-	-
Other financial liabilities	**246 661**	**(246 661)**	(232 784)	(107)	(2 500)	(2 500)	(5 000)	(3 770)
Lease liabilities	**30 757**	**(36 141)**	(2 556)	(6 946)	(9 037)	(8 706)	(3 575)	(5 321)
Derivative financial liabilities								
Derivative instruments - commodity	**83 768**	**(17 920)**	(288)	(12 956)	(4 676)	-	-	-
Derivative instruments - IRS	**90 061**	**(90 412)**	(1 746)	(30 979)	(31 305)	(21 793)	(3 646)	(943)
Derivate instruments - CCIRS	**1 755**	**(13 448)**	-	(1 962)	(1 888)	(1 888)	(3 932)	(3 778)
Total	**16 076 502**	**(18 083 054)**	**(3 439 258)**	**(637 169)**	**(2 610 362)**	**(648 529)**	**(5 393 198)**	**(5 354 538)**

(in PLN thousand)

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)**

As at 31 December 2020, the Company had guarantees, sureties and collaterals granted to related companies for the total amount of PLN 1 438 339 thousand (excluding registered and financial pledges on shares), as at 31 December 2019 - PLN 1 404 068 thousand. As at 31 December 2020, the most significant item is a corporate guarantee granted to a subsidiary up to EUR 168 000 thousand (PLN 775 286 thousand) and a bank guarantee in the amount of PLN 517 500 thousand issued to Bank Gospodarstwa Krajowego, as further discussed in Note 43 to these financial statements.

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

41.3. 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.

41.3.1 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 materialisation 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. IRS transactions concluded in order to hedge interest rate risk are subject to hedge accounting.

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 a fair value are also exposed to interest rate risk: IRS, CCIRS and selected loans.

(in PLN thousand)

Financial instruments by interest rate type

Financial instruments	Year ended 31 December 2020			Year ended 31 December 2019		
	Fixed interest rate	Floating interest rate	Total	Fixed interest rate	Floating interest rate	Total
Financial assets						
Loans granted	5 099 816	281 135	**5 380 951**	4 832 577	480 177	**5 312 754**
Cash and cash equivalents	-	632 426	**632 426**	-	923 728	**923 728**
Derivative instruments - CCIRS	5 023	-	**5 023**	-	-	**-**
Derivative instruments - IRS	-	-	**-**	19 462	-	**19 462**
Financial liabilities						
Bank overdrafts	-	-	**-**	-	21 210	**21 210**
Arm's length loans	3 559 966	4 549 258	**8 109 224**	3 603 661	5 311 330	**8 914 991**
Bonds issued	6 009 594	740 058	**6 749 652**	5 043 940	500 531	**5 544 471**
Derivative instruments - IRS	90 061	-	**90 061**	-	-	**-**
Derivative instruments - CCIRS	1 755	-	**1 755**	12 885	-	**12 885**
Leases liabilities	30 757	-	**30 757**	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, ESTRON and LIBOR USD interest rates. As at 31 December 2020 and 31 December 2019, its exposure to changes in EURIBOR, ESTRON and LIBOR USD rates was insignificant.

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

Klasy instrumentów finansowych	31 grudnia 2020		Analiza wrażliwości na ryzyko stopy procentowej na 31 grudnia 2020 roku		31 grudnia 2019		Analiza wrażliwości na ryzyko stopy procentowej na 31 grudnia 2019 roku	
	Wartość bilansowa	Wartość narażona na ryzyko	WIBOR +225 pb	WIBOR -225 pb	Wartość bilansowa	Wartość narażona na ryzyko	WIBOR +38 pb	WIBOR -38 pb
			*Wynik finansowy / Pozostałe całkowite dochody**				*Wynik finansowy / Pozostałe całkowite dochody**	
Pożyczki udzielone	5 380 950	353 657	(8 730)	13 080	5 312 754	696 195	(8 093)	8 608
Środki pieniężne i ich ekwiwalenty	643 134	632 426	11 525	(5 658)	923 728	923 728	3 476	(3 476)
Instrumenty pochodne (aktywa)	158 845	5 023	29 458	(29 458)	105 529	19 462	37 204	(37 204)
Kredyty i pożyczki udzielane na warunkach rynkowych	8 109 222	6 299 605	(141 741)	110 546	8 914 991	7 509 499	(28 536)	28 536
Wyemitowane obligacje	6 749 655	2 829 640	(63 667)	63 667	5 544 471	1 890 467	(7 184)	7 184
Instrumenty pochodne (zobowiązania)	175 583	91 816	415 964	(415 964)	124 527	12 885	6 098	(6 098)
Razem			**242 809**	**(263 787)**			**2 965**	**(2 450)**

* *Refers to Interest Rate Swap financial derivatives covered by hedge accounting, as further discussed in Note 21 to these financial statements.*

As at 31 December 2020, the sensitivity analysis for the risk of falling interest rates does not take into account cash on bank accounts and cash pool funds, for which banks will not charge a negative interest rate in accordance with contractual provisions.

The risk exposure as at 31 December 2020 and as at 31 December 2019 is representative of the Company's risk exposure during the preceding one-year period.

41.3.2 Currency risk

The tables below present the Company's exposure to currency risk by particular classes of financial instruments as at 31 December 2020 and 31 December 2019. The Company's significant exposure relates to changes in the EUR/PLN exchange rate, mainly due to external financing incurred in EUR. The Company's exposure to other currencies is immaterial.

(in PLN thousand)

	Stan na 31 grudnia 2020			Stan na 31 grudnia 2019		
	Łączna wartość bilansowa w PLN	EUR w walucie	EUR w PLN	Łączna wartość bilansowa w PLN	EUR w walucie	EUR w PLN
Financial assets						
Receivables from buyers	1 301 409	11	50	1 472 462	285	1 214
Other financial receivables	89 844	11 153	51 470	292 675	49 784	212 005
Cash and cash equivalents	643 134	25 561	117 961	923 728	1 503	6 400
Derivatives (assets)	158 846	17 529	80 894	105 529	14 214	60 531
Razem	**2 193 233**	**54 254**	**250 375**	**2 794 394**	**65 786**	**280 150**
Financial liabilities						
Arm's length loans	8 109 224	166 961	770 494	8 914 991	166 950	710 957
Bank overdrafts	-	-	-	21 210	4 804	20 456
Bonds issued	6 749 652	690 431	3 186 202	5 544 471	683 776	2 911 861
Liabilities to supplier	764 096	7 440	34 333	424 486	267	1 137
Other financial liabilities	246 661	15 867	73 221	287 819	2 530	10 774
Derivatives (liabilities)	175 584	17 026	78 573	124 527	13 206	56 238
Razem	**16 045 217**	**897 725**	**4 142 823**	**15 317 504**	**871 533**	**3 711 423**
Pozycja walutowa netto		**(843 471)**	**(3 892 448)**		**(805 747)**	**(3 431 273)**

TAURON Polska Energia S.A. uses forward contracts for currency risk management purposes. Transactions 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 euro.

Measurement at fair value of FX forward contracts and CCIRS transactions 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 occurs for EUR; other currencies do not generate material risk for the Company.

