TAURON Polska Energia S.A. Capital Group

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

Consolidated financial statements for the year ended 31 December 2020 prepared in accordance with IFRS, as endorsed by the EU (in PLN thousand)

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Note	Year ended 31 December 2020	Year ended 31 December 2019 *(restated figures)*
Sales revenue	**12**	20 367 400	19 112 336
Recompensation revenue	**13**	66 448	952 650
Cost of sales	**14**	(20 697 679)	(18 928 946)
Profit (loss) on sale		**(263 831)**	**1 136 040**
Selling and distribution expenses	**14**	(491 583)	(496 140)
Administrative expenses	**14**	(613 285)	(633 953)
Other operating income and expenses	**15**	338 299	145 154
Share in profit/(loss) of joint ventures	**26**	15 765	47 947
Operating profit (loss)		**(1 014 635)**	**199 048**
Interest expense on debt	**16**	(283 456)	(248 781)
Finance income and other finance costs	**16**	(357 577)	(63 011)
Loss before tax		**(1 655 668)**	**(112 744)**
Income tax expense	**18**	(77 882)	18 547
Net loss on continuing operations		**(1 733 550)**	**(94 197)**
Net profit (loss) on discontinued operations	**19**	**(754 327)**	**82 514**
Net loss		**(2 487 877)**	**(11 683)**
Measurement of hedging instruments	**37.5**	(103 172)	15 179
Foreign exchange differences from translation of foreign entity		12 489	505
Income tax	**18**	19 603	(2 884)
Other comprehensive income on continuing operations to be reclassified in the financial result		**(71 080)**	**12 800**
Actuarial losses	**40.1**	(140 992)	(137 264)
Income tax	**18**	26 786	26 073
Share in other comprehensive income of joint ventures	**26**	15	(987)
Other comprehensive income on continuing operations not to be reclassified in the financial result		**(114 191)**	**(112 178)**
Other comprehensive income on discontinued operations	**19**	**(2 735)**	**(2 475)**
Other comprehensive income, net of tax		**(188 006)**	**(101 853)**
Total comprehensive income		**(2 675 883)**	**(113 536)**
Net loss:			
Attributable to equity holders of the Parent		(2 485 115)	(10 908)
Attributable to non-controlling interests		(2 762)	(775)
Total comprehensive income:			
Attributable to equity holders of the Parent		(2 672 871)	(112 530)
Attributable to non-controlling interests		(3 012)	(1 006)
Loss per share (in PLN):			
basic and diluted net loss for the period attributable to shareholders of the parent company	**20**	(1.42)	(0.01)
basic and diluted net loss from continuing operations for the period attributable to shareholders of the parent company	**20**	(0.99)	(0.05)

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

(in PLN thousand)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Note	As at 31 December 2020	As at 31 December 2019
ASSETS			
Non-current assets			
Property, plant and equipment	**21**	27 926 615	31 099 071
Right-of-use assets	**22**	1 738 926	1 773 498
Goodwill	**23**	26 183	26 183
Energy certificates and CO_2 emission allowances for surrender	**24.1**	500 936	468 197
Other intangible assets	**25**	549 074	478 261
Investments in joint ventures	**26**	586 559	559 144
Loans granted to joint ventures	**27**	96 293	238 035
Other financial assets	**28**	208 063	235 522
Other non-financial assets	**29.1**	64 064	152 288
Deferred tax assets	**30**	39 678	22 088
		31 736 391	**35 052 287**
Current assets			
Energy certificates and CO_2 emission allowances for surrender	**24.2**	1 008 208	1 285 193
Inventories	**31**	777 215	684 152
Receivables from buyers	**32**	2 363 085	2 290 746
Income tax receivables	**33**	83 655	255 702
Receivables arising from other taxes and charges	**34**	282 673	384 714
Loans granted to joint ventures	**27**	2 420	4 999
Other financial assets	**28**	266 431	599 035
Other non-financial assets	**29.2**	78 457	100 275
Cash and cash equivalents	**35**	909 453	1 237 952
Assets classified as held for sale	**36**	1 903 076	22 710
		7 674 673	**6 865 478**
TOTAL ASSETS		**39 411 064**	**41 917 765**

(in PLN thousand)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION - continued

	Note	As at 31 December 2020	As at 31 December 2019
EQUITY AND LIABILITIES			
Equity attributable to equity holders of the Parent			
Issued capital	**37.1**	8 762 747	8 762 747
Reserve capital	**37.3**	6 338 754	6 801 584
Revaluation reserve from valuation of hedging instruments	**37.5**	(67 903)	15 666
Foreign exchange differences from translation of foreign entities		27 010	14 521
Retained earnings/(Accumulated losses)	**37.4**	458 034	2 597 708
		15 518 642	**18 192 226**
Non-controlling interests	**37.6**	**893 623**	**900 434**
Total equity		**16 412 265**	**19 092 660**
Non-current liabilities			
Debt	**39**	13 108 449	11 830 183
Provisions for employee benefits	**40**	931 954	1 313 480
Provisions for disassembly of fixed assets, land restoration and other provisions	**41**	669 206	663 130
Accruals, deferred income and government grants	**44**	399 628	460 003
Deferred tax liabilities	**30**	433 738	605 285
Other financial liabilities	**48**	136 855	79 417
Other non-financial liabilities		7 546	11 776
		15 687 376	**14 963 274**
Current liabilities			
Debt	**39**	1 478 550	2 484 093
Liabilities to suppliers	**45**	965 106	847 226
Capital commitments	**46**	838 486	757 943
Provisions for employee benefits	**40**	101 325	118 418
Provisions for liabilities due to energy certificates and CO_2 emission allowances	**42**	1 623 453	1 378 233
Other provisions	**43**	273 608	563 753
Accruals, deferred income and government grants	**44**	166 149	185 544
Income tax liabilities		3 142	3 853
Liabilities arising from other taxes and charges	**47**	392 856	589 001
Other financial liabilities	**48**	549 671	560 455
Other non-financial liabilities	**49**	423 091	364 376
Liabilities directly related to assets classified as held for sale	**36**	495 986	8 936
		7 311 423	**7 861 831**
Total liabilities		**22 998 799**	**22 825 105**
TOTAL EQUITY AND LIABILITIES		**39 411 064**	**41 917 765**

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

(in PLN thousand)

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Note	Equity attributable to the equity holders of the Parent						Udziały niekontrolujące	Razem kapitał własny
		Issued capital	Reserve capital	Revaluation reserve on valuation of hedging instruments	Foreign exchange differences from translation of foreign entities	Retained earnings/ (Accumulated losses)	Total		
As at 1 January 2019		**8 762 747**	**8 511 437**	**3 371**	**14 016**	**1 004 253**	**18 295 824**	**132 657**	**18 428 481**
Coverage of prior years loss		-	(1 709 853)	-	-	1 709 853	**-**	-	**-**
Dividends	**37.6**	-	-	-	-	-	**-**	(1 932)	**(1 932)**
Shares subscribed for by non-controling shareholders	**37.6**	-	-	-	-	8 843	**8 843**	771 157	**780 000**
Other transactions with non-controling shareholders	**37.6**	-	-	-	-	89	**89**	(442)	**(353)**
Transactions with shareholders		**-**	**(1 709 853)**	**-**	**-**	**1 718 785**	**8 932**	**768 783**	**777 715**
Net loss		-	-	-	-	(10 908)	**(10 908)**	(775)	**(11 683)**
Other comprehensive income		-	-	12 295	505	(114 422)	**(101 622)**	(231)	**(101 853)**
Total comprehensive income		**-**	**-**	**12 295**	**505**	**(125 330)**	**(112 530)**	**(1 006)**	**(113 536)**
As at 31 December 2019		**8 762 747**	**6 801 584**	**15 666**	**14 521**	**2 597 708**	**18 192 226**	**900 434**	**19 092 660**
Coverage of prior years loss	**37.3**	-	(462 830)	-	-	462 830	**-**	-	**-**
Dividends	**37.6**	-	-	-	-	-	**-**	(2 075)	**(2 075)**
Shares subscribed for by non-controling shareholders	**37.6**	-	-	-	-	(713)	**(713)**	(1 724)	**(2 437)**
Transactions with shareholders		**-**	**(462 830)**	**-**	**-**	**462 117**	**(713)**	**(3 799)**	**(4 512)**
Net loss		-	-	-	-	(2 485 115)	**(2 485 115)**	(2 762)	**(2 487 877)**
Other comprehensive income		-	-	(83 569)	12 489	(116 676)	**(187 756)**	(250)	**(188 006)**
Total comprehensive income		**-**	**-**	**(83 569)**	**12 489**	**(2 601 791)**	**(2 672 871)**	**(3 012)**	**(2 675 883)**
As at 31 December 2020		**8 762 747**	**6 338 754**	**(67 903)**	**27 010**	**458 034**	**15 518 642**	**893 623**	**16 412 265**

(in PLN thousand)

CONSOLIDATED STATEMENT OF CASH FLOWS

	Note	Year ended 31 December 2020	Year ended 31 December 2019
Cash flows from operating activities			
Loss before taxation		**(2 374 123)**	**(15 368)**
Share in (profit)/loss of joint ventures		(15 765)	(47 947)
Depreciation and amortization		1 954 142	1 991 733
Impairment losses on non-financial non-current assets		3 174 681	1 310 000
Impairment on disposal group due to revaluation to fair value		825 708	-
Impairment losses on loans granted		221 382	(15 936)
Exchange differences		245 923	(35 614)
Interest and commissions		283 014	250 571
Profit on bargain purchase		-	(119 515)
Other adjustments of profit before tax		(101 499)	64 988
Change in working capital	**50.1**	(111 338)	(923 601)
Income tax paid	**50.1**	(60 146)	(423 736)
Net cash from operating activities		**4 041 979**	**2 035 575**
Cash flows from investing activities			
Purchase of property, plant and equipment and intangible assets	**50.2**	(3 907 608)	(4 035 132)
Cash transfer related to the acquisition of wind farms (after deduction of the acquired cash balance)		-	(543 079)
Loans granted	**50.2**	(105 275)	(23 225)
Purchase of financial assets	**50.2**	(32 812)	(17 455)
Total payments		**(4 045 695)**	**(4 618 891)**
Proceeds from sale of property, plant and equipment and intangible assets		17 517	28 696
Dividends received		6 177	36 442
Repayment of loans granted		16 250	15 600
Redemption of share units		26 747	-
Other proceeds		2 436	3 415
Total proceeds		**69 127**	**84 153**
Net cash used in investing activities		**(3 976 568)**	**(4 534 738)**
Cash flows from financing activities			
Redemption of debt securities		(60 400)	(2 420 000)
Repayment of loans and borrowings	**50.3**	(4 406 813)	(867 360)
Interest paid	**50.3**	(215 946)	(212 556)
Repayment of lease liabilities	**50.3**	(102 085)	(75 047)
Other payments		(24 536)	(20 914)
Total payments		**(4 809 780)**	**(3 595 877)**
Issue of debt securities	**50.3**	1 000 000	500 000
Proceeds from non-controlling interests		-	780 000
Proceeds from contracted loans and borrowings	**50.3**	3 368 546	5 150 000
Subsidies received		67 599	60 669
Total proceeds		**4 436 145**	**6 490 669**
Net cash from financing activities		**(373 635)**	**2 894 792**
Net increase/(decrease) in cash and cash equivalents		**(308 224)**	**395 629**
Net foreign exchange difference		2 804	(256)
Cash and cash equivalents at the beginning of the period	**35**	**1 203 601**	**807 972**
Cash and cash equivalents at the end of the period, *of which*:	**35**	**895 377**	**1 203 601**
restricted cash	**35**	210 661	729 450

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

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

TAURON Polska Energia S.A. Capital Group (the "Group", the "Capital Group", "TAURON Group") consists of TAURON Polska Energia S.A. (the "parent entity", the "Company", the "Parent Company") and its subsidiaries. TAURON Polska Energia S.A. with its registered office in Katowice at: ul. ks. Piotra Ściegiennego 3, in Poland, operates as a joint-stock company, incorporated by notarial deed on 6 December 2006. Until 16 November 2007, the Company operated under the name Energetyka Południe S.A. The company did not change its name or other identifying information in the year ended 31 December 2020.

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

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

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

These consolidated financial statements of the Group cover the year ended 31 December 2020 and contain comparative information for the year ended 31 December 2019.

These consolidated financial statements were approved by the Management Board for publication on 29 March 2021.

Composition of the Management Board

As at 1 January 2020, 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 on 15 July 2020 the Management Board consisting 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 the President of the Management Board of TAURON Polska Energia S.A. On 24 February 2021, the Supervisory Board of the Company adopted a resolution entrusting Mr. Marek Wadowski with the duties of the President of the Management Board of the Company from 1 March 2021 until the date of appointment of the President of the Management Board.

2. Composition of the TAURON Group and joint ventures

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	Operating segment	Interest in the share capital by TAURON Polska Energia S.A.	Interest in the decision-making body held by TAURON Polska Energia S.A.
1	TAURON Wydobycie S.A.	Jaworzno	Mining	100.00%	100.00%
2	TAURON Wytwarzanie S.A.	Jaworzno	Generation	100.00%	100.00%
3	Nowe Jaworzno Grupa TAURON Sp. z o.o.	Jaworzno		85.88%	85.88%
4	TAURON Serwis Sp. z o.o.	Katowice		95.61%	95.61%
5	TAURON Ekoenergia Sp. z o.o.	Jelenia Góra	Renewable Energy Sources	100.00%	100.00%
6	Marselwind Sp. z o.o.	Katowice		100.00%	100.00%
7	TEC1 Sp. z o.o.	Katowice		100.00%	100.00%
8	TEC2 Sp. z o.o.	Katowice		100.00%	100.00%
9	TEC3 Sp. z o.o.	Katowice		100.00%	100.00%
10	TEC1 spółka z ograniczoną odpowiedzialnością Mogilno I sp.k.	Katowice		n/a	100.00%
11	TEC1 spółka z ograniczoną odpowiedzialnością Mogilno II sp.k.	Katowice		n/a	100.00%
12	TEC1 spółka z ograniczoną odpowiedzialnością Mogilno III sp.k.	Katowice		n/a	100.00%
13	TEC1 spółka z ograniczoną odpowiedzialnością Mogilno IV sp.k.	Katowice		n/a	100.00%
14	TEC1 spółka z ograniczoną odpowiedzialnością Mogilno V sp.k.	Katowice		n/a	100.00%
15	TEC1 spółka z ograniczoną odpowiedzialnością Mogilno VI sp.k.	Katowice		n/a	100.00%
16	TEC1 spółka z ograniczoną odpowiedzialnością EW Śniatowo sp.k.	Katowice		n/a	100.00%
17	TEC1 spółka z ograniczoną odpowiedzialnością EW Dobrzyń sp.k.	Katowice		n/a	100.00%
18	TEC1 spółka z ograniczoną odpowiedzialnością EW Gołdap sp.k.	Katowice		n/a	100.00%
19	TEC1 spółka z ograniczoną odpowiedzialnością Ino 1 sp.k.	Katowice		n/a	100.00%
20	WIND T1 Sp. z o.o.[1]	Pieńkowo		100.00%	100.00%
21	AVAL-1 Sp. z o.o.[1]	Jelenia Góra		100.00%	100.00%
22	TAURON Dystrybucja S.A.	Kraków	Distribution	99.75%	99.75%
23	TAURON Dystrybucja Pomiary Sp. z o.o.[2]	Tarnów		99.75%	99.75%
24	TAURON Sprzedaż Sp. z o.o.	Kraków	Sales	100.00%	100.00%
25	TAURON Sprzedaż GZE Sp. z o.o.	Gliwice		100.00%	100.00%
26	TAURON Czech Energy s.r.o.	Ostrawa, Czech Republic		100.00%	100.00%
27	TAURON Nowe Technologie S.A. [3]	Wrocław		100.00%	100.00%
28	TAURON Obsługa Klienta Sp. z o.o.	Wrocław	Other	100.00%	100.00%
29	Kopalnia Wapienia Czatkowice Sp. z o.o.	Krzeszowice		100.00%	100.00%
30	Polska Energia-Pierwsza Kompania Handlowa Sp. z o.o.	Warszawa		100.00%	100.00%
31	Finanse Grupa TAURON Sp. z o.o.	Katowice		100.00%	100.00%
32	Bioeko Grupa TAURON Sp. z o.o.	Stalowa Wola		100.00%	100.00%
33	Wsparcie Grupa TAURON Sp. z o.o.[2]	Tarnów		99.75%	99.75%
34	TAURON Ciepło Sp. z o.o.	Katowice	Discontinued operations[4]	100.00%	100.00%

[1] The share in WIND T1 Sp. z o.o. and AVAL-1 Sp. z o.o. is held by TAURON Polska Energia S.A. indirectly through its subsidiary TAURON Ekoenergia Sp. z o.o.
[2] The share in TAURON Dystrybucja Pomiary Sp. z o.o. and Wsparcie Grupa TAURON Sp. z o.o. is held by TAURON Polska Energia S.A. indirectly through its subsidiary, TAURON Dystrybucja S.A. TAURON Polska Energia S.A. is the user of shares in TAURON Dystrybucja Pomiary Sp. z o.o.
[3] On 1 June 2020, the name of the company was changed from former TAURON Dystrybucja Serwis S.A. to TAURON Nowe Technologie S.A.
[4] As at the balance sheet date, TAURON Ciepło Sp. z o.o. which operates in the Generation business was presented as discontinued operations in connection with its classification as a disposal group.

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

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

Changes in the composition of the TAURON Group.

- Merger of the company TAURON Dystrybucja Serwis S.A. (currently 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. (currently: 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. (currently: TAURON Nowe Technologie S.A., the acquiring company) with Magenta Grupa TAURON Sp. z o.o. (the acquired company). On 2 January 2020, the merger of the companies was registered in the National Court Register kept by the District Court in Wrocław.

- Increase of share capital of Nowe Jaworzno TAURON sp. z o.o. company

On 2 March 2020, the Extraordinary Meeting of Shareholders of Nowe Jaworzno Grupa TAURON sp. z o.o. company adopted the resolution on increasing the share capital of the company by the amount of PLN 4 551 thousand. All shares were acquired by the Company for the total amount of PLN 455 100 thousand. On 5 March 2020, the Company transferred the funds for the capital increase. As a result of this transaction, the Company shareholding in the capital and the governing body increased from 84.76% to 85.88%. On 18 May 2020, the capital increase was registered.

On 3 December 2020, the Extraordinary Meeting of Shareholders of Nowe Jaworzno Grupa TAURON sp. z o.o. company adopted the resolution on increasing the share capital of the company by the amount of PLN 1 900 thousand. All shares were acquired by the Company for the total amount of PLN 190 000 thousand. On 7 December 2020, the Company transferred the funds for the capital increase. As a result of this transaction, the Company shareholding in the capital and in the governing body will increase from 85.88% to 86.29%, after the registration in the National Court Register. After the balance sheet date, on 13 January 2021, the capital increase was registered.

- Surcharges to the capitals of the company Polska Energia Pierwsza Kompania Handlowa Sp. z o.o.

In the year ended 31 December 2020 Extraordinary Meeting of Shareholders of Polska Energia – Pierwsza Kompania Handlowa Sp. z o.o adopted the resolution on contribution of surcharges to the capitals of the company:

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

- Acquisition of AVAL-1 Sp. z o.o. and WIND T-1 Sp. z o.o. companies

In the year ended 31 December 2020, the subsidiary - TAURON Ekoenergia Sp. z o.o. acquired 100% shares in two companies which carry out investment tasks in the area of 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 of these companies. In the Group'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.

3. Statement of compliance

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

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

The Group companies and the Parent Company keep their accounting records and prepare financial statements in compliance with the International Financial Reporting Standards approved by the EU, except for TAURON Czech Energy s.r.o., which keeps its accounting records and prepares its financial statements in line with accounting policies applicable in the Czech Republic, the companies AVAL-1 Sp. z o.o., WIND T1 Sp. z o.o., TEC1 sp. z o.o., TEC2 sp. z o.o., TEC3 sp. z o.o. and limited partnerships, which keep their accounting books and prepare financial statements in accordance with the Accounting Act.

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

4. Going concern

These consolidated financial statements have been prepared in accordance with the going concern principle regarding the Group companies in the foreseeable future, i.e. in the period not shorter than 1 year from the balance sheet date. As at the date of approving these consolidated financial statements no circumstances have been detected that could put the going concern operation of the Group's companies at risk.