The table below presents 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.

Klasy instrumentów finansowych	31 grudnia 2020		Analiza wrażliwości na ryzyko walutowe na 31 grudnia 2020 roku		31 grudnia 2019		Analiza wrażliwości na ryzyko walutowe na 31 grudnia 2019 roku	
			EUR/PLN				EUR/PLN	
	Wartość bilansowa	Wartość narażona na ryzyko	kurs EUR/PLN +5,78%	kurs EUR/PLN -5,78%	Wartość bilansowa	Wartość narażona na ryzyko	kurs EUR/PLN +4,24%	kurs EUR/PLN -4,24%
Należności od odbiorców	1 301 409	50	3	(3)	1 472 462	1 214	51	(51)
Inne należności finansowe	89 844	51 470	2 975	(2 975)	292 675	212 005	8 989	(8 989)
Środki pieniężne i ich ekwiwalenty	643 134	117 961	6 818	(6 818)	923 728	6 400	271	(271)
Instrumenty pochodne (aktywa)	158 845	153 650	160 819	(160 819)	105 529	60 531	2 567	(2 567)
Kredyty i pożyczki udzielane na warunkach rynkowych	8 109 222	770 493	(44 535)	44 535	8 914 991	710 957	(30 145)	30 145
Kredyty w rachunku bieżącym	-	-	-	-	21 210	20 456	(867)	867
Wyemitowane obligacje	6 749 655	3 186 202	(184 162)	184 162	5 544 471	2 911 861	(123 463)	123 463
Zobowiązania wobec dostawców	764 096	34 333	(1 984)	1 984	424 486	1 137	(48)	48
Pozostałe zobowiązania finansowe	247 189	73 221	(4 232)	4 232	287 819	10 774	(457)	457
Instrumenty pochodne (zobowiązania)	175 583	80 327	(1 370)	1 370	124 527	98 946	79 408	(79 408)
Razem			**(65 668)**	**65 668**			**(63 694)**	**63 694**

The risk exposure as at 31 December 2020 and as at 31 December 2019 is representative of the Company's risk exposure during the preceding one-year period.

(in PLN thousand)

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

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 2020, the portfolio of concluded contracts is fully balanced. This minimises market risk in the commodity derivatives portfolio. This is confirmed by a sensitivity analysis, which indicated immaterial effects of potential changes in the prices of emission allowances on Company's gross profit/loss.

42. 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 53 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 in the table below.

Fuel type	Unit	2020		2019	
		Volume	Purchase cost	Volume	Purchase cost
Electricity	MWh	40 781 732	10 183 880	38 811 497	9 371 915
Gas	MWh	4 123 571	337 711	3 595 490	351 085
Total			**10 521 591**		**9 723 000**

In terms of coal trading, the Company is not exposed to the price risk, as it acts as an agent generating revenue from agency services only.

OTHER INFORMATION

43. Contingent liabilities

As at 31 December 2020 and 31 December 2019, the Company's contingent liabilities were mainly the effect of securities and guarantees given to related parties and were as follows:

(in PLN thousand)

Type of contingent liability	Company in respect of which contingent liability has been granted	Beneficiary	Validity	As at 31 December 2020			As at 31 December 2019	
				Currency		PLN	Currency	PLN
corporate guarantee	Finanse Grupa TAURON Sp. z o.o.	Private placement investors	3.12.2029	EUR	168 000	775 286	168 000	715 428
liability towards MUFG Bank, Ltd. under guarantees issued by the bank for jointly-controlled entity	Elektrociepłownia Stalowa Wola S.A.	Bank Gospodarstwa Krajowego	11.04.2021			517 500		517 500
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
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.					30 000		30 000
surety contract[2]	Kopalnia Wapienia Czatkowice Sp. z o.o.	Regional Fund for Environmental Protection and Water Management in Kraków	-			-		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.	-			-		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.	30.11.2021			20 000		20 000
	Elektrociepłownia Stalowa Wola S.A.	Operator Gazociągów Przesyłowych GAZ-SYSTEM S.A.	-			-		1 667
		Bank Gospodarstwa Krajowego	30.01.2021			9 959		9 959
			-	USD	-	-	3 664	13 915
			24.04.2021	USD	1 329	4 993	1 329	5 047
liability towards CaixaBank S.A. being result of guarantees issued by the bank for subsidiaries	various subsidiaries	various entities	31.12.2020-28.07.2029			32 808		8 821

[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] In the year ended 31 December 2020 surety granted to subsidiaries in the amount of PLN 914 thousand and PLN 33 024 thousand and surety granted to Elektrociepłownia Stalowa Wola S.A. in the amount of USD 3 664 thousand expired.

After the end of the reporting period:

- on 28 January 2021, a guarantee agreement was concluded between the Company, PGNiG S.A. and Elektrociepłownia Stalowa Wola S.A., whereby the Company granted a corporate guarantee of up to PLN 6 750 thousand for obligations of Elektrociepłownia Stalowa Wola S.A. on account of electricity sale agreements, electricity transmission or distribution service agreements. The guarantee is valid until 15 February 2022;
- bank guarantees issued by CaixaBank S.A. entered into force to secure liabilities and transactions of subsidiaries of TAURON Polska Energia S.A. for a total amount of PLN 29 234 thousand. The most important item is the guarantee issued to secure the liabilities of the subsidiary Nowe Jaworzno Grupa TAURON Sp. z o.o. in the amount of PLN 25 000 thousand for the contract concluded with PSE S.A. contracts for the provision of electricity transmission services, valid form 19 February 2021 to 30 June 2021.

The most significant items of contingent liabilities concern:

- Corporate guarantee for the amount of EUR 168 000 thousand

  The corporate guarantee was granted in 2014 to secure the bonds (so-called NSV) of Finanse Grupa TAURON Sp. z o.o. The guarantee is valid until 3 December 2029, i.e. until the date of redemption of bonds, and amounts to EUR 168 000 thousand (PLN 775 286 thousand), and the beneficiaries of the guarantee are the privet placement investors who purchased the issued bonds.

- 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.

  After the end of the reporting period, on 2 February 2021, a guarantee limit agreement was concluded, under which an annex to a bank guarantee of up to PLN 517 500 thousand was issued, valid until 11 April 2022. The collateral for MUFG Bank, Ltd.'s claims against the Company is a declaration on submission to execution up to the amount of PLN 621 000 thousand with the term of validity until 31 October 2022.

In relation to the guarantee issued, the Company recognised a liability in the amount of expected credit losses, amounting to PLN 28 184 thousand as at 31 December 2020 (PLN 15 265 thousand as at 31 December 2019).

- 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 31 December 2020 was PLN 415 852 thousand.

- Blank promissory Notes with a promissory Notes declarations

  The Company issued two blank promissory notes with promissory notes declarations with a total value of PLN 70 000 thousand 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, i.e. until 15 December 2022. As at the balance sheet date, the outstanding amount of loans secured with the promissory Notes was PLN 8 000 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 groups of companies: 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 electricity purchase and property rights concluded with these companies ineffective. In the course of court proceedings, plaintiffs extend their scope raising new contractual penalty and contract termination related claims, or they file separate suits for the payment of damages.

As of the date of approval of these financial statements for publication, the amount of damages claimed in the lawsuits is as follows: 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. and Talia Sp. z o.o., partial and preliminary judgements were issued (judgement of 25 July 2019 in the Amon Sp. z o.o. lawsuit and judgement of 6 March 2020, supplemented by the court on 8 September 2020 in the Talia Sp. o.o. lawsuit), in which the courts determined that the statements of Polska Energia-Pierwsza Kompania Handlowa Sp. z o.o. on termination of long-term contracts concluded between Polska Energia-Pierwsza Kompania Handlowa Sp. z o.o. and Amon Sp. z o.o. and 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. Moreover, the Courts recognised the claims of Amon Sp. z o.o. and Talia Sp. z o.o. for payment of damages as justified in principle, but they did not prejudge the amount of possible damages. The judgements are not valid. Polska Energia Pierwsza Kompania Handlowa sp. z o.o. filed a complaint against the judgments.

The above partial and preliminary judgements do not change the Group's assessment that the chances of losing a case are no higher than the chance of winning it.

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 security by ordering Polska Energia - Pierwsza Kompania Handlowa Sp. z o.o. to execute in full the provisions of the agreements on the existing terms and conditions, in accordance with their contents, until the legal conclusion of the proceedings in the action brought by Pękanino Wind Invest Sp. z o.o. against Polska Energia-Pierwsza Kompania Handlowa Sp. z o.o., pending before the District Court in Warsaw. The security order is final and binding. This provision does not prejudge the merits of the action, which can only take place in a judgement which is final and binding, 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, Polska Energia-Pierwsza Kompania Handlowa Sp. z o.o. created a provision for onerous contracts which value as at balance sheet date is amounted of PLN 8 297 thousand.

The remaining proceedings are pending before the courts of first instance (including one which was referred to the second instance court for re-examination by the first instance court).

In light of the current status of the proceedings and the related circumstances, the Group believes that the chances of losing other cases both as regards declaration of ineffectiveness of the termination notices and securing non-monetary claims and the claims for compensation are not higher than the chances for winning them. Therefore, no provision for the related costs except for the reserve created for the proceedings of Pękanino Wind Invest Sp. z o.o. as referred to above) will be created.

In connection with the transaction of purchase on 3 September 2019 by subsidiaries of TAURON Polska Energia S.A., i.e. TEC1 Sp. z o.o, TEC2 Sp. z o.o. and TEC3 Sp. z o.o. five wind farms belonging to the in.ventus group and financial claims of Hamburg Commercial Bank AG against the companies operating the wind farms, the cases from the in.ventus group companies brought against Polska Energia-Pierwsza Kompania Handlowa Sp. z o.o. were suspended by the court, at the joint request of the parties. In March 2020, the parties filed an application to initiate proceedings in order to withdraw the claimant's statement of claim together with a waiver of the claim. In June 2020, the court took up the proceedings and the companies submitted statements of withdrawal of the waiver of claims. By order of 3 July 2020, the court discontinued the proceedings in the above-mentioned case. The judgment is final and binding.

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 damages claimed in lawsuits is as follows: Polenergia group companies – PLN 78 855 thousand, Wind Invest group companies – PLN 272 450 thousand.

Moreover, the claimants' companies indicate in their lawsuits the following values of estimated damages that may arise in the future: 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 positive resolution in disputes should be assessed positively, i.e. the chances of losing are no higher than the chances of winning it.

In connection with the transaction of purchase on 3 September 2019 by subsidiaries of TAURON Polska Energia S.A., i.e. TEC1 Sp. z o.o, TEC2 Sp. z o.o. and TEC3 Sp. z o.o. five wind farms belonging to the in.ventus group and financial claims of Hamburg Commercial Bank AG against the companies operating the wind farms, the cases from the in.ventus group companies brought against TAURON Polska Energia S.A. were suspended by the court, at the joint request of the parties. In the first quarter of 2020, the parties filed an application to initiate proceedings in order to withdraw the claimant's statement of claim together with a waiver of the claim. The court has taken action at the unanimous request of the parties. By letter dated 5 June 2020, the claimant party withdrew its waiver of the claim. By order of 6 August 2020, the court discontinued the proceedings in the above-mentioned case. The judgment is final and binding.

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

In 2018, the 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 conclusions that the Company, Polska Energia-Pierwsza Kompania Handlowa Sp. z o.o. and liquidators of Polska Energia-Pierwsza Kompania Handlowa Sp. z o.o. have caused and continue to cause damage to the companies from the Polenergia group, and TAURON Sprzedaż Sp. z o.o. has consciously benefited from this damage and – according to the companies from the Polenergia group – 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. The case is not subject to legal proceedings.

Claim against PGE EJ 1 Sp. z o.o.

On 13 March 2015, a consortium consisting of WorleyParsons Nuclear Services JSC, WorleyParsons International Inc, WorleyParsons Group Inc (hereinafter referred to as the "WorleyParsons Consortium"), which is the research contractor for the investment process related to the construction of a nuclear power plant by PGE EJ 1 Sp. z o.o. (hereinafter referred to as the "Agreement"), reported in connection with the Agreement – in a call for payment to PGE EJ 1 Sp. z o.o. – claims for a total amount of PLN 92 315 thousand. As a result, on 15 April 2015, the Company (as a holder of 10% of shares in the issued capital of PGE EJ 1 Sp. z o.o.) concluded an agreement with PGE EJ 1 Sp. z o.o. and its other shareholders (i.e. PGE Polska Grupa Energetyczna S.A., KGHM Polska Miedź S.A. and ENEA S.A.) that regulated mutual relations related to these 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 capital exposure to that entity. In November 2015, the District Court in Warsaw delivered to PGE EJ 1 Sp. z o.o. a lawsuit of WorleyParsons consortium for the amount of about PLN 59 million, subsequently extended in 2017 and 2019 to about PLN 128 million.

PGE EJ1 Sp. z o.o. did not accept the claim and believed that the probability that the court would decide in favour of the plaintiffs was remote. No provisions were recognised 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 ERO. Currently, the trial is pending before the Court of Appeal in Warsaw.

Under a suit of 12 March 2007 against GZE and the State Treasury represented by the President of the Energy Regulatory Office (jointly and severally) Huta claimed the payment of PLN 182 060 thousand 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 ERO President dated 12 October 2001 concerning resumption of deliveries of electricity to Huta.

In this case, the courts of the first and second instance passed judgements favourable for GZE; however, in its judgement of 29 November 2011 the Supreme Court overruled the judgement of the Court of Appeals and remanded the case for re-examination by that Court. On 5 June 2012, the Court of Appeals overruled the decision of the Regional Court and remanded the case for re-examination by the latter. By judgement of 28 May 2019, the Regional Court in Warsaw dismissed Huta's claim in its entirety and ruled that Huta reimbursed each of the respondents 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 awarding the costs of the proceedings against the respondents in favour of Huta, or alternatively 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 the legal analysis of the claims, as well as taking into account the above judgement, the Company believes that the claims are unfounded and the risk of having to satisfy them is negligible. As a result, no provision has been recognised by the Company for any costs associated with those claims.