The Group identifies and actively manages liquidity risk understood as a possible loss or restriction of its ability to settle current expenses. The Group has retained full ability to pay its liabilities when due. At the balance sheet date, the Group has available financing under financial agreements.

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 continuity of operating activities, taking into account the description of the impact of the COVID-19 pandemic on the Group's activities, as further discussed in Note 59 to these financial statements.

5. Functional and presentation currency

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

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

6. Accounting principles (policy)

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

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

Consolidation

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

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

Business acquisitions

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

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

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

Acquisition of businesses under common control of the State Treasury

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

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

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

7. Material values based on professional judgement and estimates

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

The items of the consolidated financial statements which are exposed to the risk of material adjustment of the carrying amounts of assets and liabilities have been presented in individual notes to these consolidated financial statements. Material estimates include allowances for non-financial assets, recognised as a result of impairment tests, as described in detail in Note 11 to these consolidated financial statements.

Besides the foregoing, the Group makes significant estimates as regards the contingent liabilities recognised, in particular as regards legal proceedings where the Group companies are parties. Contingent liabilities are presented in detail in Note 54 to these consolidated financial statements.

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 Group 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 occur:

- a considerable (significant) delay in payment,
- a debtor goes into liquidation or bankruptcy or restructuring,
- the receivables are submitted to administrative enforcement, legal proceedings or enforcement at court.

The Group has allocated a portfolio of strategic counterparties and a portfolio of other counterparties for receivables from customers. The default risk of strategic counterparties is assessed based on the ratings granted to counterparties using an internal scoring model, adequately converted to the probability of default, taking into account estimates of potential recoveries from the collaterals submitted.

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

Impact of COVID-19 on the methodology of estimates and assumptions

The economic impact of COVID-19 is expected to affect the quality of the Group's financial asset portfolio and reduce the level of repayment of receivables from customers. The forecast impact varies depending on the economic sector in which a particular counterparty operates. Due to the uncertainty surrounding further development of the COVID-19 pandemic and the expected impact of aid programmes, the ability to accurately estimate the future repayment of receivables from customers is limited.

In order to take into account the impact of future factors (including COVID-19) for the portfolio of strategic and other customers, the Group has applied the following measures:

- it has updated the parameters for the model of expected credit loss in the scope of relevant coefficients and recovery rate,

(in PLN thousand)

• it has taken into consideration the forward-looking approach.

Impact of COVID-19 on the level of estimates prepared

Estimates including uncertainties related to the effect of COVID-19 on expected credit losses in future periods on receivables from customers amounted to PLN 19 628 thousand, which had an impact on the operating profit of the Group 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 a level of PLN 60 522 thousand.

The Group 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 needs of the next consolidated financial statements.

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

Estimates and assumptions

For loans classified as assets measured at amortised cost, the Group estimates the amount of their impairment losses. The risk of insolvency of borrowers is estimated based on the ratings assigned to counterparties using an internal scoring model, adequately converted into a probability of default, taking into account the time value of money.

The valuation of a loan classified as an asset measured at a fair value is estimated as the current value of future cash flows taking into account the credit risk of the borrower.

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

Impact of COVID-19 on the methodology of estimates and assumptions

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

Impact of COVID-19 on the level of estimates performed

The effect of considering the impact of COVID-19 on the estimation methodology resulted in the growth of expected credit losses on off-balance sheet liability under the guarantee issued by the Company affecting jointly the financial expenses charging the Group in the year ended 31 December 2020 in the amount of PLN 14 497 thousand which, in accordance with 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, the Group assessed that it was unable to reliably determine the impact of COVID-19 on the reduction of the carrying amount of the loans granted.

The Group 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 needs of the next consolidated financial statements.

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

The Group did not choose earlier application of any standards or amendments to standards which were published but have not yet entered into force until 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 January 2021

(in PLN thousand)

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

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

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

As at the balance sheet day, the Company has 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 accordance with the amendments to IAS 1 *Presentation of Financial Statements* the said liability would be classified as a non-current liability.

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

Standard	Effective date specified in the Standard, not endorsed by the EU *(annual periods beginning on or after the date provided)*
IFRS 14 *Regulatory Deferral Accounts*	1 January 2016*
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: Costs of fulfilling contractual obligations*	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 to suspend 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.*

9. Changes in the accounting policies

The accounting principles (policy) applied for the preparation of these consolidated financial statements are consistent with those applied for the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2019 except for the application of the amendments to standards listed below and the changes in accounting policies and presentation applied by the Group, as described below.

9.1. Application of amendments to standards

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

Standard	Effective date in the EU *(annual periods beginning on or after the date provided)*
Revised IAS 1 *Presentation of Financial Statements* and IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors: Definition of Material*	1 January 2020
Amendments to References to the Conceptual Framework in IFRS	1 January 2020
Amendments to IFRS 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

(in PLN thousand)

On 1 January 2020, amendments to IFRS 3 *Business Combinations* entered into force. The most significant changes introduced in the aforementioned standard include the clarification of the definition of a business. The amendments apply progressively to reporting periods beginning on or after 1 January 2020. The Group judges that the amendments may have an impact on possible future transactions covered by IFRS 3 *Business Combinations* related to the acquisition of businesses.

9.2. Other changes in accounting policies and presentation applied by the Group

Discontinued activity

Due to the classification as at 31 December 2020 of the assets and liabilities of the subsidiary as a disposal group, as further discussed in Notes 19 and 36 of these consolidated financial statements, the comparable figures have been adjusted accordingly to present the result from discontinued operations, as presented in the table below.

	Year ended 31 December 2019 *(approved figures)*	Discontinued operations	Year ended 31 December 2019 *(restated figures)*
Sales revenue	19 558 292	(445 956)	19 112 336
Recompensation revenue	952 650	-	952 650
Cost of sales	(19 264 536)	335 590	(18 928 946)
Profit on sale	**1 246 406**	**(110 366)**	**1 136 040**
Selling and distribution expenses	(499 171)	3 031	(496 140)
Administrative expenses	(658 664)	24 711	(633 953)
Other operating income and expenses	158 936	(13 782)	145 154
Share in profit/(loss) of joint ventures	47 947	-	47 947
Operating profit	**295 454**	**(96 406)**	**199 048**
Interest expense on debt	(250 800)	2 019	(248 781)
Finance income and other finance costs	(60 022)	(2 989)	(63 011)
Loss before tax	**(15 368)**	**(97 376)**	**(112 744)**
Income tax expense	3 685	14 862	18 547
Net loss on continuing operations	**(11 683)**	**(82 514)**	**(94 197)**
Net profit on discontinued operations	**-**	**82 514**	**82 514**
Net loss	**(11 683)**	**-**	**(11 683)**
Measurement of hedging instruments	15 179	-	15 179
Foreign exchange differences from translation of foreign entity	505	-	505
Income tax	(2 884)	-	(2 884)
Other comprehensive income on continuing operations to be reclassified in the financial result	**12 800**	**-**	**12 800**
Actuarial gains (losses)	(140 320)	3 056	(137 264)
Income tax	26 654	(581)	26 073
Share in other comprehensive income of joint ventures	(987)	-	(987)
Other comprehensive income on continuing operations not to be reclassified in the financial result	**(114 653)**	**2 475**	**(112 178)**
Other comprehensive income on discontinued operations	**-**	**(2 475)**	**(2 475)**
Other comprehensive income, net of tax	**(101 853)**	**-**	**(101 853)**
Total comprehensive income	**(113 536)**	**-**	**(113 536)**

BUSINESS SEGMENTS

10. Information on operating segments

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

The Group is organized and managed by segment, taking into account the type of products and services offered. Each segment constitutes a strategic business entity offering different products and operating on different markets.

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

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

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

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

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

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

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

Change in the breakdown of the Group's reporting into operating segments

The breakdown of the Group's reporting for the year ended 31 December 2020 is based on the operating segments presented in the table below. As of 1 January 2020, the Group has separated a new operating segment Renewable Energy Sources, assigning to it the data of companies whose activities are related to the generation of electricity from renewable sources, i.e. wind farms and hydroelectric power plants. In addition, in the Renewable Energy Sources segment, the Group presents the activities of TAURON Wytwarzanie S.A. related to the generation of energy from photovoltaic sources. Until 31 December 2019, companies currently assigned to the Renewable Energy Sources segment were assigned to the Generation operating segment. The figures for the comparable period, i.e. for the year ended 31 December 2019 and as at 31 December 2019, were restated accordingly.

The separation of the Renewable Energy Sources operating segment is associated with the update of strategic directions complementary to the TAURON Group Strategy for the years 2016-2025 performed by the Group in 2019. In this update, the TAURON Group highlighted the need to adapt to environmental requirements and focus on the development of low- and zero-emission sources while making the Group's asset portfolio more flexible. The update of the strategic directions reinforced the significance of clean energy development, which will form the basis for the TAURON Group's value creation and assumes an increased share of renewable sources in the TAURON Group's generation assets. As part of the implementation of the aforementioned strategy, the transaction documentation for the acquisition of five wind farms belonging to the in.ventus group by TEC1 Sp. z o.o., TEC2 Sp. z o.o., TEC3 Sp. z o.o. was signed on 3 September 2019. As a result of this transaction, the production capacity related to the Group's renewable energy sources has significantly increased and therefore the materiality of the financial data related to the production activities in the area of renewable energy sources has increased.

Operating segments	Core business	Subsidiaries/ Entities recognized with the equity method
Mining 	*Hard coal mining*	TAURON Wydobycie S.A.
Generation  	*Generation of electricity using conventional sources, including combined heat and power generation, as well as generation of electricity using joint combustion of biomass and other energy acquired thermally. Key fuels include hard coal, biomass, coal gas and coke-oven gas.* *Generation and sales of heat*	TAURON Wytwarzanie S.A. Nowe Jaworzno Grupa TAURON Sp. z o.o. TAURON Serwis Sp. z o.o. *TAMEH HOLDING Sp. z o.o.* [1] *TAMEH POLSKA Sp. z o.o.* [1] *TAMEH Czech s.r.o.* [1] *Elektrociepłownia Stalowa Wola S.A.* [1]
Renewable Energy Sources 	*Generation of electricity using renewable sources*	TAURON Ekoenergia Sp. z o.o. Marselwind Sp. z o.o. TEC1 Sp. z o.o. TEC2 Sp. z o.o. TEC3 Sp. z o.o. TEC1 spółka z ograniczoną odpowiedzialnością Mogilno I sp.k. TEC1 spółka z ograniczoną odpowiedzialnością Mogilno II sp.k. TEC1 spółka z ograniczoną odpowiedzialnością Mogilno III sp.k. TEC1 spółka z ograniczoną odpowiedzialnością Mogilno IV sp.k. TEC1 spółka z ograniczoną odpowiedzialnością Mogilno V sp.k. TEC1 spółka z ograniczoną odpowiedzialnością Mogilno VI sp.k. TEC1 spółka z ograniczoną odpowiedzialnością EW Śniatowo sp.k. TEC1 spółka z ograniczoną odpowiedzialnością EW Dobrzyń sp.k. TEC1 spółka z ograniczoną odpowiedzialnością EW Gołdap sp.k. TEC1 spółka z ograniczoną odpowiedzialnością Ino 1 sp.k. WIND T1 Sp. z o.o. AVAL-1 Sp. z o.o. TAURON Wytwarzanie S.A [3]
Distribution 	*Distribution of electricity*	TAURON Dystrybucja S.A. TAURON Dystrybucja Pomiary Sp. z o.o.
Sales 	*Wholesale trading in electricity, trading in CO_2 emission allowances and energy certificates and sale of electricity to domestic end users or entities which further resell electricity*	TAURON Polska Energia S.A. TAURON Sprzedaż Sp. z o.o. TAURON Sprzedaż GZE Sp. z o.o. TAURON Czech Energy s.r.o. TAURON Nowe Technologie S.A. [2]

[1] *Entities recognized with the equity method.*
[2] *On 1 June 2020, the company name was changed from TAURON Dystrybucja Serwis S.A. to TAURON Nowe Technologie S.A.*
[3] *TAURON Wytwarzanie S.A. classifies assets related to photovoltaic power generation in the Renewable Energy segment.*

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

(in PLN thousand)

Presentation of a subsidiary as discontinued operations

As at 31 December 2020, the Group presents the subsidiary TAURON Ciepło Sp. z o.o. as a disposal group, as further discussed in notes 19 and 36 to these consolidated financial statements. Accordingly, the operations of the company have been presented under discontinued operations. In the past, it was reported within the Generation segment. Comparable figures have been restated accordingly.

10.1. Operating segments

Year ended 31 December 2020

	Operating segments					Other	Unallocated items / Eliminations	Total continuing operations	Discontinued operations	Total continuing and discontinued operations
	Mining	Generation	Renewable Energy Sources	Distribution	Sales					
Revenue										
Sales to external customers	326 840	2 019 942	147 116	3 310 307	14 053 536	142 744	-	**20 000 485**	**849 523**	**20 850 008**
Inter-segment sales	724 282	1 406 791	468 442	3 550 526	2 982 681	890 850	(10 023 572)	**-**	**-**	**-**
Sales to discontinued operations	801	66 654	-	5 521	213 041	80 898	-	**366 915**	**(366 915)**	**-**
Total Segment revenue	**1 051 923**	**3 493 387**	**615 558**	**6 866 354**	**17 249 258**	**1 114 492**	**(10 023 572)**	**20 367 400**	**482 608**	**20 850 008**
Recompensation revenue	**-**	**-**	**-**	**-**	**66 448**	**-**	**-**	**66 448**	**-**	**66 448**
Profit/(loss) of the segment	**(886 665)**	**(2 728 621)**	**145 801**	**1 857 009**	**641 648**	**136 169**	**(98 524)**	**(933 183)**	**(717 342)**	**(1 650 525)**
Share in profit/(loss) of joint ventures	-	15 765	-	-	-	-	-	**15 765**	**-**	**15 765**
Unallocated expenses	-	-	-	-	-	-	(97 217)	**(97 217)**	**-**	**(97 217)**
EBIT	**(886 665)**	**(2 712 856)**	**145 801**	**1 857 009**	**641 648**	**136 169**	**(195 741)**	**(1 014 635)**	**(717 342)**	**(1 731 977)**
Net finance income (costs)	-	-	-	-	-	-	(641 033)	**(641 033)**	**(1 113)**	**(642 146)**
Profit/(loss) before income tax	**(886 665)**	**(2 712 856)**	**145 801**	**1 857 009**	**641 648**	**136 169**	**(836 774)**	**(1 655 668)**	**(718 455)**	**(2 374 123)**
Income tax expense	-	-	-	-	-	**-**	(77 882)	**(77 882)**	**(35 872)**	**(113 754)**
Net profit/(loss) for the period	**(886 665)**	**(2 712 856)**	**145 801**	**1 857 009**	**641 648**	**136 169**	**(914 656)**	**(1 733 550)**	**(754 327)**	**(2 487 877)**
Assets and liabilities										
Segment assets	1 115 883	7 483 993	2 438 924	20 079 215	4 614 093	775 856	-	**36 507 964**	**1 829 617**	**38 337 581**
Investments in joint ventures	-	586 559	-	-	-	-	-	**586 559**	**-**	**586 559**
Unallocated assets	-	-	-	-	-	-	486 924	**486 924**	**-**	**486 924**
Total assets	**1 115 883**	**8 070 552**	**2 438 924**	**20 079 215**	**4 614 093**	**775 856**	**486 924**	**37 581 447**	**1 829 617**	**39 411 064**
Segment liabilities	1 048 140	1 711 977	238 633	1 813 796	1 781 168	559 237	-	**7 152 951**	**487 617**	**7 640 568**
Unallocated liabilities	-	-	-	-	-	-	15 358 231	**15 358 231**	**-**	**15 358 231**
Total liabilities	**1 048 140**	**1 711 977**	**238 633**	**1 813 796**	**1 781 168**	**559 237**	**15 358 231**	**22 511 182**	**487 617**	**22 998 799**
EBIT	**(886 665)**	**(2 712 856)**	**145 801**	**1 857 009**	**641 648**	**136 169**	**(195 741)**	**(1 014 635)**	**(717 342)**	**(1 731 977)**
Depreciation/amortization	**(169 546)**	**(267 538)**	**(151 051)**	**(1 165 576)**	**(44 562)**	**(92 897)**	**-**	**(1 891 170)**	**(62 972)**	**(1 954 142)**
Impairment	**(559 798)**	**(2 617 463)**	**-**	**(421)**	**2 858**	**(239)**	**-**	**(3 175 063)**	**(825 489)**	**(4 000 552)**
EBITDA	**(157 321)**	**172 145**	**296 852**	**3 023 006**	**683 352**	**229 305**	**(195 741)**	**4 051 598**	**171 119**	**4 222 717**
Other segment information										
Capital expenditure *	345 057	1 336 489	39 666	1 907 947	61 331	248 485	-	**3 938 975**	**100 319**	**4 039 294**

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

Year ended on 31 December 2019 *(restated data)*

	Operating segments					Other	Unallocated items / Eliminations	Total continuing operations	Discontinued operations	Total continuing and discontinued operations
	Mining	Generation	Renewable Energy Sources	Distribution	Sales					
Revenue										
Sales to external customers	345 274	2 696 572	143 578	3 202 234	12 173 480	111 418	-	**18 672 556**	**885 736**	**19 558 292**
Inter-segment sales	512 196	703 611	290 333	3 387 036	2 462 866	821 315	(8 177 357)	**-**	**-**	**-**
Sales to discontinued operations	86 963	28 454	-	5 594	271 591	47 178	-	**439 780**	**(439 780)**	**-**
Total Segment revenue	**944 433**	**3 428 637**	**433 911**	**6 594 864**	**14 907 937**	**979 911**	**(8 177 357)**	**19 112 336**	**445 956**	**19 558 292**
Recompensation revenue	**-**	**-**	**-**	**-**	**952 650**	**-**	**-**	**952 650**	**-**	**952 650**
Profit/(loss) of the segment	**(1 391 949)**	**(557 582)**	**284 346**	**1 443 741**	**382 185**	**46 152**	**51 477**	**258 370**	**96 406**	**354 776**
Share in profit/(loss) of joint ventures	-	47 947	-	-	-	-	-	**47 947**	**-**	**47 947**
Unallocated expenses	-	-	-	-	-	-	(107 269)	**(107 269)**	**-**	**(107 269)**
EBIT	**(1 391 949)**	**(509 635)**	**284 346**	**1 443 741**	**382 185**	**46 152**	**(55 792)**	**199 048**	**96 406**	**295 454**
Net finance income (costs)	-	-	-	-	-	-	(311 792)	**(311 792)**	**970**	**(310 822)**
Profit/(loss) before income tax	**(1 391 949)**	**(509 635)**	**284 346**	**1 443 741**	**382 185**	**46 152**	**(367 584)**	**(112 744)**	**97 376**	**(15 368)**
Income tax expense	-	-	-	-	-	-	18 547	**18 547**	**(14 862)**	**3 685**
Net profit/(loss) for the period	**(1 391 949)**	**(509 635)**	**284 346**	**1 443 741**	**382 185**	**46 152**	**(349 037)**	**(94 197)**	**82 514**	**(11 683)**
Assets and liabilities										
Segment assets	1 294 329	9 451 839	2 491 198	19 176 164	4 730 135	648 705	-	**37 792 370**	**2 758 401**	**40 550 771**
Investments in joint ventures	-	559 144	-	-	-	-	-	**559 144**	**-**	**559 144**
Unallocated assets	-	-	-	-	-	-	807 850	**807 850**	**-**	**807 850**
Total assets	**1 294 329**	**10 010 983**	**2 491 198**	**19 176 164**	**4 730 135**	**648 705**	**807 850**	**39 159 364**	**2 758 401**	**41 917 765**
Segment liabilities	928 077	1 671 341	194 822	2 011 950	1 855 630	511 992	-	**7 173 812**	**487 910**	**7 661 722**
Unallocated liabilities	-	-	-	-	-	-	15 163 383	**15 163 383**	**-**	**15 163 383**
Total liabilities	**928 077**	**1 671 341**	**194 822**	**2 011 950**	**1 855 630**	**511 992**	**15 163 383**	**22 337 195**	**487 910**	**22 825 105**
EBIT	**(1 391 949)**	**(509 635)**	**284 346**	**1 443 741**	**382 185**	**46 152**	**(55 792)**	**199 048**	**96 406**	**295 454**
Depreciation/amortization	**(197 617)**	**(268 862)**	**(109 829)**	**(1 161 247)**	**(40 801)**	**(89 193)**	**-**	**(1 867 549)**	**(124 184)**	**(1 991 733)**
Impairment	**(694 467)**	**(678 887)**	**25 962**	**(820)**	**(5 591)**	**(841)**	**-**	**(1 354 644)**	**42 464**	**(1 312 180)**
EBITDA	**(499 865)**	**438 114**	**368 213**	**2 605 808**	**428 577**	**136 186**	**(55 792)**	**3 421 241**	**178 126**	**3 599 367**
Other segment information										
Capital expenditure *	479 519	1 584 702	13 885	1 784 941	47 460	132 901	-	**4 043 408**	**84 483**	**4 127 891**

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

(in PLN thousand)

In the year ended 31 December 2020, work began on the transformation of the hard coal mining industry in Poland. The works are conducted under the leadership of the Secretary of State, Government Plenipotentiary for Transformation of Energy Companies and Coal Mining. In accordance with the arrangements between the representatives of the Government and representatives of TAURON Wydobycie S.A., this company participates in negotiations on the preparation of a social agreement regarding the transformation of the hard coal mining sector and selected transformation processes of the Silesia District ("Social Agreement"). The social contract is to cover, inter alia, timetable for the liquidation of mines belonging to Polish mining companies, as well as budgetary financing of the costs of liquidation of non-productive assets and a package of social protection for mine employees. In addition to financing the above-mentioned costs related to the liquidation of the industry, the Social Agreement also includes the possibility of financing liquidity shortages in operating mines through potential production subsidies. Currently, the Social Agreement is the subject of agreements between the social party and government representatives.