Case filed by ENEA S.A.

Case filed by ENEA S.A. ("ENEA") against TAURON Polska Energia S.A., which has been heard by the Regional Court in Katowice since 2016, regards the payment of PLN 17,086 thousand with statutory interest from 30 June 2015 until the payment date. The actual basis of ENEA's claim are allegations concerning unjust enrichment of the Company in connection with possible errors in the determination of aggregated measurement and settlement data by ENEA Operator Sp. z o.o. constituting the basis for settlements between ENEA and the Company and Polskie Sieci Elektroenergetyczne S.A. on account of imbalance on the Balancing Market in the period from January to December 2012. During the proceedings, at the request of ENEA additional sellers were summoned, for whom TAURON Polska Energia S.A. acted as an entity responsible for trade balancing, including the Company's subsidiaries, i.e. TAURON Sprzedaż Sp. z o.o. and TAURON Sprzedaż GZE Sp. z o.o. The claim for payment by the above subsidiaries amounting in total to PLN 8 414 thousand, together with statutory interest, was submitted by the claimant in the event the action against TAURON Polska Energia S.A. is dismissed.

After the end of the reporting period, on 22 March 2021, the Regional Court in Katowice dismissed ENEA's claim in its entirety and ruled on ENEA's obligation to reimburse the Company for the costs of the proceedings. The judgment is not final and binding.

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 5 928 thousand in case of TAURON Sprzedaż Sp. z o.o.) and in the total amount of PLN 4 214 thousand in case of TAURON Sprzedaż GZE Sp. z o.o.

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

The investment agreement signed by the Company with the Closed-End Investment Funds ("Funds") managed by the Polish Development Fund provides for a number of situations whose occurrence constitutes a material breach of the agreement by the Company. The above situations, some of which are beyond the direct control of the Company, include, among others, the occurrence of events of a legal nature, events relating to the financial and material 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. Any possible material breach of the agreement on the part of the Group's companies may lead to the potential launch of a procedure, the effect of which may be a request (activation of an option) by the Closed-End Investment Funds 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 the agreed return and a material breach bonus and reduced by the distribution of funds by Nowe Jaworzno Grupa TAURON Sp. z o.o. to the Funds.

n 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.

On 4 May 2020, the subsidiary Nowe Jaworzno Grupa TAURON Sp. z o.o. and the contractor signed an agreement relating to the performance of the 910 MW Unit construction contract, in which the estimated date of commissioning of the 910 MW Unit was postponed to 15 November 2020, which is described in more detail in Note 51 of these financial statements. On 5 August 2020, the Company, the subsidiary Nowe Jaworzno Grupa TAURON Sp. z o.o. and the Funds concluded annexes to the investment agreement as well as an annex to the conditional agreement on the sale of the Funds' shares in Nowe Jaworzno Grupa TAURON Sp. z o.o. concluded by the Company with the Funds. On the basis of the above annexes, in particular the deadline for commissioning of the unit specified in the investment agreement was postponed by six months. On 13 November 2020, the 910 MW power unit was commissioned, which in the context of the annexes to the investment agreement signed, means that the cut-off date for unit commissioning has not been exceeded, and thus no breach of the investment agreement.

As at the date of approval of these financial statements for publication, the Company does not identify on its part any risk of material breach of the agreement, which is beyond the Company's direct control, and is of the opinion that there is no real possibility, including in the future, of occurrence of material breaches of the agreement.

(in PLN thousand)

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

44. Security for liabilities

The most significant types of collateral securing the Company's liabilities as at 31 December 2020 are presented in the table below.

Collateral	Collateral amount – Currency		Collateral amount – PLN	Due date	Agreement/transaction
Declarations of submission to enforcement			7 284 000	31.12.2025	Loan arrangement with a consortium of banks of 19 June 2019
			2 550 000	20.12.2032	Long-term Bond Issue Scheme in Bank Gospodarstwa Krajowego of 31 July 2013
			1 500 000	31.12.2036	Overdraft agreement with Bank Gospodarstwa Krajowego of 19 December 2018
			900 000	31.12.2027	Credit agreements with Intesa Sanpaolo S.p.A. of 19 December 2019
			621 000	31.10.2021	Bank guarantee agreement dated 28 January 2020 with MUFG Bank, Ltd.[1]
			600 000	30.06.2034	Subordinated Bond Issue Scheme in Bank Gospodarstwa Krajowego of 6 September 2017
			600 000	17.12.2021	Bank account agreement (intraday limit) with PKO Bank Polski S.A. of 9 October 2017[2]
			600 000	31.12.2028	Credit agreement with SMBC Bank EU AG of 16 March 2020
			600 000	31.12.2030	Credit agreement with a consortium of banks of 25 March 2020
			600 000	14.03.2023	Agreement concluded with BGK for bank guarantees in favour of Izba Rozliczeniowa Giełd Towarowych S.A. of 13 March 2020
			600 000	31.03.2021	Membership agreement in the Exchange Clearing Chamber operated by Izba Rozliczeniowa Giełd Towarowych S.A.[2]
			360 000	29.12.2021	Overdraft agreement with PKO Bank Polski S.A. of 9 October 2017 [2]
			300 000	24.04.2024	Agreement concluded with Santander Bank Polska S.A. for bank guarantees for the benefit of Izba Rozliczeniowa Giełd Towarowych S.A. of 24 April 2020
			384 000	31.12.2027	Agreement concluded with Santander Bank Polska S.A. on intra-day credit in the Intra Day auxiliary account of 8 December 2020
			240 000	31.12.2023	Bond Issue Scheme of 24 November 2015 [2]
			180 000	25.05.2024	Contingent agreement concluded with Intesa Sanpaolo S.p.A. Spółka Akcyjna Branch in Poland for bank guarantees for the benefit of Izba Rozliczeniowa Giełd Towarowych S.A. of 25 May 2020
	EUR	24 000	110 755	31.12.2021	Overdraft agreement with Bank Gospodarstwa Krajowego of 30 December 2015 [2]
	EUR	50 000	230 740	31.12.2021	
	EUR	67 500	311 499	31.12.2022	
			96 000	27.05.2024	Framework bank guarantee agreements with CaixaBank S.A. of 27 May 2019
			24 000	27.05.2029	
Bank account mandates			500 000	13.03.2022	Agreement concluded with BGK for bank guarantees in favour of Izba Rozliczeniowa Giełd Towarowych S.A. of 13 March 2020
			300 000	22.02.2021	Bank account agreement (intraday limit) with PKO Bank Polski S.A. of 9 October 2017 [2]
			300 000	22.02.2021	Overdraft agreement with PKO Bank Polski S.A. of 9 October 2017 [2]
	EUR	45 000	207 666	30.12.2021	Overdraft agreement with Bank Gospodarstwa Krajowego of 30 December 2015
			80 000	26.05.2023	Framework bank guarantee agreements with CaixaBank S.A. of 27 May 2019
			20 000	26.05.2028	
Bank guarantees			100 000	15.01.2021	Bank guarantees issued by Intesa Sanpaolo S.p.A. Spółka Akcyjna Oddział w Polsce, Santander Bank Polska S.A. and BGK to Izba Rozliczeniowa Giełd Towarowych S.A. as a collateral of transactions concluded on Power Commodity Exchange
			50 000	15.01.2021	
			30 000	18.02.2021	
			10 000	30.06.2021	Bank guarantee issued by CaixaBank S.A. to PSE S.A. as performance security for the power transmission service agreement and to GAZ-SYSTEM S.A. as transmission contract performance security
			1 000	31.03.2021	
			500	31.12.2021	
Blank promissory notes to secure the payment of the Company's liabilities			7 559	-	Security for adequate performance of obligations under the concluded grants agreements