The above events may significantly translate into the shape and financial data of the Mining segment in subsequent reporting periods.

In the financial years ended 31 December 2020 and 31 December 2019, the Group did not identify individual customers that would generate sales revenue in excess of 10% of total sales revenue of the TAURON Group.

10.2. Geographical areas of operations

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

	Year ended 31 December 2020	Year ended 31 December 2019
Sales to foreign customers, *including:*	**174 156**	**204 386**
Czech Republic	171 805	198 792
Other	2 351	5 594

Sales to foreign customers relate mostly to electricity sales which accounted for 92% and 93%, respectively, of revenue generated by foreign customers as at 31 December 2020 and 31 December 2019.

IMPAIRMENT OF NON-FINANCIAL ASSETS

11. Impairment in value of non-financial assets

SELECTED ACCOUNTING PRINCIPLES

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

Within the impairment tests the Group estimates the recoverable amount of an asset or the cash-generating unit (“CGU”) to which the specific asset belongs. In order to conduct an impairment test, goodwill acquired under a business combination or M&A transaction is assigned to CGU or CGU groups upon acquisition. Information concerning identification of the CGU to which goodwill is allocated is presented in Note 23.

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

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

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

PROFESSIONAL JUDGEMENT AND ESTIMATES

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

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

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

(in PLN thousand)

As at 31 December 2020, the Group recognised impairment losses related to property, plant and equipment as a result of impairment tests of assets performed as at 31 December 2020.

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

The impairment loss recognised as a result of the tests performed in the year ended 31 December 2020 is related to the following cash generating units:

CGU	Company	Discount rate (before tax) assumed in tests as at:			Recoverable amount	Impairment loss recognized
		31 December 2020	30 June 2020 *(unaudited)*	31 December 2019	As at 31 December 2020	Year ended 31 December 2020
Mining	TAURON Wydobycie S.A.	14.85%	14.99%	14.01%	-	(559 638)
Generation - Coal	TAURON Wytwarzanie S.A. / Nowe Jaworzno Grupa TAURON Sp. z o.o.	9.75%	9.34%	8.60%	5 581 640	(2 604 430)
Generation - Biomass		8.55%	8.04%	8.60%	28 127	(6 248)
Generation - Photovoltaics		6.98%	-	-	18 419	-
Hydroelectric power	TAURON Ekoenergia Sp. z o.o. / limited partnerships TEC 1	8.03%	8.27%	8.90%	577 185	-
Wind farms		8.40%	8.65%	8.94%	1 882 005	-
Distribution	TAURON Dystrybucja S.A.	6.10%	6.44%	7.02%	22 250 205	-
Total						**(3 170 316)**

As at 31 December 2020, impairment tests were performed on property, plant and equipment, taking into account the following indications:

- long-term persistence of the market value of the Company net assets at a level below the net carrying amount of assets;
- changes in global prices of energy resources, energy and CO_2 emission allowances;
- significant fluctuations of energy prices on the future/forward market;
- decline in the domestic electricity consumption due to increased temperatures in the winter period 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) adversely affecting the capability of coal-fired units to participate in the capacity market after 1 July 2025;
- tightening of emission standards persisting unfavourable market conditions for the conventional power industry;
- a decrease in the risk-free rate.

The tests conducted as at 31 December 2020 required estimating the value in use of cash generating units, based on their future cash flows discounted subsequently to the present value using a discount rate.

The impairment tests for non-financial non-current assets were carried out at a level of individual companies, except for:

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

- TAURON Ekoenergia Sp. z o.o., TEC 1 Sp. z o.o. Mogilno I Sp. Komandytowa, TEC 1 Sp. z o.o. Mogilno II Sp. Komandytowa, TEC 1 Sp. z o.o. Mogilno III Sp. Komandytowa, TEC1 Sp. z o.o. Mogilno IV Sp. Komandytowa, TEC 1 Sp. z o.o. Mogilno V Sp. Komandytowa, TEC 1 Sp. z o.o. Mogilno VI Sp. Komandytowa, TEC 1 Sp. z o.o. EW Śniatowo Sp. Komandytowa, TEC 1 Sp. z o.o. EW Dobrzyń Sp. Komandytowa, TEC 1 Sp. z o.o. EW Gołdap

(in PLN thousand)

Sp. Komandytowa, TEC 1 Sp. z o.o. Ino 1 Sp. Komandytowa, where the test was carried out separately for activities related to electricity generation in hydroelectric power plants within TAURON Ekoenergia Sp. z o.o. - CGU Hydroelectric Power plants, and for the combined activity associated with electricity generation from wind farms within TAURON Ekoenergia Sp. z o.o. and other companies - CGU Wind Farms. Consolidation of windfarms in one CGU resulted mainly from the specific features and nature of the underlying service agreements and technical management of individual wind farms allowing for optimisation of the production process aimed at improving economic indicators of the operated wind farms. Moreover, from the point of view of management analysis, the notion of a group of assets producing power in wind technology is important, rather than a single operation of wind farms. It is also important for the purpose of integrated management of the portfolio of produced volume originating from wind farms and sales of electricity and property rights within the TAURON Group;

- TAURON Nowe Technologie S.A., where activities related to lighting and provision of solutions associated with modern technologies were separated.

Relevant tests were conducted based on the current value of projected cash flows from CGU operations by reference to detailed projections until 2030 and the estimated residual value, excluding power generating and mining units for which detailed projections cover the entire period of their operation.

Operation of mining units until 2049 has been assumed. 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 until 2035 was assumed. In relation to the tests carried out as at 31 December 2019, the current projections assume: early withdrawal one of the units in Jaworzno III Unit with total capacity of 225 MWe (originally 2029, now 2025) and taking over production by two units in Jaworzno III Unit with total capacity of 445 MWe; early withdrawal of two units in Jaworzno III Unit with total capacity of 445 MWe (originally 2029, now 2028); early withdrawal of two units in Jaworzno II Unit with total capacity of 140 MWe (originally 2038, now 2030); early withdrawal of one unit in Lagisza Unit with total 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 up to 2066 while for wind farms - up to 2040.

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

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

Category	Description
Coal	Coal prices in the coming three years show a nominal upward trend. The price will be subject to a light upward pressure resulting from the sustainable upward trends observed in the domestic mining cost. However, in the long term (2025-2040), coal prices will continue to fall due to the accelerated implementation of the decarbonisation policy promoted by the European Union, aimed at reaching the climate neutrality in Europe by 2050. Its manifestation is the 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 begin to fall, as a result of a decline in electricity generation with the use of this raw material as well as an expected increase in import volumes in view of high levels of mining cost in the country. A real decline in power coal prices by 0.6% was assumed in the years 2021-2040.
Electricity	Due to the uncertainty concerning the final shape of the market architecture and introduction of the scarcity pricing mechanism, the forecast adopted for wholesale electricity prices for the years 2021-2040, has been updated and adjusted 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 redeem energy certificates of origin as well as the expected level of margin.
CO_2	CO_2 emission limits for heat generation have been adopted in line with the regulation of the Council of Ministers and adjusted by the level of operations, i.e. generation of heat. The CO_2 emission allowance price growth path has been adopted throughout the forecasting horizon. In 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 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 price will rise by approx. 16.6% due to the assumption of an increase in the Linear Reduction Factor (LRF)

(in PLN thousand)

Category	Description
	to the minimum level of 3.5% from the current 2.2% and higher emission reduction targets by 2030. The projected CO_2 price in 2029 compared to the average price in 2020 will be 42.6% higher. 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 31.9%. This results from the assumed increase in the economy decarbonisation rate and the strive to reach climate neutrality for Europe in 2050.
Certificates of energy origin (MWh)	The price path for certificates of energy origin and the obligatory redemption in the subsequent years have been adopted based on the valid Act on RES.
Capacity market	The exclusion of the operating capacity reserve mechanism from the beginning of 2021 has been assumed, i.e. from the moment of the Capacity Market implementation. The Capacity Market mechanism implementation has been taken into account in accordance with the adopted and notified Act on the Capacity Market and the Capacity Market Regulations. It is assumed that payments for capacity will be launched from 2021 and maintained until 2025 for existing coal-fired units which do not meet the EPS 550 criterion (for which the unit emission performance exceeds 550 kg/MWh). For entities which have been awarded long-term contracts by 31 December 2019 and do not meet the EPS 550 criterion, maintaining of payments until the end of the contract effectiveness period has been assumed.
RES	Limited support periods for green energy have been taken into account in accordance with the assumptions of the Act on Renewable Energy Sources defining new mechanisms of granting the support for electricity generated in renewable sources. The support period has been limited to 15 years from the date of the first injection of electricity eligible to receive the energy origin certificate to the grid.
WACC	The weighted average cost of capital (WACC) during the projection period, for individual CGUs has been adopted in the range of 5.73% - 14.85% in nominal terms before tax, taking into account the risk-free rate corresponding to the yield on 10-year Treasury bonds (at a level of 1.60%) and the risk premium for operations appropriate for the power industry (6.75%). The growth rate used for extrapolation of projected cash flows going beyond the detailed planning period has been adopted at a level of 2.5% and corresponds to the estimated long-term inflation rate. The 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 of distribution companies has been assumed, ensuring the coverage of justified costs and a reasonable level of return on capital. The return on capital depends on the Regulatory Asset Value. In the years 2021-2030, an increase in electricity supply by 1.15% year-on-year has been assumed.
Sales volume and production capacity	The volume of sales to end customers was assumed taking into account the GDP growth, the competitive situation in the market, the significant increase in financial costs (trade credit costs) incurred by sales companies. This has caused a decrease in volume in the years 2021-2023. From 2024, a gradual recovery of the lost volume is planned. The economic useful lives of fixed assets and the maintenance of production capacity as a result of replacement investments were taken into account.

At the Court of Justice of the European Union, the decision of the European Commission is being appealed against in terms of the compliance of the Capacity Market Act with European law. In the opinion of the Management Board, the risk of a settlement resulting in the inability of the Capacity Market to function in Poland is low, even in the event of a 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 Capacity Market Act and the Capacity Market Regulations.

The need to write down the assets of the Mining CGU and the Generation-Coal CGU 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, as the manifestation of the European Green New Deal,
- the projected decline in market margins in the short to mid-term perspective. Decrease is 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 forecasted electricity 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 cash flow generation periods of these CGUs, as described in detail above.

Sensitivity analysis for Mining and Generation assets

A sensitivity analysis performed for each CGU revealed that the value in use of the tested assets was mainly affected by the forecast electricity prices, CO_2 emission allowances prices, discount rates adopted and hard coal prices. The estimated changes in impairment losses on Mining and Generation assets as at 31 December 2020 as a result of changes in the key assumptions, are presented below.

Parameter	Change	Impact on impairment loss *(in PLN million)*				Assets of the Group Impact on impairment loss (in PLN million)	
		Mining assets	Generation assets				
		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%	-	-	270	-	270
	-1%	7	270	-	263	-
Change of CO_2 emission allowances prices in the forecast period	+1%	-	113	-	113	-
	-1%	-	-	113	-	113
Change of WACC (net)	+0.1 p.p.	-	50	-	50	-
	-0.1 p.p.	15	-	51	-	66
Change of coal prices in the forecast period	+1%	69	94	-	25	-
	-1%	-	-	94	-	94
No revenue from the Capacity Market	-100%	-	2 655	-	2 655	-

Sensitivity analysis for the Distribution segment

The carrying amount of CGU Distribution subject to testing was PLN 19 032 million. The sensitivity analysis was performed for a change in the discount rate and a change in the WACC level adopted for the calculation of regulated income in the years 2022-2025 and in the residual period. The table below presents the estimated inflows to the recoverable amount of Distribution CGU as at 31 December 2020.

Parameter	Change	Recoverable amount (in PLN million)	Impact on recoverable amount *(in PLN million)*	
			Increase	Decrease
Change of WACC (net)	+0.1 p.p.	22 250	-	959
	-0.1 p.p.		1 037	-
Change in the WACC adopted for the calculation of regulated income in 2022-2030 and in the residual period	+0.1 p.p.		663	-
	-0.1 p.p.		-	663

Impairment of the carrying amount of goodwill

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

The test was performed based on the current value of projected cash flows from operations. The calculations were based on detailed projections up to 2030 and the estimated residual value, while for the mining units the forecasts cover the entire period of their operation. Reliance on projections covering a period longer than 5 years results mainly from the fact that investment processes in the power industry are time-consuming. The macroeconomic and sector-oriented assumptions underlying the projections are updated as frequently as any indications for their modification are observed on the market. The projections also take into account changes in the regulatory environment known as at the date of the test.

The weighted average cost of capital (WACC) during the projection period for individual CGUs, as used in the calculations, ranges from 6.1% - 7.38% in nominal terms before tax, taking into account the risk free rate determined by reference to the yield on 10-year Treasury bonds (at a level of 1.6%) and the risk premium for operations appropriate for the power industry (6.75%). The growth rate used for extrapolation of projected cash flows going beyond the detailed planning period has been adopted at a level of 2.5% and corresponds to the estimated long-term inflation rate. The level of WACC as at 31 December 2020 decreased compared to the level as at 30 June 2020 due to a decline in the risk-free rate.

(in PLN thousand)

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

Operating segment	Key assumptions	Discount rate (before tax) assumed in tests as at:		
		31 December 2020	30 June 2020 *(unaudited)*	31 December 2019
Distribution	Regulated revenue generated by distribution companies, ensuring coverage of reasonable costs and a reasonable level of return on capital. The return level depends on the Regulatory Value of Assets. Maintaining generation capacity of the existing non-current assets as a result of replacement investments.	6.10%	6.44%	7.02%

The impairment test performed as at 31 December 2020 did not indicate impairment of the carrying amount of goodwill.

EXPLANATORY NOTES TO THE CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

12. Sales revenue

SELECTED ACCOUNTING PRINCIPLES

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

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

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

The revenue comprises only the inflows of economic benefits received or receivable to the entity's own account. Amounts obtained on behalf of third parties, with the Group acting as an agent, such as taxes on sales or VAT do not constitute economic benefits of the Company and do not result in equity increases. Therefore, these amounts are not recognised in revenue. Similarly, the transitional fee, cogeneration fee and RES fee charged by the Group from the end user of electricity and then transferred to the Transmission System Operator is recognised in the net remuneration amount.

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

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

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

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

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

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

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

(in PLN thousand)

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

Revenue on sales of electricity distribution services in the Distribution segment

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

Revenue on wholesale of electricity in the Generation segment

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

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

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

PROFESSIONAL JUDGEMENT AND ESTIMATES

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

As at 31 December 2020, additionally assessed revenue from sale of electricity and distribution services in the Sales segment amounted to the total of PLN 737 266 thousand and, when reversed estimations from the previous year have been accounted for, the impact on the profit or loss for 2020 was PLN 105 471 thousand.

As at 31 December 2020, the additional assessment of revenue from the sale of gaseous fuel and distribution services in the Sales segment amounted to PLN 43 698 thousand, and, when reversed estimations from the previous year have been accounted for, the impact on the profit or loss for 2020 was PLN 16 664 thousand.

(in PLN thousand)

	Year ended 31 December 2020	Year ended 31 December 2019 *(restated figures)*
Sale of goods for resale, finished goods and materials without elimination of excise	**13 747 248**	**12 772 817**
Excise	(103 837)	(138 948)
Sale of goods for resale, finished goods and materials	**13 643 411**	**12 633 869**
Electricity	12 224 806	11 216 575
Heat energy	148 286	114 669
Gas	342 531	340 453
Coal	440 495	481 072
Energy certificates and similar	209 328	137 336
Other goods for resale, finished goods and materials	277 965	343 764
Rendering of services	**6 658 888**	**6 417 321**
Distribution and trade services	6 301 154	6 058 682
Maintenance of road lighting	120 647	120 527
Connection fees	83 119	80 769
Other services	153 968	157 343
Other revenue	**65 101**	**61 146**
Total	**20 367 400**	**19 112 336**

In the year ended 31 December 2020, sales revenues increased in relation to the comparable period, and the main changes concerned sales revenues of the following finished goods and materials:

- electricity – the increase results from obtaining a higher average selling price as a result of the tariff increase and higher electricity prices on the market with a lower volume of electricity sold by the Group;;
- heat energy – the increase results from the sale of a higher volume, which is related to the heating of unit No. 10 at the Łagisza Power Plant belonging to TAURON Wytwarzanie S.A.;
- coal – the decrease in revenues from the sale of coal results from a lower sales volume and lower prices;
- energy certificates of origin – the increase in revenue from energy certificates of origin is mainly attributable to electricity production by the wind farms previously belonging to the in.ventus group acquired by the TAURON Group on 3 September 2019;
- distribution and trading services – the higher revenue from sales of distribution and trading services is related to the increase in the rate of the distribution service, with simultaneous decline of the volume of sales.