[1] The security in the form of a declaration of submission to execution submitted to the Guarantee Limit Agreement dated 28 January 2020 relates to an addendum to the bank guarantee issued under the previous Guarantee Limit Agreement concluded with MUFG Bank, Ltd. in February 2019, which extended its term to 11 April 2021. The security in the form of a declaration of submission to execution submitted to the guarantee limit agreement concluded in February 2019 in the amount of PLN 621 000 thousand expired on 31 July 2020.
[2] The security relates to an agreement for which, as at the balance sheet date, the liabilities expired, were repaid or replaced with other liabilities (in case of an overdraft facility agreement with BGK of 30 December 2015, it concerns declarations of submission to enforcement in the amount of EUR 24 000 thousand and EUR 50 000 thousand).

After the end of the reporting period:

- bank guarantees securing the Company's liabilities were issued in favour of the IRGiT. On the date of approval of these financial statements for publication, two bank guarantees are valid in the total amount of PLN 80 000 thousand, with expiry dates on 16 April and 18 June 2021;
- on 12 March 2021, the annex to the agreement with Bank Gospodarstwa Krajowego on bank guarantees in favour of IRGiT was concluded, under which the declaration on submission to enforcement up to the amount of PLN 300 000 thousand with the effectiveness term until 14 March 2024 was issued. The new declaration replaces the declaration

(in PLN thousand)

on submission to enforcement up to the amount of PLN 600 000 thousand with the effectiveness term until 14 March 2023.

Transfer of title to CO_2 emission allowances and property rights arising from certificates of energy origin

In 2019 and in February 2020, agreements for the transfer of title to CO_2 emission allowances to the IRGiT were concluded between the Company and the IRGiT and between the Company, a subsidiary of TAURON Wytwarzanie S.A. and the IRGiT. As of 31 December 2020, title to CO_2 emission allowances in the total amount of 3 021 799 tonnes were transferred to the IRGiT, including:

- The Company has deposited 2 205 000 tonnes of allowances held in the Union Registry account,
- the subsidiary, TAURON Wytwarzanie S.A. has transferred of title to rights owned by her in total amount of 816 799 tons.

After the end of the reporting period, on 16 February 2021, all allowances owned by subsidiary were returned to the account of TAURON Wytwarzanie S.A. and are no longer the subject of the transfer of title. Additionally, on 17 March 2021 some allowances in the amount of 1 660 000 tonnes were returned to the Company.

On 10 February 2020, two ownership transfer agreements concerning property rights arising from certificates of energy origin were concluded between the Company, the subsidiary TAURON Sprzedaż Sp. z o.o. and the IRGiT and between the Company, the subsidiary TAURON Sprzedaż GZE Sp. z o.o. and the IRGiT. As at 31 December 2020, pursuant to the agreements entered into, the subsidiaries submitted an instruction to block the property rights held in a total of 1 930 594.92 MWh in the Certificate of Origin Register maintained by the Polish Power Exchange. After the end of the reporting period, on 18 January 2021, all property rights arising from certificates of origin were unblocked and are no longer the subject of the transfer of title.

45. Capital commitments

As at 31 December 2020 and as at 31 December 2019 the Company did not have any capital commitments.

46. Related-party disclosures

46.1. 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.

Revenues and expenses

	Year ended 31 December 2020	Year ended 31 December 2019
Revenue from subsidiaries	**12 726 629**	**12 328 267**
Revenue from operating activities	11 220 072	10 836 473
Dividend income	1 077 568	1 065 648
Other finance income	428 989	426 146
Revenue from jointly-controlled entities	**262 304**	**145 866**
Revenue from State Treasury companies	**196 282**	**253 360**
Costs from subsidiaries	**(3 190 863)**	**(1 928 766)**
Costs of operating activities	(3 158 745)	(1 884 774)
Finance costs	(32 118)	(43 992)
Costs incurred with relation to transactions with jointly-controlled entities	**(60 668)**	**(9 149)**
Costs from State Treasury companies	**(686 783)**	**(954 395)**

(in PLN thousand)

Receivables and liabilities

	As at 31 December 2020	As at 31 December 2019
Loans granted to subsidiaries and receivables from subsidiaries	**9 752 655**	**8 322 763**
Receivables from buyers	1 283 880	1 434 004
Loans granted under cash pool services	312 756	532 174
Other loans granted	8 130 671	6 351 775
Receivables arising from the TCG	21 371	-
Other financial receivables	89	178
Other non-financial receivables	3 888	4 632
Loans granted to jointly-controlled entities and receivables from jointly-controlled entities	**495 496**	**388 189**
Receivables from State Treasury companies	**18 893**	**25 912**
Liabilities to subsidiaries	**3 152 699**	**2 392 415**
Liabilities to suppliers	545 363	264 063
Loans received under cash pool services	1 365 579	1 189 214
Other loans received	770 494	710 956
Liabilities arising from the TCG	91 106	212 446
Other financial liabilities	24 025	15 015
Other non-financial liabilities	356 132	721
Liabilities to jointly-controlled entities	**40 991**	**633**
Liabilities to State Treasury companies	**85 389**	**73 399**

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 the year ended 31 December 2020, 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 97% of the total revenue from State Treasury companies.

In the year ended 31 December 2020, 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 in transactions with those entities represented 92% 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.

46.2. 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 2020 and in the comparative period has been presented in the table below.

	Year ended 31 December 2020	Year ended 31 December 2019
Management Board	**4 679**	**5 209**
Short-term benefits (with surcharges)	3 699	4 650
Temination benefits	829	541
Other	151	18
Supervisory Board	**648**	**898**
Short-term employee benefits (salaries and surcharges)	648	898
Other members of key management personnel	**16 853**	**17 805**
Short-term employee benefits (salaries and surcharges)	14 910	15 707
Temination benefits	959	933
Other	984	1 165
Total	**22 180**	**23 912**

(in PLN thousand)

The above table takes into account the amounts paid or payable until 31 December 2020. In addition, in accordance with the adopted accounting policy, the Company recognizes provisions for termination of management contract benefits for members of the Management Board and termination employment benefits allocated to other key executives, which may be paid or payable in future reporting periods.

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

47. 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 57 to the Consolidated Financial Statements for the year ended 31 December 2020.

48. Employment structure

The following note presents average headcount in the annual periods ended 31 December 2020 and 31 December 2019.

	Year ended 31 December 2020	Year ended 31 December 2019
Administration	380	385
Sales department	95	95
Total	**475**	**480**

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

49. 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 2020.

50. 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.

(in PLN thousand)

Statement of comprehensive income by type of activity for the 2020 financial year

	Gas	Other activity	Unallocated items	Total
Sales revenue	342 433	10 998 031	-	**11 340 464**
Cost of sales	(336 954)	(11 764 566)	-	**(12 101 520)**
Profit on sale (loss)	**5 479**	**(766 535)**	**-**	**(761 056)**
Selling and distribution expenses	(629)	(20 200)	-	**(20 829)**
Administrative expenses	**-**	**-**	(117 509)	**(117 509)**
Other operating income and expenses	-	(10 509)	-	**(10 509)**
Operating profit (loss)	**4 850**	**(797 244)**	**(117 509)**	**(909 903)**
Dividend income	-	1 082 031	-	**1 082 031**
Interest income on bonds and loans	-	325 247	-	**325 247**
Interest expense on debt	-	(409 623)	-	**(409 623)**
Revaluation of shares	-	(589 010)	-	**(589 010)**
Revaluation of bonds and loans	-	(1 453 476)	-	**(1 453 476)**
Revaluation write-off to fair value of non-current assets classified as held for sale			-	**(1 393 432)**
Other finance income and costs	-	(179 464)	-	**(179 464)**
Profit (loss) before tax	**4 850**	**(3 414 971)**	**(117 509)**	**(3 527 630)**
Income tax expense	**-**	**-**	(62 025)	**(62 025)**
Net profit (loss)	**4 850**	**(3 414 971)**	**(179 534)**	**(3 589 655)**

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)**

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.

(in PLN thousand)

Statement of financial position by type of activity as at 31 December 2020

	Gas	Other activity	Unallocated items	Total
ASSETS				
Non-current assets, *of which:*	**943**	**24 497 540**	**-**	**24 498 483**
Shares	-	20 152 633	-	**20 152 633**
Loans granted	-	4 233 601	-	**4 233 601**
Derivative instruments	482	35 559	-	**36 041**
Deferred tax assets	-	-	-	**-**
Other financial assets	461	2 080	-	**2 541**
Current assets, *of which*:	**37 526**	**3 442 219**	**729 914**	**4 209 659**
Receivables from buyers	35 621	1 265 788	-	**1 301 409**
Income tax receivables	-	-	82 464	**82 464**
Loans granted	-	1 147 350	-	**1 147 350**
Derivative instruments	2	122 803	-	**122 805**
Other financial assets	1 903	85 400	-	**87 303**
Other non-financial assets	-	7 975	4 316	**12 291**
Cash and cash equivalents	-	-	643 134	**643 134**
TOTAL ASSETS	**38 469**	**27 939 759**	**729 914**	**28 708 142**
EQUITY AND LIABILITIES				
Equity	**-**	**-**	**11 123 155**	**11 123 155**
Non-current liabilities, *of which:*	**735**	**13 069 860**	**4 208**	**13 074 803**
Debt	-	12 117 294	-	**12 117 294**
Other financial liabilities	400	13 690	-	**14 090**
Derivative instruments	335	73 404	-	**73 739**
Provisions for employee benefits	-	-	4 208	**4 208**
Current liabilities, *of which:*	**3 915**	**4 159 372**	**346 897**	**4 510 184**
Debt	-	2 772 339	-	**2 772 339**
Liabilities to suppliers	3 913	760 183	-	**764 096**
Other financial liabilities	-	233 099	-	**233 099**
Derivative instruments	2	101 843	-	**101 845**
Other non-financial liabilities	-	-	346 471	**346 471**
Provisions for employee benefits	-	-	426	**426**
TOTAL EQUITY AND LIABILITIES	**4 650**	**17 229 232**	**11 474 260**	**28 708 142**

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**

51. 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 (“Judgement”) was issued in the case filed by Abener Energia S.A. ("Abener") against Elektrociepłownia Stalowa Wola S.A. ("ECSW"), which is a joint venture of 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, 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 against the Judgement.

On 22 September 2020, the Court of Appeals in Rzeszów, by its judgement, dismissed the complaint of ECSW to repeal the Judgement, and on 29 September 2020, declared the Judgement enforceable. ECSW filed a request for service of the aforementioned judgement on the adjudication of the action with a statement of reasons; the company received a copy of the judgement on 20 October 2020.

In addition, on 25 September 2020, ECSW filed a request with the Court of Appeals in Rzeszów to suspend the enforceability of the Judgement until the cassation appeal is heard, and on 7 October 2020, it filed a complaint against the decision to make the Judgement enforceable.

On 20 November 2020, the Court of Appeals in Rzeszów issued a decision to suspend the execution of the Judgement until the conclusion of the cassation proceedings or the expiry of the time limit for filing a cassation appeal. On 21 December 2020, ECSW filed a complaint in cassation.

In connection with the above Judgement, Elektrociepłownia Stalowa Wola S.A. recognised a provision in the statement of financial position, which amounts to PLN 439 144 thousand as at 31 December 2020.

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 19 October 2020, ECSW filed a statement of claim with the Court of Arbitration at the Polish Chamber of Commerce in Warsaw against Abener for payment by Abener to ECSW of PLN 198 664 thousand and EUR 461 thousand, together with interest, as compensation for damages corresponding to the costs of rectifying the defects, faults and deficiencies in the works, deliveries and services performed by Abener during the performance of the above contract. The proceedings are ongoing.

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. On 30 September 2020, Elektrociepłownia Stalowa Wola was commissioned.

Change of the commissioning date for the 910 MW power unit

In connection with the failure of one of the boiler elements during the last testing phase of the 910 MW power unit (“Unit”) in Jaworzno, 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. On 6 March 2020, the subsidiary Nowe Jaworzno Grupa TAURON Sp. z o.o. received information from the contractor, according to which the estimated commissioning of the Unit was to take place by the end of July 2020. On 4 May 2020, the subsidiary Nowe Jaworzno Grupa TAURON Sp. z o.o. and the contractor signed an agreement related to the execution of the contract for the construction of the Unit. In the signed agreement, the parties agreed on the causes of the damage to one of the boiler components referred to above. According to the conclusions presented by the emergency commission consisting of representatives of the parties, the failure resulted from an unfavourable combination of phenomena during the start-up of the Unit. In addition, the emergency committee agreed on a method of repairing the damaged boiler components that will avoid similar failures in the future.

The agreement also established a schedule of activities including procedures to prevent the risk of recurrence of failures and procedures for tuning and start-up work on the Unit. The agreement was followed by an addendum to the main contract between the parties, in which the Contractor undertook to commission the Unit by 15 November 2020. This deadline took into account the additional time needed to remedy the failure referred to above.