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

Year ended 31 December 2020

	Mining	Generation	Renewable Energy Sources	Distribution	Sales	Other	Total
Sale of goods for resale, finished goods and materials	**312 628**	**2 055 662**	**145 543**	**3 335**	**10 956 725**	**169 518**	**13 643 411**
Electricity	-	1 846 105	4 512	-	10 358 039	16 150	**12 224 806**
Heat energy	40	148 246	-	-	-	-	**148 286**
Gas	-	-	-	-	342 531	-	**342 531**
Coal	296 015	-	-	-	144 480	-	**440 495**
Energy certificates and similar	803	58 322	141 031	-	975	8 197	**209 328**
Other goods for resale, finished goods and materials	15 770	2 989	-	3 335	110 700	145 171	**277 965**
Rendering of services	**13 451**	**20 066**	**1 064**	**3 276 078**	**3 305 992**	**42 237**	**6 658 888**
Distribution and trade services	-	-	-	3 136 715	3 164 439	-	**6 301 154**
Maintenance of road lighting	-	-	-	186	120 461	-	**120 647**
Connection fees	-	-	-	83 076	-	43	**83 119**
Other services	13 451	20 066	1 064	56 101	21 092	42 194	**153 968**
Other revenue	**1 562**	**10 868**	**509**	**36 415**	**3 860**	**11 887**	**65 101**
Total	**327 641**	**2 086 596**	**147 116**	**3 315 828**	**14 266 577**	**223 642**	**20 367 400**

(in PLN thousand)

Year ended 31 December 2019 *(restated data)*

	Mining	Generation	Renewable Energy Sources	Distribution	Sales	Other	Total
Sale of goods for resale, finished goods and materials	**412 061**	**2 699 040**	**142 085**	**6 201**	**9 265 751**	**108 731**	**12 633 869**
Electricity	-	2 546 598	39 549	-	8 630 428	-	**11 216 575**
Heat energy	33	114 636	-	-	-	-	**114 669**
Gas	-	-	-	-	340 453	-	**340 453**
Coal	389 889	-	-	-	91 183	-	**481 072**
Energy certificates and similar	-	33 069	102 385	-	1 882	-	**137 336**
Other goods for resale, finished goods and materials	22 139	4 737	151	6 201	201 805	108 731	**343 764**
Rendering of services	**18 714**	**15 217**	**1 025**	**3 168 504**	**3 175 675**	**38 186**	**6 417 321**
Distribution and trade services	-	-	-	3 024 720	3 033 962	-	**6 058 682**
Maintenance of road lighting	-	-	-	11	120 516	-	**120 527**
Connection fees	-	-	-	80 769	-	-	**80 769**
Other services	18 714	15 217	1 025	63 004	21 197	38 186	**157 343**
Other revenue	**1 462**	**10 769**	**468**	**33 123**	**3 645**	**11 679**	**61 146**
Total	**432 237**	**2 725 026**	**143 578**	**3 207 828**	**12 445 071**	**158 596**	**19 112 336**

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

	Year ended 31 December 2020	Year ended 31 December 2019 *(restated figures)*
Revenue from sales of electricity	**12 224 806**	**11 216 575**
Retail sale	**8 503 739**	**7 498 019**
Strategic clients	1 012 488	1 336 635
Business clients	4 002 640	3 198 529
Mass clients, *including:*	3 523 130	3 026 110
G group	2 735 070	2 337 247
Other	69 318	75 693
Excise duty	(103 837)	(138 948)
Wholesale	**3 014 930**	**3 085 993**
Operational capacity reserve	**195 426**	**216 994**
Other	**510 711**	**415 569**

13. Compensation

	Year ended 31 December 2020	Year ended 31 December 2019
Price difference amount	46 397	637 595
Financial compensation	20 051	315 055
Total	**66 448**	**952 650**

In 2019, the Group recognised the consequences of entry into force of the *Act amending the Excise Duty Act and certain other acts* (the "Act") and its implementing legislation in the form of the amount of compensation due to trading companies. The amended Act provided for two compensation formulas for trading companies in the form of:

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

Due to the fact that the compensation recognised in 2019 was partly based on estimated data, in accordance with Article 9 of the Act, in 2020, TAURON Sprzedaż Sp. z o.o. and TAURON Sprzedaż GZE Sp. z o.o., companies submitted applications for adjustments to the Price Difference Amount and Financial Compensation for the full year 2019 to the Settlement Administrator S.A. (the "Administrator"). The applications were submitted within the period prescribed by the Act. The adjusted Price Difference Amount and the Financial Compensation are based on the actual volumes and prices involved in their calculation.

On 18 December 2020, the bank account of TAURON Sprzedaż GZE Sp. z o.o. was credited with the full amount due on account of adjustments of the Price Difference Amount and the Financial Compensation in the total amount of PLN 5 091 thousand. As at the date of approval of these consolidated financial statements for publication, however, no cash was received on account of adjustments of the Price Difference Amount and the Financial Compensation due to TAURON Sprzedaż Sp. z o.o. in the total amount of PLN 61 357 thousand.

(in PLN thousand)

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

SELECTED ACCOUNTING PRINCIPLES

The Company presents costs by function.

Operating expenses include:

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

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

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

14.1. Costs by type

	Year ended 31 December 2020	Year ended 31 December 2019 *(restated figures)*
Depreciation and amortization	(1 891 170)	(1 867 549)
Impairment of non-financial assets	(3 174 681)	(1 354 143)
Materials and energy	(1 216 941)	(1 503 284)
Maitenance and repair services	(204 238)	(202 606)
Distribution services	(1 610 126)	(1 550 246)
Other external services	(796 009)	(766 586)
Cost of obligation to remit the CO_2 emission allowances	(863 883)	(670 657)
Other taxes and charges	(678 414)	(628 149)
Employee benefits expense	(2 617 094)	(2 890 673)
Allowance for trade receivables expected credit losses	(57 697)	(27 803)
Other	(88 772)	(101 583)
Total costs by type	**(13 199 025)**	**(11 563 279)**
Change in inventories, prepayments, accruals and deferred income	79 683	104 845
Cost of goods produced for internal purposes	905 942	830 534
Selling and distribution expenses	491 583	496 140
Administrative expenses	613 285	633 953
Cost of goods for resale and materials sold	(9 589 147)	(9 431 139)
Cost of sales	**(20 697 679)**	**(18 928 946)**

In the year ended 31 December 2020 compared to the comparative period, the main changes in the cost of goods, products, materials and services sold involved:

- an increase in impairment losses on property, plant and equipment, rights-of-use assets and intangible assets, as discussed in more detail in Note 14.3 to these consolidated financial statements;
- a decrease in the consumption of materials and energy mainly as a result of a decrease in the cost of fuel consumed, which results from lower achieved electricity production in the year 2020 compared to the comparable period. In addition in the current reporting period, the consumption of materials and energy included the cost of coal used for the start-up of the 910 MW unit in Jaworzno;
- an increase in the cost of distribution services as a result of increases in the tariff for distribution services for Polskie Sieci Elektroenergetyczne S.A., which came into force on 6 April 2019 and 1 January 2020;
- an increase in the cost of the obligation to redeem CO_2 emission allowances, as a result of including in the comparable period in the cost of fulfilling the obligation to redeem CO_2 emission allowances certified emission reductions (CERs) in the amount of 883,000, whose purchase price was significantly lower than EUAs, and an increase in the price of CO_2 emission allowances included in the calculation of the provision. The average price of EUAs included in the calculation of the provision for the year ended 31 December 2020 was higher than the price of EUAs included in the redemption cost for the comparable period. At the same time, emissions decreased in the current period compared to the comparable period;
- an increase in the cost of taxes and fees, mainly due to the cost of real estate taxes on the wind farms acquired in September 2019 and the provision created for real estate taxes due to the Constitutional Court ruling of July 2020, and an increase in the value of network assets as a basis for calculating property tax and higher property tax rates;

(in PLN thousand)

- a decrease in the cost of employee benefits, as described in more detail in Note 14.2 to these consolidated financial statements;
- an increase in the value of goods and materials sold, which is the result of:
  - a higher cost of electricity compared to the comparable period, with a simultaneously lower volume of electricity purchased from the market;
  - the effects of the change in the strategy for securing the depreciation needs for CO_2 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 Group goods 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 emissions 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. At the same time, the purchase of volume performed with a delivery date in March 2021 from counterparties in the OTC market, at prices lower than the purchase originally contracted, reduces the cost of the creation of the provision for CO_2 liabilities for the current and subsequent reporting periods by the Group. As a result of the foregoing, the Group estimates that the cumulative impact of the change in strategy on the operating profit will not be significant. In the Group'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.

14.2. Employee benefit expenses

	Year ended 31 December 2020	Year ended 31 December 2019 *(restated figures)*
Wages and salaries	(2 172 267)	(2 145 013)
Social security costs	(430 618)	(418 459)
Jubilee bonuses	(46 740)	(89 507)
Social Fund	(64 772)	(52 265)
Post-employment benefit expenses, *of which:*	198 202	(87 092)
Provision for retirement, disability and similar benefits	(26 081)	(15 963)
Coal allowances and special electricity rates and charges	291 136	(8 978)
Social Benefits Fund	(4 587)	(2 736)
Contributions to employee retirement plans	(62 266)	(59 415)
Voluntary termination scheme	(5 935)	10 984
Other employee benefit expenses	(94 964)	(109 321)
Total	**(2 617 094)**	**(2 890 673)**
Items included in cost of sales	(1 704 107)	(1 893 321)
Items included in selling and distribution expenses	(195 582)	(228 434)
Items included in administrative expenses	(352 239)	(386 291)
Items included in cost of goods produced for internal purposes	(365 166)	(382 627)

(in PLN thousand)

The decrease in the cost of jubilee bonuses in the current period compared to the comparative period is mainly due to a change in the assumptions adopted for the actuarial valuation as at the balance sheet date – the Group recognised actuarial losses on provisions for jubilee bonuses in the financial result in the year 2020 in the amount of PLN 7 650 thousand (PLN 66 773 thousand in 2019);

The decrease in energy tariff costs in the current period compared to the comparative period is mainly due to the recognition of the effects of the reversal of provisions for employee tariff in part on current employees as future pensioners, which contributed to the reduction of operating costs from continuing operations in the amount of PLN 297 175 thousand. The total amount of the provisions released in the part for employees was PLN 299 408 thousand, of which PLN 2 233 thousand was presented as part of discontinued operations. The above events are described in more detail in Note 40.1 to these consolidated financial statements.

14.3. Depreciation and amortisation charges and impairment losses

	Year ended 31 December 2020	Year ended 31 December 2019 *(restated figures)*
Amortization, *included in item:*	**(1 891 170)**	**(1 867 549)**
Cost of sales	(1 781 551)	(1 753 115)
Selling and distribution expenses	(44 016)	(40 964)
Administrative expenses	(41 366)	(45 082)
Cost of goods produced for internal purposes	(24 237)	(28 388)
Impairment allowance, *included in item:*	**(3 174 681)**	**(1 354 143)**
Cost of sales	(3 128 975)	(1 319 623)
Selling and distribution expenses	1 413	(9 151)
Administrative expenses	(47 040)	(25 311)
Cost of goods produced for internal purposes	(79)	(58)
Total	**(5 065 851)**	**(3 221 692)**

The increase in depreciation expense is mainly due to the recognition in the current period of the depreciation of the wind farm assets acquired from the in.ventus group in September 2019 and the commencement of depreciation, in connection with the commissioning of the 910 MW power unit in Jaworzno.

In the year ended 31 December 2020, as a result of impairment tests performed as at 31 December 2020 and as at 30 June 2020, the Group recognised impairment losses in the Generation and Mining segments in the total amount of PLN 3 170 316 thousand. The tests and their results are further described in detail in Note 11 to these consolidated financial statements.

In addition, in the year ended 31 December 2020, the Group companies created and reversed write-downs on individual assets, customer contract assets and non-current assets classified as held for sale, which charged the Group's operating expenses with the total amount of PLN 4 365 thousand.

The total impairment loss on property, plant and equipment, intangible assets and rights-of-use assets in the year ended 31 December 2020 amounted to PLN 3 174 681 thousand.

(in PLN thousand)

15. Other operating revenues and costs

	Year ended 31 December 2020	Year ended 31 December 2019 *(restated figures)*
Surplus of reversal of actuarial provisions for the existing pensioners and disability pensioners	225 515	-
Income from co-financing the costs of compensation benefits under the crisis shield	64 680	-
Subsidies/grants and revenue representing the equivalent of amortization/depreciation charges from subsidies to or free of charge received fixed assets	32 293	36 011
Penalties, fines, compensations received or receivable	56 879	53 206
Result on the disposal of non-financial fixed assets and costs of damages to non-current assets	(14 737)	(9 522)
Costs of court proceedings, fines and damages	(10 875)	(8 810)
Write-off for abandoned investments and production	(2 445)	(45 630)
Surplus of other provisions (recognized)/derecognized	(1 992)	10 456
The result of the bargain purchase of wind farms from the in.ventus group	-	119 515
Other operating income	43 583	18 011
Other operating expenses	(54 602)	(28 083)
Total	**338 299**	**145 154**

In the year ended 31 December 2020 recognised the effects of the reversal by Group companies of actuarial provisions for the employee tariff in the part for pensioners. The impact of the reversal of the above provisions on the increase in other operating revenue of continuing operations amounted to PLN 255 515 thousand (including PLN 196 409 thousand in the Distribution segment). The total amount of the provisions released in the part for pensioners was PLN 233 911 thousand, of which PLN 8 396 thousand was presented as part of discontinued operations. The aforementioned events are presented in detail in Note 40.1 to these consolidated financial statements.

16. Financial revenues and costs

SELECTED ACCOUNTING PRINCIPLES

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

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

Transactions expressed in foreign currencies are converted upon the initial recognition into functional currency applying the average exchange rate established for a given currency by the National Bank of Poland on the day preceding that day. As at the balance sheet date, monetary items are converted applying the closing exchange rate (for entities whose functional currency is Polish zloty, the closing rate is the average exchange rate determined for a given currency by the National Bank of Poland on that day).

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

Currency	31 December 2020	31 December 2019
USD	3.7584	3.7977
EUR	4.6148	4.2585
CZK	0.1753	0.1676

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

(in PLN thousand)

	Year ended 31 December 2020	Year ended 31 December 2019 *(restated figures)*
Income and costs from financial instruments	**(631 195)**	**(255 413)**
Interest costs	(283 456)	(248 781)
Exchange differences	(246 352)	30 079
Remeasurement of loans granted	(221 382)	15 936
Gain/loss on derivative instruments	125 514	(53 233)
Interest income	25 946	30 265
Commission relating to borrowings and debt securities	(18 162)	(20 338)
Dividend income	6 176	4 254
Other	(19 479)	(13 595)
Other finance income and costs	**(9 838)**	**(56 379)**
Interest on employee benefits	(21 150)	(31 981)
Interest on discount of other provisions	(10 289)	(12 154)
Other finance income	32 941	12 871
Other finance costs	(11 340)	(25 115)
Total, *including recognized in the statement of comprehensive income:*	**(641 033)**	**(311 792)**
Interest expense on debt	(283 456)	(248 781)
Finance income and other finance costs	(357 577)	(63 011)

In the year ended 31 December 2020 compared to the comparative period, the main changes in the financial revenues and costs referred to:

- excess of exchange rate losses over gains in the amount of PLN 246 352 thousand (in the comparable period, the excess of exchange rate gains over losses in the amount of PLN 30 079 thousand). The exchange differences mainly relate to exchange differences related to the Company liabilities on account of debt in EUR;
- revaluation of loans granted to the joint venture, Elektrociepłownia Stalowa Wola S.A., resulting mainly from credit risk analyses of the loans granted as at the balance sheet date, which reduced their carrying amount in the total amount of PLN 235 714 thousand (discussed in more detail in Note 27 to these consolidated financial statements);
- recognising a positive result on derivatives due to the measurement and realisation of derivatives, mainly currency forwards and CCIRS;
- the increase in other financial revenues is mainly related to the recognition by the Company of revenues from the reversal of the provision for audit proceedings in the part relating to interest in the amount of PLN 24 497 thousand, as further described in Note 43.3 to these consolidated financial statements.

17. Costs arising from leases

The table below presents the total charge to profit or loss of continuing operations and discontinued activities due to lease agreements where Group companies are the lessee.

	Year ended 31 December 2020	Year ended 31 December 2019
Cost arising from leases recognized in accordance with MSSF 16 *Leases, including:*	(151 914)	(137 849)
Depreciation of right-of-use assets	(101 974)	(93 049)
Cost of interest on lease liabilities	(49 940)	(44 800)
Cost arising from leases for which practical exclusion from MSSF 16 *Leases* has been applied, including:	(17 741)	(20 240)
Cost of short--term leases	(15 403)	(19 877)
Cost of low-value asset leases	(266)	(111)
Variable lease charges not included in the measurement of lease liabilities	(2 072)	(252)
Total	**(169 655)**	**(158 089)**

18. Income Tax

SELECTED ACCOUNTING PRINCIPLES

Current Tax

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

Deferred Tax

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

(in PLN thousand)

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

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

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

PROFESSIONAL JUDGEMENT AND ESTIMATES

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

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

18.1. Tax expense in the statement of comprehensive income

	Year ended 31 December 2020	Year ended 31 December 2019 *(restated figures)*
Current income tax	**(228 422)**	**(186 352)**
Current income tax expense	(217 564)	(192 666)
Adjustments to current income tax from previous years	(10 858)	6 314
Deferred tax	**150 540**	**204 899**
Income tax expense in profit/(loss)	**(77 882)**	**18 547**
Income tax expense relating to other comprehensive income, *including:*	**46 389**	**23 189**
reclassified to profit or loss	19 603	(2 884)
not reclassified to profit or loss	26 786	26 073

18.2. Reconciliation of the effective tax rate

	Year ended 31 December 2020	Year ended 31 December 2019 *(restated figures)*
Loss before tax on continuing operations	(1 655 668)	(112 744)
Profit (loss) before tax on discontinued operations	(718 455)	97 376
Loss before taxation	**(2 374 123)**	**(15 368)**
Tax at Poland's statutory tax rate of 19%	**451 083**	**2 920**
Adjustments to income tax from previous years	(10 858)	6 314
Tax effects of the following items:	(200 970)	(18 664)
Impairment losses due to revaluation to fair value less costs of sale of assets held for sale	(156 885)	-
Surplus of (recognition)/reversal of non-deductible provisions and write-downs/allowances	(38 747)	(29 607)
National Disabled Persons Rehabilitation Fund (PFRON)	(5 911)	(5 673)
Permanent differences on costs related to tangible assets	(7 535)	(3 643)
Other tax non-deductible costs	(18 569)	(31 634)
Share in profit/loss of joint ventures	2 995	9 110
Changes in deferred tax estimates caused by revenue and cost with a different tax point	3 042	27 511
Other income not included in taxable base	20 640	15 272
Impairment of deferred tax assets	(292 865)	-
Other	(60 144)	(9 593)
Bargain purchase	-	22 708
Tax at the effective rate of -4.8% (2019: 24.0%)	**(113 754)**	**3 685**
Income tax (expense) in the financial result on continuing operations	(77 882)	18 547
Income tax (expense) attributable to discontinued activity	(35 872)	(14 862)

In the year ended 31 December 2020, the Group recognized an impairment loss on deferred tax assets relating to the assets and liabilities of the company from the Mining segment, in the amount of PLN 292 865 thousand. The recognition of the above write-down results from the analysis of recoverability of the deferred tax asset of the Tax Capital Group for the years 2021-2023, which does not include TAURON Wydobycie S.A.

(in PLN thousand)

19. Discontinued activity

SELECTED ACCOUNTING PRINCIPLES

The discontinued activity the Group presents revenues and expenses of a disposal group classified as held for sale if the group meets the following conditions:

- represents either a separate major line of business or a geographical area of operations,
- is part of a single coordinated plan to dispose of a separate major line of business or geographical area of operations, or
- is a subsidiary acquired exclusively with a view to resale.

PROFESSIONAL JUDGEMENT AND ESTIMATES

The Group recognizes an impairment loss upon the initial or subsequent revaluation of an asset (or disposal group) to fair value less costs to sell. The Group estimated the fair value of the group for sale, which is discussed in more detail below.

The Group estimates that the transactions concluded by the Group with a subsidiary whose operations are classified as discontinued operations, made as part of the basic operating activities, will continue after the disposal of the subsidiary. Therefore, the revenues and costs of the Group companies resulting from transactions with the disposal group are presented in the result on continuing operations, with an appropriate consolidation adjustment included in discontinued operations. In the Group's opinion, other income and costs, including financial ones, resulting from the Group's transactions with discontinued operations will not be continued.

	Year ended 31 December 2020	Year ended 31 December 2019 *(restated figures)*
Sales revenue	482 608	445 956
Cost of sales	(375 210)	(335 590)
Profit on sale on discontinued operations	**107 398**	**110 366**
Selling and distribution expenses	(5 621)	(3 031)
Administrative expenses	(24 197)	(24 711)
Other operating income and expenses	30 786	13 782
Impairment losses due to revaluation to fair value less costs of sale	(825 708)	-
Operating profit (loss) on discontinued operations	**(717 342)**	**96 406**
Finance income and finance costs	(1 113)	970
Profit (loss) before tax on discontinued operations	**(718 455)**	**97 376**
Income tax expense	(35 872)	(14 862)
Net profit (loss) on discontinued operations	**(754 327)**	**82 514**
Actuarial gains (loss)	(3 377)	(3 056)
Income tax	642	581
Other comprehensive income on discontinued operations not reclassified to profit or loss	**(2 735)**	**(2 475)**
Total comprehensive income from discontinued operations	**(757 062)**	**80 039**
Net profit (loss) on discontinued operations attributable to:	**(754 327)**	**82 514**
Equity holders of the Parent	(754 327)	82 514
Total comprehensive income on discontinued operations attributable to:	**(757 062)**	**80 039**
Equity holders of the Parent	(757 062)	80 039
Profit (loss) per share (in PLN)		
basic and diluted net loss from profit (loss) on discontinued operations for the period attributable to shareholders of the parent company	(0.43)	0.04

Discontinued operations represent the activities of the subsidiary TAURON Ciepło Sp. z o.o., which is related to the classification of 100% of its shares in TAURON Ciepło Sp. z o.o. by the Company as held for sale.