On 13 November 2020, the Unit was commissioned. On the day of commissioning of the 910 MW Unit, Nowe Jaworzno Grupa TAURON Sp. z o.o., E003B7 Sp. z o.o. (a company 100% controlled by RAFAKO S.A. in restructuring) and the Consortium (acting with the consent of the supervisor of the arrangement in simplified restructuring proceedings) signed a settlement agreement which is the result of mediation conducted before the Court of Arbitration at the Polish Prosecutor General's Office and which regulates in particular the following issues:

- Nowe Jaworzno Grupa TAURON Sp. z o.o. and the Consortium waived their mutual equivalent claims which had occurred by the date of signing the Settlement Agreement, except for, inter alia, Nowe Jaworzno Grupa TAURON Sp. z o.o.'s claims under warranty or guarantee and recourse claims against the Consortium for payment of further subcontractors' claims and the Consortium's claims for work performed in accordance with the contract,
- The Consortium will perform additional services for Nowe Jaworzno Grupa TAURON Sp. z o.o., including optimising the operation of the Unit, which will result, inter alia, in reducing the technical minimum of the Unit from 40% to 37%. In addition, the technical guarantee for the high-pressure part of the boiler will be extended by six months (to 36 months), for which Nowe Jaworzno Group TAURON Sp. z o.o. will receive additional security provided by the guarantors.

The Settlement became effective after the end of the reporting period, on 6 January 2021, following the fulfilment of all conditions precedent, key among which were the commissioning of the Unit by 15 November 2020, the submission by the Consortium of an agreement in the form of a Promissory note with financial institutions on how to raise the funds necessary to complete the project and the approval of the Settlement by a court of law.

In connection with the conclusion of the settlement, on 13 November 2020, Nowe Jaworzno Grupa TAURON Sp. z o.o. and the Consortium concluded an annex to the agreement for the construction of the Unit, which regulates in detail the arrangements between the parties set out in the Settlement Agreement with respect to additional services provided by the Consortium, including, inter alia, dates of their performance and related dates of payments.

Impact of the COVID-19 pandemic on the activity of the Company and TAURON Group

The development of COVID-19 disease has been observed in Poland during the year ending 31 December 2020. As a result, numerous restrictions have been introduced in the country to stop the spread of the SARS-CoV-2 virus that causes COVID-19 disease. This situation has caused disturbances in the economic and administrative system in Poland and worldwide. As a result, the pandemic has significantly reduced economic activity, affecting the work of industrial plants and companies in the small and medium-sized companies segment. Consequently, in the medium and long term, it is expected that the pandemic will continue to affect national, European as well as global economic conditions, having a negative impact on economic growth in Poland in 2021 and beyond. Material issues relating to the impact of the pandemic on the TAURON Group are presented below. Bearing in mind that the Company is the parent company of the Group, which coordinates selected aspects of the activities of the subsidiaries, the areas of pandemic impact on the Group presented below are significant from the point of view of the Company, as they may indirectly affect its financial situation.

- The situation related to the COVID-19 pandemic in 2020 significantly affected the level of demand for electricity in the National Power System and, consequently, the volumes of electricity distribution and sales in the TAURON Group. In the second half of 2020, the impact of the COVID-19 pandemic on domestic demand was milder than it was in the first half of 2020. The biggest drop in electricity consumption in Poland took place in the second quarter of 2020, amounting to as much as 8.5%, while the country's annual electricity consumption fell by around 2.3% compared to the same period in 2019. Changes in electricity demand resulted in a decrease in revenues mainly in the area of electricity distribution and sales. The Group estimates that, in terms of the Distribution segment, the adverse impact of the pandemic on EBITDA amounted to PLN 47 876 thousand, which is due to the loss of some sales volume to non-household customers. With regard to the Sales segment, the estimated negative impact of the pandemic on EBITDA amounted to PLN 77 179 thousand, due to the loss of margin associated with the decrease in electricity sales and the need to balance the purchase position. In addition, the pandemic situation has led to a reduction in production in the area of conventional generation and, consequently, to a fall in demand for hard coal and an increase in coal stocks. In view of this situation, renegotiations were undertaken with coal suppliers on price and quantity conditions for its purchase. In order to mitigate the negative impact of the pandemic on TAURON Group, an agreement was signed between the Management Board of the Company and the social side, limiting working hours and reducing the remuneration of the company's Management Board and employees by 20% in the period of three months starting from 1 May 2020. In turn, at TAURON Wytwarzanie S.A., an agreement signed between the company's Management Board and the social side limited working hours and reduced the remuneration of the company's Management Board and employees by 10% in the corresponding period. These agreements made it possible to reduce costs and obtain funds under the solutions contained in the anti-crisis shield for reduced working hours of employees.

- Disturbances in economic activity in Poland caused financial difficulties for customers and contractors of the TAURON Group. The situation was mitigated by regulatory measures in the introduction of successive anti-crisis shields, which were aimed at maintaining liquidity and protecting jobs at Polish entrepreneurs. In the period from March to December 2020, changes in the level of overdue receivables were observed in the first weeks of the development of the pandemic. In the remainder of the year, past due receivables were broadly stable, with increased migration of the balance of receivables into subsequent past due periods observed. In order to limit potential credit losses, extended credit risk management criteria are applied, monitoring of receivables has been intensified and debt collection activities have been stepped up. The COVID-19 pandemic has further affected the need for additional allowances for expected credit losses of financial instruments and the remeasurement to fair value of loans granted. This increased the Company's operating expenses by PLN 7 530 thousand and financial expenses by PLN 19 619 thousand.
- In terms of the market environment, increased volatility was observed in the prices of commodity instruments, in particular electricity and CO_2 emission allowances, which translated into an increase in the required security deposits and, consequently, the level of cash committed for this purpose. In order to improve its liquidity position, the Company has entered into guarantee limit agreements allowing it to provide the required collateral to the IRGiT in non-cash form. The Company has also taken advantage of the anti-crisis shield solution by filing a declaration of submission to enforcement with the IRGiT, thereby reducing the level of deposits made both in cash and in established bank guarantees (this solution, in accordance with the Act, expired on 30 September 2020). In order to further reduce the liquidity risk, the Company matched the delivery dates of the concluded forward contracts for CO_2 emission allowances with their redemption dates and decided to conclude new contracts exclusively on the OTC market. A capping system for TAURON expenditure has also been introduced.
- In terms of financial instruments, a depreciation of the zloty and a fall in interest rates were observed, including an intervention reduction in the NBP reference interest rate. Changes in exchange rates affect the costs incurred to purchase CO_2 emission allowances, as well as the valuation of the Company's debt denominated in foreign currencies. On the other hand, changes in interest rates may affect the costs resulting from the concluded financing agreements based on a variable interest rate.
- As a result of the COVID-19 pandemic, there were also some difficulties in the implementation of TAURON Group's strategic investment projects. In the case of the investment in the construction of the 910 MW unit at Jaworzno and the construction of the unit at EC Stalowa Wola, these occurred in the early stages of the pandemic as a result of the introduction of strict controls on access to infrastructure and additional security procedures. With regard to the construction of the 910 MW unit, COVID-19 was one of the reasons for amending the contract with the consortium of Rafako S.A. and Mostostal Warszawa S.A. (the change in the commissioning date of the 910 MW power unit is described above in this Note). In order to mitigate the consequences of project disruptions, all contractors implementing the projects cooperate closely and on an ongoing basis with TAURON Group companies responsible for the investments, which monitor the situation in the projects and respond appropriately to the situation using available tools.
- The pandemic situation also affected the operations of individual business areas through increased employee absenteeism and increased operating costs resulting from the need to meet epidemiological conditions. In this regard, the TAURON Group has taken a number of preventive measures in organisational and material terms aimed at protecting employees of individual TAURON Group companies and maintaining the continuity of critical infrastructure operations. Dedicated Crisis Teams have been established at the level of the Parent Company as well as individual Subsidiaries in order to coordinate the security work related to the threat of COVID-19.