The allocation of shares in TAURON Ciepło Sp. z o.o. for sale is in line with the update of the strategic directions complementary to the TAURON Group Strategy for 2016-2025 adopted by the Management Board and positively reviewed by the Supervisory Board in May 2019. Given the need to transform the Group's energy mix, optimise the investment portfolio and maintain financial stability, it was decided to perform a market review of, among others, a strategic option involving making the Group's asset portfolio more flexible by adjusting mining assets to the Group's planned fuel demand, reorganisation of the Generation segment and the capital investment portfolio. The above option comprises, inter alia, market verification of the possibility to sell shares of 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 to sell shares of the subsidiary, TAURON Ciepło Sp. z o.o. and potential continuation of the sales process.

On 16 June 2020, the Company Management Board decided to enter into negotiations of the share purchase agreement in TAURON Ciepło Sp. z o.o. with Polskie Górnictwo Naftowe i Gazownictwo S.A. in exclusivity mode for the period of six weeks, which was subsequently extended to 30 November 2020 and 31 January 2021, respectively. After the balance sheet date, on 29 January 2021, Polskie Górnictwo Naftowe i Gazownictwo S.A. expressed its intention to discontinue negotiations aimed at the acquisition of shares in TAURON Ciepło Sp. z o.o which is described in more detail in Note 60 to these consolidated financial statements.

(in PLN thousand)

As at the balance sheet date, the Company assessed that the conditions in the scope of classification of its activity resulting from IFRS *5 Non-current Assets Held for Sale and Discontinued Operations* were met in relation to TAURON Ciepło Sp. z o.o. activity. The core business of TAURON Ciepło Sp. z o.o. is the generation, distribution and sale of thermal energy for heating, domestic hot water preparation and ventilation. As at the date of classification of the net assets of TAURON Ciepło Sp. z o.o. to the disposal group classified as held for sale, the Group measured the disposal group at a fair value. The fair value as at the balance sheet date was estimated at a level of PLN 1 342 000 thousand, based on information gathered in the course of the conducted market sale process of shares in TAURON Ciepło Sp. z o.o. Due to the fact that the fair value of the disposal group is lower than its existing carrying amount at the level of PLN 2 167 708 thousand, the Group recognised the impairment loss on non-financial non-current assets in the amount of PLN 825 708 thousand.

20. Earnings/(loss) per share

SELECTED ACCOUNTING PRINCIPLES

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

	Year ended 31 December 2020	Year ended 31 December 2019 *(restated figures)*
Net loss for the year attributable to equity holders of the Parent	(2 485 115)	(10 908)
Net loss on continuing operations for the year attributable to equity holders of the Parent	(1 730 788)	(93 422)
Number of ordinary shares	1 752 549 394	1 752 549 394
Loss per share - basic and diluted attributable to shareholders of the parent company (in PLN)	**(1.42)**	**(0.01)**
Loss per share - basic and diluted on continued operations attributable to shareholders of the parent company (in PLN)	**(0.99)**	**(0.05)**

EXPLANATORY NOTES TO THE STATEMENT OF FINANCIAL POSITION

21. Property, plant and equipment

SELECTED ACCOUNTING PRINCIPLES

The Group's key fixed assets by segment include:

- in the Generation Segment:
  - boilers with accessories, turbines with generators, transformers and thermal stations as well as equipment used for purposes of fuel unloading, storage and transportation, pumping stations and desulphurisation installations, steam generators, switchgears, landfills, warehouses and other buildings, switchgears for the highest voltages;
  - heating stations, fuel unloading and transportation facilities, as well as pumping stations and water treatment plants.
- in the Distribution Segment:
  - power lines located in an area of 57 thousand square kilometres, with the total length of approximately 242 thousand km;
  - electrical substations (approximately 61 thousand units);
  - transformers (approximately 59 thousand units).
- in the Mining Segment:
  - mechanised enclosures, pit shafts and dip-headings and fixed assets located in the mine walls and the coal processing plant;
  - costs of work related to the cutting of production drifts and accumulated costs of work related to the reinforcement of longwalls;
- in the Segment of Renewable Energy Sources:
  - wind turbines, hydroelectric power stations, hydroelectric power station buildings and weirs, dams and hydroelectric equipment.

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

- acquisition price or manufacturing cost,
- costs directly attributable to the purchase and bringing the asset to a usable condition,
- the expected cost of disassembly and removal of items of property, plant and equipment and restoration of their current location to its original condition (the accounting policy in the scope of creating provisions for these costs are presented in Note 41 to these consolidated financial statements),
- external financing costs.

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

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

External financing costs

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

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

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

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

PROFESSIONAL JUDGEMENT AND ESTIMATES

Impairment

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

Average remaining useful lives of individual groups of fixed assets

Asset group	Average remaining depreciation period (number of years)
Buildings, premises, civil and water engineering structures	20 years
Plant and machinery	15 years
Mining excavations	2 years
Other tangible fixed assets	4 years

The depreciation method, the depreciation rate and the residual value of fixed assets are reviewed at least at each financial year-end and any adjustments to depreciation charges are applied with effect from the beginning of the reporting period in which the review is completed. The review of the economic useful lives of fixed and intangible assets carried out in 2020 had the most significant impact on depreciation and amortisation expense in the Distribution segment - a decrease in depreciation and amortisation expense of PLN 21 900 thousand. The impact on depreciation expense in other segments was not material.

(in PLN thousand)

Year ended 31 December 2020

	Land	Buildings, premises and civil engineering structures	Plant and machinery	Mine workings	Other	Assets under construction	Property, plant and equipment, total
COST							
Opening balance	**140 554**	**25 480 506**	**20 297 298**	**265 001**	**957 959**	**7 777 093**	**54 918 411**
Direct purchase	-	-	-	1 174	-	3 214 919	**3 216 093**
Borrowing costs	-	-	-	-	-	226 734	**226 734**
Transfer of assets under construction	1 506	4 271 288	5 259 603	-	41 678	(9 574 075)	**-**
Sale	(401)	(14 134)	(107 667)	-	(7 991)	(335)	**(130 528)**
Liquidation	(8)	(70 320)	(281 474)	(146 708)	(11 440)	-	**(509 950)**
Received free of charge	1 043	11 476	-	-	-	-	**12 519**
Transfers to/from assets held for sale	(2 145)	(1 788 629)	(1 863 727)	-	(55 179)	(100 926)	**(3 810 606)**
Overhaul expenses	-	-	-	-	-	194 987	**194 987**
Items generated internally	-	-	-	138 625	-	180 305	**318 930**
Cost of disassembly of wind farms and decommissioning of mines	-	71 663	8 286	-	-	-	**79 949**
Revenue from start-up	-	-	-	-	-	(161 834)	**(161 834)**
Other movements	733	(2 367)	12 872	-	(2 626)	19 726	**28 338**
Foreign exchange differences from translation of foreign entity	-	-	20	-	18	-	**38**
Closing balance	**141 282**	**27 959 483**	**23 325 211**	**258 092**	**922 419**	**1 776 594**	**54 383 081**
ACCUMULATED DEPRECIATION							
Opening balance	**(341)**	**(10 756 599)**	**(12 008 192)**	**(116 238)**	**(655 060)**	**(282 910)**	**(23 819 340)**
Depreciation for the period	-	(831 008)	(771 850)	(92 210)	(65 278)	(65)	**(1 760 411)**
Increase of impairment	(15)	(1 273 941)	(1 806 495)	(76 149)	(5 475)	(149 509)	**(3 311 584)**
Decrease of impairment	-	2 851	3 580	-	210	140 061	**146 702**
Sale	168	13 374	104 859	-	7 825	-	**126 226**
Liquidation	-	62 191	273 578	146 708	11 432	-	**493 909**
Transfers to/from assets held for sale	-	742 912	872 164	-	38 410	13 874	**1 667 360**
Other movements	-	35	(1 248)	-	1 941	(32)	**696**
Foreign exchange differences from translation of foreign entity	-	-	(11)	-	(13)	-	**(24)**
Closing balance	**(188)**	**(12 040 185)**	**(13 333 615)**	**(137 889)**	**(666 008)**	**(278 581)**	**(26 456 466)**
NET CARRYING AMOUNT AT THE BEGINNING OF THE PERIOD	**140 213**	**14 723 907**	**8 289 106**	**148 763**	**302 899**	**7 494 183**	**31 099 071**
NET CARRYING AMOUNT AT THE END OF THE PERIOD	**141 094**	**15 919 298**	**9 991 596**	**120 203**	**256 411**	**1 498 013**	**27 926 615**
of which operating segments:							
Mining	**3 144**	**310 588**	**188 256**	**115 469**	**3 534**	**187 483**	**808 474**
Generation	**40 383**	**2 077 270**	**3 645 017**	**-**	**6 900**	**104 368**	**5 873 938**
Renewable Energy Sources	**796**	**885 214**	**1 258 737**	**-**	**1 184**	**29 670**	**2 175 601**
Distribution	**79 913**	**12 127 222**	**4 773 285**	**-**	**221 908**	**1 028 481**	**18 230 809**
Other segments and other operations	**16 858**	**519 004**	**126 301**	**4 734**	**22 885**	**148 011**	**837 793**

(in PLN thousand)

Year ended 31 December 2019 *(restated data)*

	Land	Buildings, premises and civil engineering structures	Plant and machinery	Mine workings	Other	Assets under construction	Property, plant and equipment, total
COST							
Opening balance	**125 869**	**23 775 062**	**19 133 480**	**221 074**	**943 340**	**6 376 491**	**50 575 316**
Direct purchase	-	-	-	1 714	-	3 251 159	**3 252 873**
Borrowing costs	-	-	-	-	-	183 439	**183 439**
Transfer of assets under construction	14 006	1 395 272	924 748	-	53 706	(2 387 732)	**-**
Sale	(39)	(3 264)	(94 428)	-	(26 460)	(47)	**(124 238)**
Liquidation	(10)	(62 965)	(101 672)	(124 816)	(11 285)	-	**(300 748)**
Received free of charge	-	17 107	232	-	-	-	**17 339**
Transfers to/from assets held for sale	(64)	(13 636)	(46)	-	(175)	-	**(13 921)**
Overhaul expenses	-	-	-	-	-	193 955	**193 955**
Items generated internally	-	-	-	184 542	-	99 509	**284 051**
Business acquisition	592	270 463	441 138	-	-	-	**712 193**
Cost of disassembly of wind farms and decommissioning of mines	-	101 182	2 102	-	-	-	**103 284**
Other movements	200	1 285	(8 256)	(17 513)	(1 168)	60 319	**34 867**
Foreign exchange differences from translation of foreign entity	-	-	-	-	1	-	**1**
Closing balance	**140 554**	**25 480 506**	**20 297 298**	**265 001**	**957 959**	**7 777 093**	**54 918 411**
ACCUMULATED DEPRECIATION							
Opening balance	**(404)**	**(9 599 896)**	**(10 765 131)**	**(52 458)**	**(611 258)**	**(139 502)**	**(21 168 649)**
Depreciation for the period	-	(829 750)	(797 235)	(95 837)	(74 362)	(915)	**(1 798 099)**
Increase of impairment	-	(426 283)	(698 406)	(92 759)	(6 592)	(148 752)	**(1 372 792)**
Decrease of impairment	65	35 438	53 208	-	102	522	**89 335**
Sale	-	2 143	91 800	-	24 963	-	**118 906**
Liquidation	-	55 449	95 937	124 816	11 249	-	**287 451**
Transfers to/from assets held for sale	-	9 666	38	-	163	-	**9 867**
Other movements	(2)	(3 366)	11 597	-	676	5 737	**14 642**
Foreign exchange differences from translation of foreign entity	-	-	-	-	(1)	-	**(1)**
Closing balance	**(341)**	**(10 756 599)**	**(12 008 192)**	**(116 238)**	**(655 060)**	**(282 910)**	**(23 819 340)**
NET CARRYING AMOUNT AT THE BEGINNING OF THE PERIOD	**125 465**	**14 175 166**	**8 368 349**	**168 616**	**332 082**	**6 236 989**	**29 406 667**
NET CARRYING AMOUNT AT THE END OF THE PERIOD	**140 213**	**14 723 907**	**8 289 106**	**148 763**	**302 899**	**7 494 183**	**31 099 071**
of which operating segments:							
Mining	**3 146**	**377 857**	**281 925**	**144 613**	**6 980**	**288 647**	**1 103 168**
Generation*	**42 477**	**1 373 573**	**1 968 604**	**-**	**23 488**	**6 167 240**	**9 575 382**
Renewable Energy Sources	**807**	**917 144**	**1 329 333**	**-**	**1 511**	**1 511**	**2 250 306**
Distribution	**76 924**	**11 558 666**	**4 590 377**	**-**	**252 469**	**1 002 867**	**17 481 303**
Other segments and other operations	**16 859**	**496 667**	**118 867**	**4 150**	**18 451**	**33 918**	**688 912**

** Segment data for the comparable period include assets of the subsidiary, TAURON Ciepło Sp. z o.o. reclassified as at 31 December 2020 to assets classified as held for sale.*

In the year ended 31 December 2020, the Group purchased property, plant and equipment (including capitalised borrowing costs) in the amount of PLN 3 442 827 thousand. The major purchases were made in connection with investments in the following operating segments:

Operating segment	Year ended 31 December 2020	Year ended 31 December 2019 *(restated figures)*
Distribution	1 844 732	1 744 031
Generation	1 154 254	1 292 561
Mining	190 544	285 257

The average capitalisation rate of borrowing costs was 4.14% for the year ended 31 December 2020 and 3.28% for the year ended 31 December 2019.

The main investment tasks implemented by the Group in the financial year 2020 are described in section 1.5.1. of the Management Board reports on the activities of TAURON Polska Energia S.A. and TAURON Capital Group for the financial year 2020.

Impairment losses on property, plant and equipment affected the results of the following operating segments:

Year ended 31 December 2020

	Generation	Mining	Distribution	Other	Total
Increase of impairment	(2 622 138)	(685 382)	(4 056)	(8)	**(3 311 584)**
Decrease of impairrment	4 096	140 061	2 542	3	**146 702**
Total impact on the profit (loss) for the period	**(2 618 042)**	**(545 321)**	**(1 514)**	**(5)**	**(3 164 882)**

(in PLN thousand)

Year ended 31 December 2019 *(restated figures)*

	Generation	Mining	Distribution	Other	Total
Increase of impairment	(694 044)	(676 610)	(2 138)	-	**(1 372 792)**
Decrease of impairrment	59 506	-	3 867	25 962	**89 335**
Total impact on the profit (loss) for the period	**(634 538)**	**(676 610)**	**1 729**	**25 962**	**(1 283 457)**

22. 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,
- all lease payments made at or before the inception of the lease, less any amounts received in respect of the lease or costs paid by the lessor (lease incentives),
- any initial direct costs incurred by the lessee,
- an estimate of the costs of dismantling and removing the underlying asset, restoring the site on which it was located, or restoring it to the condition required by the lease terms.

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

PROFESSIONAL JUDGEMENT AND ESTIMATES

At the date of commencement of the lease, the Group 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 Group applies the incremental borrowing rate, in accordance with the adopted methodology depending on the rating.

The Group applies the portfolio approach to similar leases regarding unified assets with similar use. When accounting for leases under the portfolio approach, the Group applies estimates and assumptions corresponding to the size and composition of the portfolio, including estimates of the weighted average lease term.

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

Year ended 31 December 2020

	Land	Perpetual usufruct right	Buildings, premises and civil engineering structures	Plant and machinery	Motor vehicles	Transmission easements	Right-of-use assets in progress	Right-of-use assets total
COST								
Opening balance	**475 863**	**1 076 085**	**176 424**	**64 789**	**6 571**	**121 144**	**6 256**	**1 927 132**
Increase due to a new lease contract	54 438	447	11 699	30 755	98	361	-	**97 798**
Increase(decrease) due to lease changes	3 239	77 921	9 374	(1 397)	(34)	31	-	**89 134**
Transfer of assets held for sale	(13 081)	(96 590)	(21 340)	-	(282)	(4 196)	-	**(135 489)**
Other movements	14 169	(645)	(972)	(5 568)	1 034	11 088	(492)	**18 614**
Closing balance	**534 628**	**1 057 218**	**175 185**	**88 579**	**7 387**	**128 428**	**5 764**	**1 997 189**
ACCUMULATED DEPRECIATION								
Opening balance	**(20 176)**	**(60 097)**	**(15 341)**	**(34 713)**	**(2 210)**	**(21 097)**	**-**	**(153 634)**
Depreciation for the period	(25 071)	(32 813)	(16 053)	(19 331)	(2 868)	(5 838)	-	**(101 974)**
Increase of impairment	-	(1 245)	(20)	(13 775)	(41)	(2 402)	-	**(17 483)**
Decrease of impairment	-	10 913	-	-	-	-	-	**10 913**
Transfer of assets held for sale	890	(7 360)	2 240	-	115	708	-	**(3 407)**
Other movements	761	1 030	347	5 514	(341)	11	-	**7 322**
Closing balance	**(43 596)**	**(89 572)**	**(28 827)**	**(62 305)**	**(5 345)**	**(28 618)**	**-**	**(258 263)**
NET CARRYING AMOUNT AT THE BEGINNING OF THE PERIOD	**455 687**	**1 015 988**	**161 083**	**30 076**	**4 361**	**100 047**	**6 256**	**1 773 498**
NET CARRYING AMOUNT AT THE END OF THE PERIOD	**491 032**	**967 646**	**146 358**	**26 274**	**2 042**	**99 810**	**5 764**	**1 738 926**

(in PLN thousand)

Year ended 31 December 2019

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

23. Goodwill

SELECTED ACCOUNTING PRINCIPLES

Goodwill is measured at initial value (determined in accordance with the accounting policy presented in Note 6) less accumulated impairment losses. Goodwill is not amortised but is tested for impairment annually or more frequently if there are indications to do so.

As at the acquisition date, the acquired goodwill is allocated to each of the cash-generating units that may benefit from the synergies of the merger. An operating segment is the lowest level in the Group with attributable goodwill and with goodwill monitored for internal management purposes in the Group (except the Generation segment).

PROFESSIONAL JUDGEMENT AND ESTIMATES

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

Operating segment	As at 31 December 2020	As at 31 December 2019
Distribution	25 602	25 602
Other	581	581
Total	**26 183**	**26 183**

24. Energy certificates and gas emission allowances

SELECTED ACCOUNTING PRINCIPLES

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

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

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

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

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

	Acquired	Granted/Received free of charge	Release
Energy certificates	Acquisition cost	Fair value as at the receipt date	FIFO "First In First Out"
CO_2 emission allowances	Acquisition cost	Nominal value (i.e. zero)	Obtained free of charge in the first place, subsequently acquired ones (FIFO "First In First Out")

(in PLN thousand)

The energy certificates and the CO_2 emission allowances are surrendered (in correspondence with settlement of the provision amount) at the date of their redemption. The principles applicable to the recognition of provisions relating to the energy certificate surrendering obligation and for liabilities arising from CO_2 emissions are presented in Note 42.

24.1. Long-term energy certificates and gas emission allowances

	Year ended 31 December 2020			Year ended 31 December 2019		
	Energy certificates	CO_2 emission allowances	Total	Energy certificates	CO_2 emission allowances	Total
Opening balance	**306 221**	**161 976**	**468 197**	**208 585**	**453 018**	**661 603**
Direct purchase	216 442	141 241	**357 683**	234 252	100 949	**335 201**
Reclassification	(289 137)	(35 807)	**(324 944)**	(136 616)	(391 991)	**(528 607)**
Closing balance	**233 526**	**267 410**	**500 936**	**306 221**	**161 976**	**468 197**

24.2. Short-term energy certificates and gas emission allowances

	Year ended 31 December 2020			Year ended 31 December 2019		
	Energy certificates	CO_2 emission allowances	Total	Energy certificates	CO_2 emission allowances	Total
Opening balance	**594 968**	**690 225**	**1 285 193**	**90 267**	**111 396**	**201 663**
Direct purchase	189 179	368 839	**558 018**	379 664	300 484	**680 148**
Generated internally	226 443	-	**226 443**	143 644	-	**143 644**
Business acquisition	-	-	**-**	10 579	-	**10 579**
Surrendered	(595 541)	(776 602)	**(1 372 143)**	(165 802)	(113 646)	**(279 448)**
Reclassification	289 137	35 807	**324 944**	136 616	391 991	**528 607**
Transfers to assets held for sale	(46)	(14 201)	**(14 247)**	-	-	**-**
Closing balance	**704 140**	**304 068**	**1 008 208**	**594 968**	**690 225**	**1 285 193**

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

Balance of emission allowances	Year ended 31 December 2020	Year ended 31 December 2019
Allowances recorded at the beginning of the financial year	**13 784 891**	**11 469 679**
Allowances surrendered:		
in the installations of TAURON Wytwarzanie S.A. (previous year's emissions)	(10 562 031)	(1 172 702)
in the installations of TAURON Ciepło Sp. z o.o. (previous year's emissions)	(1 599 873)	(1 914 237)
Allocation of free-of-charge allowances	223 609	302 651
Allowances purchased on the secondary market	12 555 500	11 047 500
Allowances sold on the secondary market	(7 669 500)	(5 948 000)
Allowances recorded at the end of the financial year, *of which:*	**6 732 596**	**13 784 891**
Allowances intended for surrender for a given year in the installations of:	(4 048 068)	(11 413 633)
TAURON Wytwarzanie S.A.	(3 385 799)	(9 815 035)
TAURON Ciepło Sp. z o.o.	(444 797)	(1 598 598)
Nowe Jaworzno Grupa TAURON Sp. z o.o.	(217 472)	-

In 2020, TAURON Group companies were allocated free emission allowances under Article 10a of Directive 2009/29/EC of the European Parliament and of the Council of 23 April 2009, in the amount of 223 609 EUA for heat production. The remaining allowances, necessary to balance the 2020 emissions needs, have been purchased and contracted for purchase on the secondary market.

In order to secure liabilities of TAURON Polska Energia S.A. resulting from transactions concluded by the Company on the Polish Power Exchange, agreements were concluded for the transfer of CO_2 emission allowances to the Warsaw Commodity Clearing House (Izba Rozliczeniowa Giełd Towarowych S.A.), which is discussed in more detail in Note 55 to these consolidated financial statements.

(in PLN thousand)

25. Other intangible assets

SELECTED ACCOUNTING PRINCIPLES

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

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

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

PROFESSIONAL JUDGEMENT AND ESTIMATES

Impairment

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

The period and method of depreciation and the residual value are subject to verification, at least at the end of each financial year. Any changes arising from the conducted verification are captured as the change in estimates, while the potential adjustment of depreciation charges is performed with the effectiveness as of the beginning of the reporting period, in which the verification was completed.

Useful life periods

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

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

Year ended 31 December 2020

	Development expenses	Perpetual usufruct right	Software, concessions, patents, licenses and similar items	Other intangible assets	Intangible assets not made available for use	Intangible assets total
COST						
Opening balance	**8 946**	**15 605**	**822 069**	**183 967**	**114 253**	**1 144 840**
Direct purchase	-	-	-	-	167 028	**167 028**
Transfer of intangible assets not made available for use	4 608	-	142 624	19 497	(166 729)	**-**
Sale/Liquidation	(1 309)	-	(21 352)	(123)	(33)	**(22 817)**
Transfers to/from assets held for sale	(1 622)	-	(14 590)	(639)	(521)	**(17 372)**
Other movements	3	-	(46)	409	5 315	**5 681**
Foreign exchange differences from translation of foreign entity	-	-	57	-	-	**57**
Closing balance	**10 626**	**15 605**	**928 762**	**203 111**	**119 313**	**1 277 417**
ACCUMULATED AMORTIZATION						
Opening balance	**(6 250)**	**-**	**(562 534)**	**(97 765)**	**(30)**	**(666 579)**
Amortization for the period	(983)	-	(80 276)	(10 498)	-	**(91 757)**
Impairment	(282)	-	(702)	(4 982)	(15)	**(5 981)**
Sale/Liquidation	1 306	-	21 352	123	-	**22 781**
Transfers to/from assets held for sale	333	-	12 658	259	-	**13 250**
Foreign exchange differences from translation of foreign entity	-	-	(57)	-	-	**(57)**
Closing balance	**(5 876)**	**-**	**(609 559)**	**(112 863)**	**(45)**	**(728 343)**
NET CARRYING AMOUNT AT THE BEGINNING OF THE PERIOD	**2 696**	**15 605**	**259 535**	**86 202**	**114 223**	**478 261**
NET CARRYING AMOUNT AT THE END OF THE PERIOD	**4 750**	**15 605**	**319 203**	**90 248**	**119 268**	**549 074**

(in PLN thousand)

Year ended 31 December 2019

	Development expenses	Perpetual usufruct right	Software, concessions, patents, licenses and similar items	Other intangible assets	Intangible assets not made available for use	Intangible assets total
COST						
Opening balance	**6 403**	**774 682**	**776 434**	**271 336**	**85 486**	**1 914 341**
Impact of IFRS 16	-	(758 941)	-	(94 809)	(12 931)	**(866 681)**
Restated opening balance	**6 403**	**15 741**	**776 434**	**176 527**	**72 555**	**1 047 660**
Direct purchase	-	-	-	-	120 034	**120 034**
Transfer of intangible assets not made available for use	2 543	-	65 962	9 041	(77 546)	**-**
Sale/Liquidation	-	-	(19 938)	(562)	(469)	**(20 969)**
Other movements	-	(136)	(391)	(1 039)	(321)	**(1 887)**
Foreign exchange differences from translation of foreign entities	-	-	2	-	-	**2**
Closing balance	**8 946**	**15 605**	**822 069**	**183 967**	**114 253**	**1 144 840**
ACCUMULATED AMORTIZATION						
Opening balance	**(5 744)**	**(25 387)**	**(493 665)**	**(101 835)**	**(7)**	**(626 638)**
Impact of IFRS 16	-	25 387	-	15 987	-	**41 374**
Restated opening balance	**(5 744)**	**-**	**(493 665)**	**(85 848)**	**(7)**	**(585 264)**
Amortization for the period	(349)	-	(87 833)	(12 403)	-	**(100 585)**
Impairment	(157)	-	(970)	(59)	(23)	**(1 209)**
Sale/Liquidation	-	-	19 936	545	-	**20 481**
Foreign exchange differences from translation of foreign entities	-	-	(2)	-	-	**(2)**
Closing balance	**(6 250)**	**-**	**(562 534)**	**(97 765)**	**(30)**	**(666 579)**
NET CARRYING AMOUNT AT THE BEGINNING OF THE PERIOD	**659**	**749 295**	**282 769**	**169 501**	**85 479**	**1 287 703**
NET CARRYING AMOUNT AT THE END OF THE PERIOD	**2 696**	**15 605**	**259 535**	**86 202**	**114 223**	**478 261**

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

26. Shares and stocks in joint ventures

SELECTED ACCOUNTING PRINCIPLES

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

Using the equity method the initial value of the investment carried at cost is increased or reduced by a share in profits/losses and in other comprehensive income of the joint venture as from the acquisition date (recognised in profit or loss or in other comprehensive income of the Group, as appropriate).

PROFESSIONAL JUDGEMENT AND ESTIMATES

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

Impairment

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

	Elektrociepłownia Stalowa Wola S.A.	TAMEH HOLDING Sp. z o.o. *	As at 31 December 2020 or for the year ended 31 December 2020	Elektrociepłownia Stalowa Wola S.A.	TAMEH HOLDING Sp. z o.o. *	As at 31 December 2019 or for the year ended 31 December 2019
Non-current assets	1 822 021	2 117 521	**3 939 542**	1 623 476	2 186 422	**3 809 898**
Current assets, *including:*	166 157	651 735	**817 892**	136 404	644 722	**781 126**
cash and cash equivalents	*2 242*	*158 680*	***160 922***	*90 830*	*284 503*	***375 333***
Non-current liabilities (-), *including:*	(2 028 065)	(839 590)	**(2 867 655)**	(1 719 704)	(922 262)	**(2 641 966)**
debt	*(1 964 830)*	*(743 421)*	***(2 708 251)***	*(1 716 142)*	*(827 878)*	***(2 544 020)***
Current liabilities (-), *including:*	(754 866)	(675 067)	**(1 429 933)**	(519 395)	(709 111)	**(1 228 506)**
debt	*(5 662)*	*(184 206)*	***(189 868)***	*(34 961)*	*(184 095)*	***(219 056)***
Total net assets	(794 753)	1 254 599	**459 846**	(479 219)	1 199 771	**720 552**
Share in net assets	(397 377)	627 300	**229 923**	(239 610)	599 886	**360 276**
Investment in joint ventures	**-**	**586 559**	**586 559**	**-**	**559 144**	**559 144**
Share in revenue of joint ventures	80 113	852 140	**932 253**	425	959 938	**960 363**
Share in profit/(loss) of joint ventures	**-**	**15 765**	**15 765**	**-**	**47 947**	**47 947**
Share in other comprehensive income of joint ventures	**-**	**15**	**15**	**-**	**(987)**	**(987)**

** The data presented concern the TAMEH HOLDING Sp. z o.o. Group. The value of the interest held in TAMEH HOLDING Sp. z o.o. differs from the value of net assets attributable to the Group, because the cost of shares in TAMEH HOLDING Sp. z o.o. was calculated taking into account the fair value of the share contributed to the joint venture by companies from the ArcelorMittal Group.*

Elektrociepłownia Stalowa Wola S.A.

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

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

In addition, the Company holds receivables from loans granted to Elektrociepłownia Stalowa Wola S.A. with the carrying amount of PLN 98 713 thousand, as further discussed in Note 27 to these consolidated financial statements.

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. and proceedings between Abener Energia S.A. and Elektrociepłownia Stalowa Wola S.A.

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

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 CCGT 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 with the Court of Appeal in Rzeszów and requested that the Judgement be repealed.

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 another lawsuit filed by Abener in the Arbitration Court. The subject matter of the lawsuit is the payment by ECSW to Abener of the total amount of PLN 156 447 thousand and EUR 537 thousand plus statutory interest for the delay as compensation for damages resulting from ECSW requesting and obtaining payment from the performance bond at Abener's expense or, alternatively, reimbursement of illegitimate enrichment obtained by ECSW at Abener's expense in connection with obtaining payment from the performance bond. The guarantee was granted to ECSW by Abener in accordance with the contract between the parties for the construction of a CCGT unit in Stalowa Wola. A response to the claim was filed by ECSW on 20 March 2020. An assessment of the claim and its justification shows that they are unfounded. The arbitration proceedings are ongoing.

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

(in PLN thousand)

TAMEH HOLDING Sp. z o.o. and subsidiaries

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

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

On 9 September 2020, the shareholders' meeting of TAMEH Holding Sp. z o.o. decided to leave the net profit of PLN 54 131 thousand for the financial year ended 31 March 2020 for the retained earnings of TAMEH Holding Sp. z o.o.

27. Loans to joint ventures

SELECTED ACCOUNTING PRINCIPLES

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

PROFESSIONAL JUDGEMENT AND ESTIMATES

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

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

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

	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**		

Pursuant to the borrower's debt consolidation agreement of 28 February 2018 for the total amount of PLN 609 951 thousand, all existing liabilities of Elektrociepłownia Stalowa Wola S.A. towards the Company arising from loans granted and unpaid until 28 February 2018 were renewed. As at the balance sheet date, the nominal amount of the loan is PLN 310 851 thousand (the principal in the amount of PLN 299 100 thousand was repaid on 30 April 2018). The debt under review constitutes subordinated debt, measured at a fair value of PLN 72 523 thousand as at the balance sheet date.

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 CCGT unit and the Reserve Heat Source in Stalowa Wola. As at the balance sheet date, the amount of the loan granted was equal to the maximum loan limit arising from the said agreement;
- Agreement of 16 October 2020 up to the amount of PLN 35 000 thousand to secure the operation and activity in the scope of trading in electricity. 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.

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.

(in PLN thousand)

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 impairment losses due to credit risk (level 3 of the measurement) resulting in a decrease in the carrying amount of the loans granted in the total amount of PLN 235 714 thousand, whereas the fair value of the debt consolidation agreement was reduced by PLN 156 881 thousand, and in relation to other loans measured at amortized cost, the gross value of loans granted was adjusted by PLN 72 943 thousand and interest accrued by PLN 4 442 thousand, as well as additional impairment losses were recognized 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 provision for expected credit losses was measured at the amount of the 12-month expected credit losses.

28. Other financial assets

SELECTED ACCOUNTING PRINCIPLES

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

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

PROFESSIONAL JUDGEMENT AND ESTIMATES

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

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

	As at 31 December 2020	As at 31 December 2019
Derivative instruments	158 846	105 529
Shares	85 454	140 508
Receivables due to financial compensation for traiding companies	61 357	151 114
Bid bonds, deposits and collateral transferred	55 815	131 192
Deposits and term deposits for Mining Decommissioning Fund	53 448	50 228
Initial deposits arising from stock exchange transactions	48 663	184 353
Variation margin deposits arising from stock exchange transactions	-	25 113
Investment fund units	-	26 622
Loans granted	-	12 451
Other	10 911	7 447
Total	**474 494**	**834 557**
Non-current	208 063	235 522
Current	266 431	599 035

As at 31 December 2020, assets from the positive valuation of derivatives relate to commodity derivatives (including, to a large extent, forward instruments from transactions for which CO_2 emission allowances are the underlying commodity), forward FX derivatives and CCIRS instruments. Due to the market situation in the current reporting period, mainly related to COVID-19, the occurrence of material changes in commodity derivative prices and the depreciation of the Polish zloty, an increase in the assets arising from the measurement of the above derivatives occurred in the year ended 31 December 2020 compared to the end of 2019. Derivatives are described in more detail in Note 51.3 hereto.

As at 31 December 2020, the shares and stocks held mainly comprise shares in the following companies:

- SCE Jaworzno III sp. z o.o. with the value of PLN 29 476 thousand;
- EEC Magenta Sp. z o.o. 2 ASI SKA with the value of PLN 19 116 thousand;
- ElectroMobility Poland S.A. with the value of PLN 11 026 thousand.

Decrease in the value of shares and stocks is related to reclassification of assets of the subsidiary, TAURON Ciepło Sp. z o.o. to assets classified as held for sale, as a result of which its shares and stocks in other companies were recognised in the item of assets classified as held for sale and reclassification of shares in PGE EJ 1 Sp. z o.o. to assets classified as held for sale.

(in PLN thousand)

Compensation receivables for trading companies in the amount of PLN 61 357 thousand result from the request filed in September 2020 by TAURON Sprzedaż Sp. z o.o. to correct the amount of the price difference and financial compensation for the entire year 2019, as described in more detail in Note 13 to these consolidated financial statements.

The value of deposits, bonds, collaterals relates mainly to the collaterals provided by the subsidiary from the Generation segment in favour of PSE S.A. on account of securing due performance of the agreement for the provision of electricity transmission services and the collaterals provided by the Company under the clearing guarantee system with Izba Rozliczeniowa Giełd Towarowych S.A. As at 31 December 2020 and 31 December 2019, the collaterals under the above titles amounted to the total of PLN 36 209 thousand and PLN 83 817 thousand, respectively.

The value of initial deposits (in the comparable period also of supplementary deposits) is related mainly with forward transactions for CO_2 emission allowances concluded on foreign stock markets. The change in the value of deposits in relation to the comparable period results mainly from the Company's position on the stock exchange as at the balance sheet date and changes in the prices of allowances. The reduction in the volume of stock exchange 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 over-the-counter contracts (as described in more detail in Note 14.1 of these consolidated financial statements) and the conclusion of new contracts for redemption purposes of the Group's companies on the over-the-counter market.

29. Other non-financial assets

SELECTED ACCOUNTING PRINCIPLES

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

29.1. Other non-current non-financial assets

	As at 31 December 2020	As at 31 December 2019
Prepayments for assets under construction and intangible assets, *including:*	15 345	79 296
related to project realization: Construction of 910 MW Power Unit in Jaworzno	*-*	*74 774*
Prepayments for debt charges	7 770	10 767
Contract acquisition costs and costs of discounts	7 084	3 365
Other prepayments	33 865	58 860
Total	**64 064**	**152 288**

29.2. Other current non-financial assets

	As at 31 December 2020	As at 31 December 2019
Costs settled over time	**69 423**	**87 416**
IT, telecom and postal services	23 844	24 449
Property and tort insurance	23 590	45 222
Contract acquisition costs and costs of discounts	12 911	8 399
Prepayments for debt charges	5 937	3 796
Other prepayments	3 141	5 550
Other current non-financial assets	**9 034**	**12 859**
Advance payments for deliveries	2 433	3 521
Other current assets	6 601	9 338
Total	**78 457**	**100 275**

(in PLN thousand)

Company Social Benefits Fund

The Group entities have offset the assets of the Fund against their liabilities to the Fund since these assets do not constitute separate assets of the Group. As at 31 December 2020, the surplus of assets over liabilities of the Company Social Benefits Fund amounted to PLN 802 thousand (presented in the item: other current assets in the table above). The table below shows the analysis of the fund.

	As at 31 December 2020	As at 31 December 2019 *(restated figures)*
Loans granted to employees	20 429	25 251
Cash	17 887	20 861
Other Fund assets and liabilities	(3 694)	(3 511)
Social Fund liabilities	(33 820)	(41 776)
Net balance	**802**	**825**
Transfers made to the Social Fund during the period	(70 984)	(57 161)

30. Deferred income tax

	As at 31 December 2020	As at 31 December 2019
difference between tax base and carrying amount of property, plant and equipment, intangible assets and right-of-use assets	1 555 070	1 880 816
difference between tax base and carrying amount of financial assets	41 769	48 137
different timing of recognition of sales revenue for tax purposes	326 794	327 914
difference between tax base and carrying amount of energy certificates	17 622	17 623
other	65 994	66 780
Deferred tax liabilities	**2 007 249**	**2 341 270**
provisions and accruals	694 404	665 886
difference between tax base and carrying amount of property, plant and equipment, intangible assets and right-of-use assets	535 337	495 875
power infrastructure received free of charge and received connection fees	4 225	7 859
difference between tax base and carrying amount of financial assets and financial liabilities	370 805	292 771
different timing of recognition of sales revenue and cost of sales for tax purposes	270 110	277 964
tax losses	8 747	6 533
other	22 426	11 185
Deferred tax assets	**1 906 054**	**1 758 073**
Impairment of deferred tax assets	(292 865)	-
Deferred tax assets after impairment	**1 613 189**	**1 758 073**
After setting off balances at the level of individual Group companies, deferred tax for the Group is presented as:		
Deferred tax asset	**39 678**	**22 088**
Deferred tax liability	**(433 738)**	**(605 285)**

Change in deferred tax liability and assets

	Year ended 31 December 2020		Year ended 31 December 2019	
	Deferred tax liabilities	Deferred tax assets	Deferred tax liabilities	Deferred tax assets
Opening balance	**2 341 270**	**1 758 073**	**1 992 474**	**1 198 825**
Effects of implementing IFRS 16	-	-	174 442	174 442
Restated opening balance	**2 341 270**	**1 758 073**	**2 166 916**	**1 373 267**
*Change in the balance:**				
corresponding to profit/(loss)	(273 670)	(123 130)	138 478	328 589
corresponding to other comprehensive income	(3 698)	42 691	2 884	26 654
reclassification to the disposal group	(57 234)	(65 239)	-	-
business acquisition	-	-	28 950	25 828
other changes	581	794	4 042	3 735
Closing balance	**2 007 249**	**1 613 189**	**2 341 270**	**1 758 073**

** In 2019, with the financial result and other comprehensive income from continuing and discontinued operations. Only continued operations in 2020.*

(in PLN thousand)

31. Inventories

SELECTED ACCOUNTING PRINCIPLES

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

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

The Group's inventories comprise mainly fuel stocks.

PROFESSIONAL JUDGEMENT AND ESTIMATES

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

	As at 31 December 2020	As at 31 December 2019
Gross value		
Coal, *of which:*	578 968	557 472
Raw materials	*244 552*	*253 514*
Semi-finished goods and work-in-progress	*331 291*	*295 471*
CO_2 emission allowances	18 436	-
Other inventories	185 340	137 906
Total	**782 744**	**695 378**
Measurement to net realisable value		
Coal	(285)	**-**
Other inventories	(5 244)	(11 226)
Total	**(5 529)**	**(11 226)**
Fair value		
CO_2 emission allowances	18 436	-
Net realisable value		
Coal, *of which:*	578 683	557 472
Raw materials	*244 552*	*253 514*
Semi-finished goods and work-in-progress	*331 291*	*295 471*
Other inventories	180 096	126 680
Total	**777 215**	**684 152**

32. Receivables from customers

SELECTED ACCOUNTING PRINCIPLES

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

Receivables from customers are measured at the amounts originally invoiced (taking into account the effect of discounting, if material), less allowances / write-downs.