In conclusion, the TAURON Group, being aware of the risks related to the epidemiological situation, undertook in 2020 and continues to undertake active measures to mitigate the impact of the current and expected economic situation as well as to protect against extreme events. However, it should be stressed that the COVID-19 pandemic situation is highly volatile and the future impact and scale of the pandemic are difficult to estimate precisely at present. The duration of the pandemic, its severity and spread, and its impact on Polish economic growth in the short, medium and long term will be important. The Company's Management Board, being aware of the threats resulting from the pandemic, monitors the impact on an ongoing basis and takes all possible steps to mitigate any negative effects of the COVID-19 pandemic on the TAURON Group.

52. Events after the end of the reporting period

Conclusion of the negotiations in the sales process of shares in TAURON Ciepło Sp. z o.o.

Polskie Górnictwo Naftowe i Gazownictwo S.A., on 29 January 2021, expressed its will to discontinue the negotiations aimed at the acquisition of shares in TAURON Ciepło Sp. z o.o.

Due to the failure to conclude the transaction, the Management Board of the Company decided to commence analyses concerning the Heat Area, taking into account the projected changes in the external environment, including regulatory and market changes as well as taking into account the outlook of the Polish heat sector, which may affect further decisions on the sale of shares in TAURON Ciepło Sp. z o.o. or keeping of the Company in in Group.

New subordinated bond issue scheme

On 11 March 2021, TAURON Polska Energia S.A. concluded the agreement with Bank Gospodarstwa Krajowego on the new scheme for the issue of subordinated bonds up to PLN 450 000 thousand.

The subordinated bond issue scheme provides for a possibility to carry out the issue within a period of two years from signing of the documentation. The financing period is 12 years from the date of issue. In the period of the first 7 years following the issue, the Company cannot redeem the bonds earlier and BGK cannot sell the bonds to third parties. The interest rate is variable based on WIBOR 6M increased by a fixed margin, and after the 7-year financing period, the margin is additionally increased.

If issued, the bonds will be subscribed by Bank Gospodarstwa Krajowego on the primary market.

Funds from the issue may be used to finance the Group's current and investment needs, including projects related to Green Turn of TAURON.

Until the date of approval of these financial statements for publication, no bonds had been issued.

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

On 17 March 2021, the Extraordinary General Meeting of Polska Energia-Pierwsza Kompania Handlowa Sp. z o.o. adopted a resolution on contributing to the company's equity in the amount of PLN 10 800 thousand by the sole shareholder of TAURON Polska Energia S.A. As part of the additional payments, the funds were contributed by the Company on 24 March 2021.

Restructuring of the portfolio of CO_2 emission allowances of the subsidiary Nowe Jaworzno Grupa TAURON Sp. z o.o.

As part of the management of the portfolio of CO_2 emission allowances of its subsidiaries, the company acquires allowances for redemption purposes of the Group's production companies. After the balance sheet date, in March 2021, the Group restructured the portfolio of CO_2 emission allowances of the subsidiary Nowe Jaworzno Grupa TAURON Sp. z o.o., in relation to the volume of 3 258 000 CO_2 emission allowances, with the deadline for collection in March 2021.

Due to the delay in putting the 910 MW unit into operation and, consequently, lower production, the company's portfolio had a significant surplus of allowances contracted for the purpose of meeting the redemption obligation for 2020 over the actual demand. As at the balance sheet date, the Group intended to purchase CO_2 emission allowances with a maturity date of March 2021, therefore these contracts are recognized as excluded from IFRS 9 *Financial Instruments* and therefore are not measured at fair value as at the balance sheet date.

In the first quarter of 2021, as a result of the analysis of new premises and circumstances that appeared after the balance sheet date, the Group changed its intentions regarding the above CO_2 emission allowances and decided to roll them over with the conclusion of new contracts with delivery dates in March 2022, 2023 and 2024.

Therefore, the original contracts were not settled by physical delivery, and therefore the Group recognized the contracts in accordance with IFRS 9 *Financial Instruments* at fair value at the date of the change of judgment, i.e. in March 2021, and then recognized the result from the settlement of the instruments, which resulted in an increase in its operating result in the amount of EUR 65 893 thousand.

New contracted transactions with an execution date in the years 2022-2024 are excluded from the scope of IFRS 9 *Financial Instruments* and are not measured at fair value. At the same time, these transactions were made at prices higher than the originally contracted purchase, which means higher costs of purchasing CO_2 emission allowances for resale to a subsidiary.

The Company estimates, taking into account the selling price to the subsidiary, that the total impact of rolling and selling on its operating results in 2021-2024 will not be significant.

Signing an agreement for the sale of shares in PGE EJ 1 Sp. z o.o. for the State Treasury

After the balance sheet date, on 26 March 2021, the Company signed an agreement with the State Treasury for the sale of shares in PGE EJ 1 Sp. z o.o. ("Agreement"). The Agreement was signed by all entities holding shares in PGE EJ 1 Sp. z o.o. In addition to the Company, these are: PGE Polska Grupa Energetyczna S.A., Enea S.A. and KGHM Polska Miedź S.A., jointly (the "Shareholders"). The company PGE EJ 1 Sp. z o.o. is responsible for the preparation and implementation of the investment consisting in the construction and operation of the first Polish nuclear power plant.

Pursuant to the Agreement, the Company sold to the State Treasury 532 523 shares of PGE EJ 1 Sp. z o.o. representing 10% of the share capital and representing 10% of votes at the shareholders' meeting of PGE EJ 1 Sp. z o.o. After closing the transaction, the Company will not have any shares in PGE EJ 1 Sp. z o.o. The selling price for 100% of the shares amounted to PLN 531 362 thousand, of which PLN 53 136 thousand is attributable to the Company. Payment for shares in PGE EJ 1 Sp. z o.o. will take place no later than 31 March 2021. The selling price will be subject to adjustment based on the valuation of PGE EJ 1 Sp. z o.o. updated as of the closing date of the transaction. In the opinion of the Company, any possible adjustment will not have a significant impact on the final sale price.

Moreover, the Shareholders concluded with PGE EJ 1 Sp. z o.o. an annex to the agreement of 15 April 2015 in the case of WorleyParsons, according to which the Shareholders are proportionally liable for the liabilities or are proportionally entitled to benefits potentially arising as a result of the settlement of the dispute with WorleyParsons up to the level of claims, together with interest as at 26 March 2021.

Company Management Board

Katowice, 29 March 2021

Marek Wadowski – acting President of the Management Board / Vice-President of the Management Board

Jerzy Topolski – Vice-President of the Management Board

Oliwia Tokarczyk - Executive Director in Charge of Taxes and Accounting