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

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

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

For receivables from customers, the Group has separated a portfolio of strategic counterparties (counterparty with credit exposure exceeding PLN 1 000 thousand) and a portfolio of the remaining counterparties.

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

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

(in PLN thousand)

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

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

PROFESSIONAL JUDGEMENT AND ESTIMATES

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

	As at 31 December 2020	As at 31 December 2019
Value of items before allowance/write-down		
Receivables from buyers, *of which:*	2 423 607	2 306 208
Additional assessment of revenue from sales of electricity and distribution services	*814 235*	*689 395*
Receivables claimed at court	184 664	213 900
Total	**2 608 271**	**2 520 108**
Allowance/write-down		
Receivables from buyers	(60 522)	(39 655)
Receivables claimed at court	(184 664)	(189 707)
Total	**(245 186)**	**(229 362)**
Value of item net of allowance (carrying amount)		
Receivables from buyers	2 363 085	2 266 553
Receivables claimed at court	-	24 193
Total, *of which:*	**2 363 085**	**2 290 746**
Current	2 363 085	2 290 746

In accordance with the model described above, the Group estimates the impairment loss.

Ageing of receivables from customers as at 31 December 2020

	Not past due	Past due					Total
		< 30 days	30-90 days	90-180 days	180-360 days	> 360 days	
Value of item before allowance/write-down	2 133 713	217 763	51 711	32 521	34 199	138 364	**2 608 271**
Allowance/write-down	(11 586)	(9 250)	(19 347)	(32 489)	(34 178)	(138 336)	**(245 186)**
Net Value	**2 122 127**	**208 513**	**32 364**	**32**	**21**	**28**	**2 363 085**

Ageing of receivables from customers as at 31 December 2019

	Not past due	Past due					Total
		< 30 days	30-90 days	90-180 days	180-360 days	> 360 days	
Value of item before allowance/write-down	2 039 689	216 273	33 588	18 031	31 981	180 546	**2 520 108**
Allowance/write-down	(9 541)	(6 252)	(10 534)	(15 329)	(31 356)	(156 350)	**(229 362)**
Net Value	**2 030 148**	**210 021**	**23 054**	**2 702**	**625**	**24 196**	**2 290 746**

As at the balance sheet date, the Group did not have any material non-collectible items not covered with an allowance.

Change in allowances on receivables from customers

	Year ended 31 December 2020	Year ended 31 December 2019
Opening balance	**(229 362)**	**(221 759)**
Recognised	(37 665)	(13 931)
Utilized	6 240	5 101
Reversed	580	1 221
Other movements	15 030	6
Foreign exchange differences from translation of foreign entity	(9)	-
Closing balance	**(245 186)**	**(229 362)**

(in PLN thousand)

33. Receivables due to income tax

Income tax receivables in the amount of PLN 83 655 thousand result mainly from Tax Capital Group receivables in the amount of PLN 82 365 thousand. The receivable relates entirely to 2020 and represents the excess of advance payments paid in the amount of PLN 287 300 thousand over the tax burden of the TCG in the amount of PLN 204 935 thousand.

The Tax Capital Group Agreement for 2018 – 2020 was registered on 30 October 2017. Main companies forming the Tax Capital Group until 31 December 2020: 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 Capital 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. and Kopalnia Wapienia Czatkowice Sp. z o.o.

34. Receivables arising from other taxes and charges

SELECTED ACCOUNTING PRINCIPLES

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

	As at 31 December 2020	As at 31 December 2019
VAT receivables	267 191	362 745
Excise duty receivables	12 467	10 974
Other	3 015	10 995
Total	**282 673**	**384 714**

A decline in VAT receivables results mainly from the settlement in companies of the Generation segment in the first quarter of 2020 of a VAT receivable as at 31 December 2019 in the amount of PLN 160 528 thousand resulting from the purchase of CO_2 emission allowances from the parent company by these companies.

35. Cash and equivalents

SELECTED ACCOUNTING PRINCIPLES

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

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

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

(in PLN thousand)

	As at 31 December 2020	As at 31 December 2019
Cash at bank and in hand	658 881	1 231 112
Short-term deposits (up to 3 months)	250 006	4 898
Other	566	1 942
Total cash and cash equivalents presented in the statement of financial position, *of which*:	**909 453**	**1 237 952**
restricted cash, *including:*	210 661	729 450
collateral of settlements with Izba Rozliczeniowa Giełd Towarowych S.A.	*120 981*	*599 059*
bank accounts related to subsidies received	*31 899*	*71 606*
cash on VAT bank accounts (split payment)	*49 111*	*58 428*
Bank overdraft	(2 261)	(23 339)
Cash pool	(20 864)	(10 973)
Cash reclassifed to assets held for sale	11 892	-
Foreign exchange	(2 843)	(39)
Total cash and cash equivalents presented in the statement of cash flows	**895 377**	**1 203 601**

The decrease in the balance of restricted cash compared to the comparable period in the total amount of PLN 518 789 thousand relates mainly to settlements with Izba Rozliczeniowa Giełd Towarowych S.A. (a decrease in the cash balance on this account by PLN 478 078 thousand) and results from the decline in the value of required margins.

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

36. Assets held for sale and liabilities associated with assets held for sale

SELECTED ACCOUNTING PRINCIPLES

The Group classifies a non-current asset (or disposal group) 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, subject only to normal and customary terms for sale,
- 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.

(in PLN thousand)

	As at 31 December 2020	As at 31 December 2019
Disposal group assets classified as held for sale, *including:*	1 829 617	-
Property, plant and equipment	*1 433 918*	-
Right-of-use assets	*89 380*	-
Other non-current assets	*40 954*	-
Inventories	*97 195*	-
Receivables from buyers	*110 331*	-
Other current assets	*57 839*	-
Other non-current assets classified as held for sale	73 459	22 710
Total	**1 903 076**	**22 710**
	-	-
Disposal group liabilities classified as held for sale, *including:*	487 617	-
Accruals, deferred income and government grants	*95 295*	-
Other non-current liabilities	*110 370*	-
Provisions for liabilities due to energy certificates and CO_2 emission allowances	*136 098*	-
Other current provisions	*24 153*	-
Other current liabilities	*121 701*	-
Other liabilities directly related to non-current assets classified as held for sale	8 369	8 936
Total	**495 986**	**8 936**

Net assets of TAURON Ciepło Sp. z o.o.

The disposal group classified as held for sale consists mainly of the net assets of TAURON Ciepło Sp. z o.o., which is described in more detail in Note 19 to these consolidated financial statements.

As at the balance sheet date, the Group assessed that in relation to the assets and liabilities of TAURON Ciepło Sp. z o.o., the prerequisites resulting from IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* in the scope of classification of the above assets as disposal group held for sale were met, in particular the net assets are, in the opinion of the Company, available for immediate sale in their present condition subject only to the terms and conditions that are usual and customary for sale. Therefore, the Group reclassified the assets and liabilities of TAURON Ciepło Sp. z o.o. as a disposal group, respectively, to the following positions: assets classified as assets held for sale and liabilities directly related to assets classified as held for sale. As at the date of the above reclassification of the disposal group and as at the balance sheet date, the Group measured it at a fair value, as described more broadly in Note 19 to these consolidated financial statements. The fair value was estimated at a level of PLN 1 342 000 thousand. Due to the fact that the fair value is lower than the existing carrying amount of the disposal group of PLN 2 167 708 thousand, the Group recognised an impairment loss of PLN 825 708 thousand on non-financial non-current assets, which decreased the value of:

- property, plant and equipment in the amount of PLN 775 885 thousand,
- right-of-use assets in the amount of PLN 48 339 thousand,
- intangible assets in the amount of PLN 1 484 thousand.

Shares in PGE EJ 1 Sp. z o.o.

Other assets classified as held for sale represent mainly shares in PGE EJ 1 Sp. z o.o.

As at the balance sheet date, the Group 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* in the scope of classification of the above assets as held for sale were met, in particular the shares are, in the Group'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 Group reclassified the shares in PGE EJ 1 Sp. z o.o. to assets classified as held for sale. As at the balance sheet date, the Group 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.

37. Equity

SELECTED ACCOUNTING PRINCIPLES

Issued capital

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

Reserve capital

Reserve 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.

(in PLN thousand)

Revaluation reserve from valuation of hedging instruments

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

Foreign Exchange differences due to translation of foreign entities

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

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

The resulting translation differences were recognised in other comprehensive income.

Retained profits / (accumulated losses)

Retained profits/ (accumulated losses) comprise:

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

Non-controlling shares

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

37.1. Issued capital

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**	

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

Shareholder	Number of shares	Nominal value of shares	Percentage of share capital	Percentage of total vote
State Treasury	526 848 384	2 634 242	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%**

As at 31 December 2020, the value of issued capital, the number of shares, the nominal value of shares and the shareholding structure, to the best of the Company knowledge, had not changed since 31 December 2019.

(in PLN thousand)

37.2. Shareholder rights

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

For further details on restrictions on the exercise of voting rights, see Section 9.6. in the Management Board's reports on the activities of TAURON Polska Energia S.A. and TAURON Capital Group for the financial year 2020.

37.3. Reserve capital

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

37.4. Retained earnings and restrictions on dividends

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

As at 31 December 2020 and as at the date these consolidated financial statements were authorised for issue, there are no other restrictions on the payment of dividends.

The Management Board of the Company recommends to offset the Company's net loss for 2020 of PLN 3 589 655 thousand with reserve capital of Company.

37.5. 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)
Closing balance	**(67 903)**	**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 51.3 to these consolidated 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 balance sheet date in the amount of PLN 90 061 thousand, adjusted by the portion of the measurement relating to debt interest accrued at the balance sheet date, including the deferred tax.

37.6. Non-controlling shares

	Year ended 31 December 2020	Year ended 31 December 2019
Opening balance	**900 434**	**132 657**
Shareholder contributions related to the assumption of shares	-	771 157
Share in subsidiaries' net profit or loss	(2 762)	(775)
Dividends for non-controlling interests	(2 075)	(1 932)
Acquisition of non-controlling interests by the Group and mandatory squeeze-out	(1 724)	(442)
Share in actuarial gains/(losses) related to provisions for post-employment benefits	(250)	(231)
Closing balance	**893 623**	**900 434**

(in PLN thousand)

Non-controlling interests relate mainly to the shares acquired by the Infrastructure Investment Fund - Capital Closed Investment Fund of Non-Public Assets and PFR Investments Closed Investment Fund in the share capital of the subsidiary Nowe Jaworzno Grupa TAURON Sp. z o.o. for a total amount of PLN 880 000 thousand.

The condensed financial information of the subsidiary Nowe Jaworzno Grupa TAURON Sp. z o.o. is presented in the table below.

	Year ended 31 December 2020	Year ended 31 December 2019
Total assets	6 918 576	6 219 329
Total liabilities	628 007	525 173
Net loss	(47 624)	(22 670)
Net increase/ (decrease) in cash and cash equivalents	(150 249)	149 993

38. Dividends paid

	Year ended 31 December 2020	Year ended 31 December 2019
Dividends paid by subsidiaries	(1 880)	(1 932)

In the financial year ended on 31 December 2020 and in the financial year ended on 31 December 2019, the Parent Company did not pay dividends.

39. Debt

SELECTED ACCOUNTING PRINCIPLES

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

- Bank loans, borrowings, bonds issued

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

- Lease

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

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

PROFESSIONAL JUDGEMENT AND ESTIMATES

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

In the case of a loan agreement defining the maximum term of individual loans tranches up to 1 year or with the payment 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 Group 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 individual rating of the companies, taking into account a breakdown by lease term.

(in PLN thousand)

	As at 31 December 2020	As at 31 December 2019
Loans and borrowings	5 992 133	7 050 651
Unsubordinated bonds	5 523 842	4 343 595
Subordinated bonds	1 998 367	1 913 427
Lease liabilities	1 072 657	1 006 603
Total	**14 586 999**	**14 314 276**
Non-current	13 108 449	11 830 183
Current	1 478 550	2 484 093

39.1. Loans and borrowings

Loans and borrowings as at 31 December 2020

Currency	Interest rate	Value of loans and borrowings as at the balance sheet date		of which maturing within *(after the balance sheet date):*					
		currency	PLN	less than 3 months	3-12 months	1-2 years	2-3 years	3-5 years	over 5 years
PLN	floating	4 942 213	4 942 213	1 021 891	3 222	2 007 473	2 191	1 109 192	798 244
	fixed	1 035 830	1 035 830	34 694	123 390	108 673	108 673	616 735	43 665
Total PLN		**5 978 043**	**5 978 043**	**1 056 585**	**126 612**	**2 116 146**	**110 864**	**1 725 927**	**841 909**
EUR	floating	487	2 249	2 249	-	-	-	-	-
Total EUR		**487**	**2 249**	**2 249**	**-**	**-**	**-**	**-**	**-**
Total			**5 980 292**	**1 058 834**	**126 612**	**2 116 146**	**110 864**	**1 725 927**	**841 909**
Interest increasing carrying amount			11 841						
Total			**5 992 133**						

Loans and borrowings as at 31 December 2019

Currency	Interest rate	Value of loans and borrowings as at the balance sheet date		of which maturing within *(after the balance sheet date):*					
		currency	PLN	less than 3 months	3-12 months	1-2 years	2-3 years	3-5 years	over 5 years
PLN	floating	6 313 602	6 313 602	1 617 085	503 014	4 135	3 191 792	99 806	897 770
	fixed	690 834	690 834	34 590	122 114	156 704	108 082	196 712	72 632
Total PLN		**7 004 436**	**7 004 436**	**1 651 675**	**625 128**	**160 839**	**3 299 874**	**296 518**	**970 402**
EUR	floating	5 304	22 585	22 585	-	-	-	-	-
Total EUR		**5 304**	**22 585**	**22 585**	**-**	**-**	**-**	**-**	**-**
USD	floating	198	754	754	-	-	-	-	-
Total USD		**198**	**754**	**754**	**-**	**-**	**-**	**-**	**-**
Total			**7 027 775**	**1 675 014**	**625 128**	**160 839**	**3 299 874**	**296 518**	**970 402**
Interest increasing carrying amount			22 876						
Total			**7 050 651**						

(in PLN thousand)

Main liabilities due to loans and borrowings are shown in the table below.

Loans/ borrowings	Borrowing institution	Purpose	Interest rate	Maturity date	As at 31 December 2020	As at 31 December 2019
Loans	Consortium of banks I [1]	Redemption of bonds, investment expenditures and general expenses of the Group	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	-
Loans	Bank Gospodarstwa Krajowego	Group's capital expenditures and refinancing of a portion of debt	Floating	20.12.2033	998 232	998 458
Loans	European Investment Bank	Construction of a boiler fired with biomass at Jaworzno III Power Plant and renovation of a steam turbine	Fixed	15.12.2021	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
Loans	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	-
Loans	SMBC BANK EU AG	Group's general corporate expenses, excluding financing and refinancing of coal-fired power plants	Fixed	23.03.2025	498 860	-
Loans	Consortium of banks II [2]	Group's general corporate expenses, excluding financing of any new coalassets-related projects	floating	10.03.2021 [3]	160 610	-
Overdraft facility	Bank Gospodarstwa Krajowego	financing of CO_2 emission allowance, electricity and gas transactions on european stock exchanges	Floating	30.12.2021	-	20 456
Borrowings	Regional Fund for Environmental Protection and Water Management	Construction of renewable power unit at Jaworzno III Power Plant	Floating	15.12.2022	8 000	12 000
Borrowings	Regional Fund for Environmental Protection and Water Management	Construction of the photovoltaic farm	Floating	30.11.2025	8 547	-
Other loans and borrowings					23 299	19 577
Total					**5 992 133**	**7 050 651**

[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

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. However, 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 non-current 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.

(in PLN thousand)

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 non-current 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 are earmarked for the financing of the Group's general corporate purposes, 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 PLN 500 000 thousand with Banca IMI S.p.A., London Branch, Banca IMI S.p.A., 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,

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 loans and borrowings, excluding interest increasing their carrying amount

	Year ended 31 December 2020	Year ended 31 December 2019
Opening balance	**7 027 775**	**881 582**
Movement in bank overdrafts and cash pool loans received	**(16 417)**	**21 453**
Movement in other loans and borrowings:	**(1 031 066)**	**6 124 740**
Repaid	(9 456 813)	(1 367 360)
Taken*	8 412 255	5 646 173
Replacing bond issue scheme with loan arrangement*	-	1 837 822
Change in valuation	13 492	8 105
Closing balance	**5 980 292**	**7 027 775**

** The cost of borrowing has been taken into account.*

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

Lender	Description	Year ended 31 December 2020	
		Drawdown	Repayment
Consortium of banks I	Drawdown of new tranches and repayment of tranches according to credit agreement deadline	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 draw down	160 000	
European Investment Bank	Repayment of capital instalments according to schedule		(162 318)
Other borrowings		8 546	(4 895)
Total, *including:*		**8 418 546**	**(9 456 813)**
Cash flows		3 368 546	(4 406 813)
Net settlement (without cash flow)		5 050 000	(5 050 000)

After the balance sheet date, under the agreement of 19 June 2019 (Consortium of banks I), the Company has drawn tranches with an aggregate 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.

(in PLN thousand)

Overdrafts

As at 31 December 2020, the balance of overdrafts amounted to PLN 2 261 thousand (as at 31 December 2019 - to PLN 23 339 thousand).

39.2. Bonds issued

Bonds issued as at 31 December 2020

Issuer	Investor	Interest	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	Interest accrued	Principal at amortised cost	up to 1 year	1-2 years	2-5 years	Over 5 years
TAURON Polska Energia S.A.	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 (TPE1025)	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
Finanse Grupa TAURON Sp. z o.o.	International investors	fixed	EUR	168 000	3.12.2029	772 557	699	771 858	-	-	-	771 858
Unsubordinated bonds						**5 523 842**	**31 274**	**5 492 568**	**169 943**	**169 900**	**1 506 886**	**3 645 839**
TAURON Polska Energia S.A.	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 issued						**7 522 209**	**35 765**	**7 486 444**	**169 943**	**169 900**	**3 101 295**	**4 045 306**

[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 reporting period end, 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

Issuer	Investor	Interest	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	Interest accrued	Principal at amortised cost	up to 1 year	1-2 years	2-5 years	Over 5 years
TAURON Polska Energia S.A.	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
Finanse Grupa TAURON Sp. z o.o.	International investors	fixed	EUR	168 000	3.12.2029	712 551	2 127	710 424	-	-	-	710 424
Unsubordinated bonds						**4 343 595**	**28 574**	**4 315 021**	**60 361**	**169 886**	**509 482**	**3 575 292**
TAURON Polska Energia S.A.	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 issued				**-**		**6 257 022**	**33 130**	**6 223 892**	**60 361**	**169 886**	**1 279 013**	**4 714 632**

[1] Bond Issue Scheme of 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 reporting period end, 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)

There are two financing periods for bonds subscribed for by the EIB. 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 rate is fixed, while after the non-call period, it is floating and is linked to the underlying rate (WIBOR for bonds issued in PLN and EURIBOR for bonds issued in EUR) increased by an agreed 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.

Change in the balance of bonds excluding interest which increases their carrying amount

	Year ended 31 December 2020	Year ended 31 December 2019
Opening balance	**6 223 892**	**10 034 904**
Issue*	997 318	499 312
Redemption	(60 400)	(2 420 000)
Replacing bond issue scheme with loan arrangement	-	(1 839 600)
Change in valuation	325 634	(50 724)
Closing balance	**7 486 444**	**6 223 892**

** Costs of issue have been included.*

The change in the valuation of the bonds is mainly due to the currency valuation of the liabilities contracted in EUR.

In the year ended 31 December 2020, the Company performed the following bond issuance 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 bods in accordance with the 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 – TPE1025)

On 6 February 2020, TAURON Polska Energia S.A. entered into the Scheme Agreement with Santander Bank Polska S.A. under which the Bond Issue Scheme (the “Scheme”) up to PLN 2 000 000 thousand was established. 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 generation 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 (Giełda Papierów Wartościowych w Warszawie S.A.) since 19 January 2021.

(in PLN thousand)

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.

New subordinated bond issue scheme

After the balance sheet date, on 11 March 2021 TAURON Polska Energia S.A. concluded the agreement with Bank Gospodarstwa Krajowego on the issue scheme of subordinated bonds up to PLN 450 000 thousand which is discussed in more detail in Note 60 to these consolidated financial statements.

39.3. Debt agreement covenants

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

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

39.4. Lease liabilities

As at 31 December 2020, the Company had a lease liability of PLN 1 072 657 thousand. The liability primarily relates to the perpetual usufruct of land, contracts for occupation of the road lane, land lease and rental agreements, transmission easements and the lease of office and warehouse premises.

Ageing of the lease liability

	As at 31 December 2020	As at 31 December 2019
Within 1 year	120 482	110 893
Within 1 to 5 years	312 553	309 789
Within 5 to 10 years	319 226	298 093
Within 10 to 20 years	547 794	500 368
More than 20 years	770 173	708 324
Gross lease liabilities	**2 070 228**	**1 927 467**
Discount	(997 571)	(920 864)
Present value of lease payments	**1 072 657**	**1 006 603**
Lease agreements that do not meet the conditions for recognition as a finance lease as defined in the financing agreements	1 072 657	1 006 603

40. Provisions for employee benefits

SELECTED ACCOUNTING PRINCIPLES

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

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

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

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

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

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

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

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

(in PLN thousand)

PROFESSIONAL JUDGEMENT AND ESTIMATES

Provisions for post-employment benefits and for jubilee 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 (%)	0.95% - 8.79%	0.93% - 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	12.06 – 21.62	12.18 – 22.67

	As at 31 December 2020	As at 31 December 2019
Provision for post-employment benefits and jubilee bonuses	1 010 885	1 397 489
Provision for employment termination benefits and other provisions for employee benefits	22 394	34 409
Total	**1 033 279**	**1 431 898**
Non-current	931 954	1 313 480
Current	101 325	118 418

40.1. Provisions for post-employment benefits and jubilee bonuses

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	Jubilee bonuses	Provisions, total
Opening balance	**378 423**	**450 154**	**119 410**	**449 502**	**1 397 489**
Current service costs	26 892	6 063	4 587	39 090	**76 632**
Actuarial gains and losses, *of which:*	14 112	79 488	49 705	7 650	**150 955**
arising from changes in financial assumptions	31 699	76 178	24 494	28 960	**161 331**
arising from changes in demographic assumptions	(555)	-	602	650	**697**
arising from other changes	(17 032)	3 310	24 609	(21 960)	**(11 073)**
Benefits paid	(25 317)	(5 970)	(4 223)	(45 531)	**(81 041)**
Past-service costs	(8)	(533 319)	-	-	**(533 327)**
Interest expense	6 917	3 584	2 436	8 472	**21 409**
Reclassification to liabilities associated with assets held for sale	(21 232)	-	-	-	**(21 232)**
Closing balance	**379 787**	**-**	**171 915**	**459 183**	**1 010 885**
Non-current	341 593	-	167 597	413 024	**922 214**
Current	38 194	-	4 318	46 159	**88 671**

(in PLN thousand)

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

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

The past service costs for the year ended 31 December 2020 result from agreements concluded in May 2020 between the management boards of selected subsidiaries and representative trade union organisations and additional protocols signed amending the company collective bargaining agreements in these companies. On the basis of the additional protocols, changes were introduced to the payments of the cash equivalent for the concessionary use of electricity by pensioners and other eligible persons who are not employees of the above companies, which, in light of the regulations of IAS 19 *Employee Benefits*, formed the basis for the reversal of provisions for the employee tariff. The cumulative effect of the above changes on the reversal of provisions for the employee tariff in the year ended 31 December 2020 amounted to PLN 533 319 thousand, of which the amount of PLN 299 408 thousand relating to employees as future pensioners decreased the Group's operating expenses, while the amount of PLN 233 911 thousand relating to current pensioners had an impact of the increase in the Group's other operating income.

In the year ended 31 December 2020, a change in actuarial assumptions, including mainly a decrease in the discount rate adopted for the calculation, increased actuarial provisions in the amount of PLN 150 955 thousand, of which PLN 7 650 thousand increased the Group's operating expenses and PLN 143 305 thousand was recognised in the Group's other comprehensive income.

Sensitivity analysis

As at 31 December 2020, a sensitivity analysis of the measurement results to a change in the financial discount rate and to changes in planned base amount increases in the range -0.5 p.p./+0.5 p.p. was carried out.

The table below shows the carrying amount of individual provisions and provisions calculated based on the changed assumptions and how these carrying amounts would change with different assumptions applied (deviation):

Provision title	Carrying amount as at 31 December 2020	Financial discount rate				Planned base increases			
		-0.5 p.p.		+0.5 p.p.		-0.5 p.p.		+0.5 p.p.	
		balance	deviation	balance	deviation	balance	deviation	balance	deviation
Provision for retirement, disability and similar benefits	379 787	398 754	18 967	362 238	(17 549)	363 044	(16 743)	397 658	17 871
Costs of appropriation to Social Benefits Fund	171 915	188 238	16 323	157 612	(14 303)	157 835	(14 080)	187 781	15 866
Jubilee bonuses	459 183	476 790	17 607	442 686	(16 497)	446 599	(12 584)	472 464	13 281
Total	**1 010 885**	**1 063 782**	**52 897**	**962 536**	**(48 349)**	**967 478**	**(43 407)**	**1 057 903**	**47 018**
effect on profit/loss			17 607		(16 497)		(12 584)		13 281
effect on other comprehensive income			35 290		(31 852)		(30 823)		33 737

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

Provisions for employee benefits by maturity

Year	Retirement, disability and similar benefits	Social Fund	Jubilee bonuses	Provisions, total
2021	38 194	4 318	46 159	**88 671**
2022	20 454	4 773	39 458	**64 685**
2023	24 104	4 913	37 891	**66 908**
2024	19 526	5 047	35 600	**60 173**
2025	19 128	5 162	32 511	**56 801**
Other years	258 381	147 702	267 564	**673 647**
Total	**379 787**	**171 915**	**459 183**	**1 010 885**

(in PLN thousand)

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

	Year ended 31 December 2020			Year ended 31 December 2019		
	Voluntary redundancy schemes	Other provisions	Total	Voluntary redundancy schemes	Other provisions	Total
Opening balance	**21 032**	**13 377**	**34 409**	**31 991**	**10 658**	**42 649**
Recognition	6 292	9 319	**15 611**	23 044	10 877	**33 921**
Reversal	(2 921)	(810)	**(3 731)**	(13 689)	-	**(13 689)**
Utilization	(9 999)	(13 896)	**(23 895)**	(6 992)	(8 158)	**(15 150)**
Other changes	-	-	**-**	(13 322)	-	**(13 322)**
Closing balance	**14 404**	**7 990**	**22 394**	**21 032**	**13 377**	**34 409**
Non-current	9 740	-	**9 740**	13 128	5 808	**18 936**
Current	4 664	7 990	**12 654**	7 904	7 569	**15 473**

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

SELECTED ACCOUNTING PRINCIPLES

Provision for mine decommissioning costs

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

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

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

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

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

PROFESSIONAL JUDGEMENT AND ESTIMATES

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

	Year ended 31 December 2020			Year ended 31 December 2019		
	Provision for mine decommissioning costs	Provision for land restoration and dismantling and removal of fixed assets	Provisions total	Provision for mine decommissioning costs	Provision for land restoration and dismantling and removal of fixed assets	Provisions total
Opening balance	**305 885**	**194 082**	**499 967**	**202 599**	**135 878**	**338 477**
Unwinding of the discount	6 125	3 561	**9 686**	6 078	3 651	**9 729**
Discount rate adjustment	62 873	24 488	**87 361**	97 042	11 303	**108 345**
Business acquisition	-	-	**-**	-	60 817	**60 817**
Recognition/(reversal), net	254	(11 740)	**(11 486)**	166	(25 522)	**(25 356)**
Utilisation	(323)	(2 147)	**(2 470)**	-	(5 367)	**(5 367)**
Other changes	-	-	**-**	-	13 322	**13 322**
Closing balance	**374 814**	**208 244**	**583 058**	**305 885**	**194 082**	**499 967**
Non-current	374 732	195 823	**570 555**	305 493	164 142	**469 635**
Current	82	12 421	**12 503**	392	29 940	**30 332**
Other provisions, long-term portion			**98 651**			**193 495**
Total			**669 206**			**663 130**

41.1. Provision for mine decommissioning costs

The provision is created for mines included in the Group based on estimated costs of liquidating facilities and reclaiming land to the original condition after the completion of the exploitation process. The provision for mine decommissioning costs includes the balance of the Mine Decommissioning Fund ("MDF"), which is created under the Geological and

(in PLN thousand)

Mining Law and the related implementing provisions, by the Group's mining companies as a pre-determined ratio of the tax depreciation charge on fixed assets or, for the exploitation fee, the equivalent of the charge transferred to a separate bank account. The financial assets of the MDF are presented in the statement of financial position under non-current and current financial assets, while the balance of the MDF is recognised under the provision for future costs of mine decommissioning.

As at 31 December 2020, the balance of the provision amounted to PLN 374 814 thousand and the change in the balance is mainly related to the revaluation of the provision due to a change in the discount rate adopted to calculate the provision - a reduction in the discount rate from 2.1% to 1.2%.

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

Financial assets of the Mine Decommissioning Fund

	Year ended 31 December 2020	Year ended 31 December 2019
Assets as at 1 January	**50 228**	**47 126**
Contributions made	4 206	4 046
Interest	461	888
Use	(1 447)	(1 832)
Assets as at 31 December	**53 448**	**50 228**
Transfers made to the MDF in the period	(4 550)	(4 193)

Provision for mine decommissioning costs

	As at 31 December 2020	As at 31 December 2019
Mine Decommissioning Fund	57 068	53 962
Surplus of discounted estimated decommissioning costs	317 746	251 923
Total	**374 814**	**305 885**

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

	Year ended 31 December 2020				Year ended 31 December 2019			
	Provision for restoration of ash landfill	Provisions for dismantling of wind farm assets	Provisions for removal of fixed assets	Total provision for restoration, disassembly and removal of fixed assets	Provision for restoration of ash landfill	Provisions for dismantling of wind farm assets	Provisions for removal of fixed assets	Total provision for restoration, disassembly and removal of fixed assets
Opening balance	**30 976**	**132 860**	**30 246**	**194 082**	**42 150**	**60 033**	**33 695**	**135 878**
Business acquisition	-	-	-	**-**	-	60 817	-	**60 817**
Interest cost (discounting)	507	2 516	538	**3 561**	942	1 801	908	**3 651**
Discount rate adjustment	1 185	22 521	782	**24 488**		10 209	1 094	**11 303**
Recognition/(reversal), net	(11 625)	551	(666)	**(11 740)**	(12 116)	-	(13 406)	**(25 522)**
Utilisation	(954)	-	(1 193)	**(2 147)**	-	-	(5 367)	**(5 367)**
Other changes	-	-	-	**-**	-	-	13 322	**13 322**
Closing balance	**20 089**	**158 448**	**29 707**	**208 244**	**30 976**	**132 860**	**30 246**	**194 082**
Non-current	19 810	158 448	17 565	**195 823**	14 209	132 860	17 073	**164 142**
Current	279	-	12 142	**12 421**	16 767	-	13 173	**29 940**

The provision for removal of fixed assets comprises mainly the costs of liquidation of a chimney in Elektrownia Jaworzno, cooling towers and a unit in Elektrownia Łagisza, decommissioning of the cooling tower in Elektrownia Siersza and preparation for decommissioning of 120 MW class units in Łaziska, Łagisza, Siersza and Stalowa Wola.

Consolidated financial statements for the year ended 31 December 2020 compliant with the IFRS, as endorsed by the European Union (in PLN thousand)

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

SELECTED ACCOUNTING PRINCIPLES

Provision for CO_2 emission liabilities

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

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

- in the portion covered by allowances held at the end of the balance sheet date:
  - at a zero value, in the case of allowances received free of charge,
  - at the purchase price in the case of purchased allowances;
- in the portion not covered by allowances held as at the balance sheet date:
  - in the first instance, in values resulting from forward and futures transactions concluded for the purchase of allowances intended to meet the obligation for the current year,
  - subsequently, in the market value of the allowances failing to meet the obligation as at the balance sheet date, or in the value of potential penalty - in accordance with the intention regarding the manner of meeting the obligation.

At the date of redemption of the allowances, the emission allowances classified as current intangible assets are derecognised in correspondence with the provision for gas emission liabilities.

Provision for the obligation to present energy certificates of origin

Energy companies trading in and selling electricity to end customers are obliged to acquire property rights resulting from energy certificates of origin and to redeem them or to pay a substitution fee. If in a given financial year the quantitative share of electricity specified in the energy certificates of origin in the total annual sales of electricity to end customers is compliant with the limits provided for in regulations of the Minister of Economy - the obligation shall be deemed satisfied.

In order to meet the obligation to present the rights for redemption or to pay a substitution fee, the Group creates a provision at the end of the reporting periods for the costs of meeting this obligation.

The provision due to the obligation to present certificates of electricity origin for redemption is recognised:

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

The provision is charged to operating costs.

The settlement of the amount of the provision and the redemption of the property rights shall take place on the day of redemption of these rights by the President of the Energy Regulatory Office or on the day of incurring the substitution fee.

	Year ended 31 December 2020			Year ended 31 December 2019		
	Provisions for liabilities due to CO_2 emission allowances	Provision for obligation to submit energy certificates	Provisions total	Provisions for liabilities due to CO_2 emission allowances	Provision for obligation to submit energy certificates	Provisions total
Opening balance	**772 299**	**605 934**	**1 378 233**	**111 406**	**384 066**	**495 472**
Recognition	920 467	759 722	**1 680 189**	774 614	599 113	**1 373 727**
Reversal	-	(3 063)	**(3 063)**	(75)	(3 841)	**(3 916)**
Utilisation	(776 602)	(595 707)	**(1 372 309)**	(113 646)	(373 404)	**(487 050)**
Reclassification to liabilities associated with assets held for sale	(56 473)	(3 124)	**(59 597)**	-	-	**-**
Closing balance	**859 691**	**763 762**	**1 623 453**	**772 299**	**605 934**	**1 378 233**

The increase in the cost of creating the provision for CO_2 emission liabilities in the year ended 31 December 2020 compared to the comparative period is described in Note 14 to these consolidated financial statements. The utilisation of the provision in the year ended 31 December 2020 in the amount of PLN 776 602 thousand relates entirely to the redemption obligation for 2019 (the Group fulfilled the entire obligation for 2019 in the first half of 2020). In the comparable period, the utilisation of the provision related to the obligation to redeem CO_2 emission allowances for 2018 amounted to PLN 113 646 thousand, whereas the remaining redemption obligation for 2018 was already fulfilled in 2018 (PLN 498 369 thousand).

(in PLN thousand)

The increase in the cost of creating the provision due to the obligation to present certificates of origin of energy in the year ended 31 December 2020 compared to the comparable period is mainly due to the increase in the obligation to present certificates of origin of energy from renewable sources in 2020 from the level of 18.5% to 19.5% of the volume of electricity sales to end users.

43. Other provisions

SELECTED ACCOUNTING PRINCIPLES

Other provisions comprise:

- The provision for use of real estate without a contract
  The Group creates provisions for all claims filed by owners of real estate on which power or technology facilities, distribution systems and heat installations are located in amounts of probable cost of claims due to land owners until the end of the reporting period (including accrued interest, if it can be reliably estimated). The Group does not create provisions for potential claims of land owners with unregulated status which have not been lodged, including for transmission and land easement. Creation and reversal of the provision is charged to other operating revenue or other operating expenses and interest accrued is charged to financial income or financial expenses.
- Provision for onerous contracts
  If the Group is a party to the contract pursuant to which unavoidable costs of fulfilling the contractual obligations exceed the expected contractual benefits, the present contractual obligation arising from the contract is recognised and measured by the Group as a provision. The unavoidable costs arising from the contract comprise, at least, net costs of contract termination, corresponding to the costs of fulfilment of the contract or costs of any damages or penalties arising for the failure to fulfil it, whichever is lower. The unavoidable costs of meeting the obligation shall be increased by the value of the interest due if it can be estimated reliably.
- Other provisions relate to court cases, counterparty claims or other claims, potential penalties resulting from administrative proceedings carried out by the Energy Regulatory Office and the Office of Competition and Consumer Protection and tax settlements.

PROFESSIONAL JUDGEMENT AND ESTIMATES

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

	Year ended 31 December 2020				Year ended 31 December 2019			
	Provision for use of real estate without contract	Provision for onerous contracts	Provision for counterparty claims, court dispute and other provisions	Provisions total	Provision for use of real estate without contract	Provision for onerous contracts	Provision for counterparty claims, court dispute and other provisions	Provisions, total
Opening balance	**88 070**	**241 796**	**397 050**	**726 916**	**92 110**	**213 996**	**311 295**	**617 401**
Unwinding of discount and change of discount rate	-	106	81	**187**	-	-	2 425	**2 425**
Recognition/(reversal), net	168	37 754	(80 088)	**(42 166)**	(3 611)	298 057	82 305	**376 751**
Utilisation	(310)	(194 965)	(62 555)	**(257 830)**	(429)	(270 257)	(11 608)	**(282 294)**
Reclassification to liabilities associated with assets held for sale	(44 442)	-	(664)	**(45 106)**	-	-	-	**-**
Other movements	3 604	-	(25 849)	**(22 245)**	-	-	12 633	**12 633**
Closing balance	**47 090**	**84 691**	**227 975**	**359 756**	**88 070**	**241 796**	**397 050**	**726 916**
Non-current	-	27 857	70 794	**98 651**	-	48 815	144 680	**193 495**
Current	47 090	56 834	157 181	**261 105**	88 070	192 981	252 370	**533 421**
Current portion of provisions for the costs of disassembly of fixed assets and land restoration and other provisions				**12 503**				**30 332**
Total				**273 608**				**563 753**

43.1. Provision for use of real estate without contract

The Group companies create provisions for all claims filed by owners of properties on which distribution networks and heat installations are located. As at 31 December 2020, this provision amounted to PLN 47 090 thousand and was related to the segments:

- Generation - PLN 5 202 thousand;
- Distribution - PLN 34 652 thousand;
- Renewable energy sources - PLN 7 236 thousand.

The decrease in provisions is mainly associated with the reclassification of provisions of the subsidiary TAURON Ciepło Sp. o.o. to liabilities related to assets classified as held for sale.

In 2012, the third party lodged a claim against TAURON Ciepło S.A. (currently TAURON Ciepło Sp. z o.o.) related to clarification of the legal status of the transmission equipment located on its property. The company has questioned both the legitimacy of the claims and of the grounds for offsetting their amounts against the current liabilities to the company arising from heat supplies. Consequently, the company initiated legal proceedings to assert its current claims against the debtor. The amount of the potential claims of the aforementioned entity in respect of clarification of the legal status of the company transmission equipment will be reviewed in the course of the proceedings. With regard to the pending dispute, in light of the adopted accounting policy, a provision has been recognised for the estimated cost of the above claim. Bearing in mind the pending litigation, having regard to the provisions of IAS 37.92, the Group does not disclose all information regarding the above issue as required by IAS 37 *Provisions, Contingent Liabilities and Contingent Assets.* Due to the classification of the subsidiary, TAURON Ciepło Sp. z o.o. as a disposal group at the balance sheet date, the above provision was presented in the statement of financial position as liabilities related to assets classified as held for sale.

43.2. Provisions for onerous contracts

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

As at 31 December 2019, a provision for onerous contracts in the amount of PLN 237 445 thousand was created by the companies in the Sales segment. This provision relates primarily to households, including customers benefiting from tariff prices approved by the President of the Energy Regulatory Office ("G tariff") in the amount of PLN 130 287 thousand and individual customers who benefited from product price lists offered by the Company ("GD price lists") in the amount of PLN 99 570 thousand.

The need to create the aforementioned provision for the G tariff resulted from the adoption, for the calculation of the sales price for these customers for 2020, of the parameters set out in the call of the ERO President whose approval in December 2019 results in the impossibility of obtaining revenues from the sale of electricity in a value that would cover the justified costs of conducting activities in this field. The price level approved by the ERO President's decision for the G tariff group for 2020 was also a significant reason for the losses arising on the GD price lists, for which the provision was created. Some of the product contracts in the household segment link electricity rates to the G tariff price, therefore it also prevents gaining sales revenue at a level ensuring covering of full variable costs of the business.

At the same time, on 7 January 2020, the subsidiary, TAURON Sprzedaż Sp. z o.o. submitted an application for the approval of the change of the electricity tariff for the consumers of tariff G groups for 2020, which is to transfer all justified costs that were not accepted in the application approved in December 2019. By virtue of its Decision of July 8, 2020, the ERO President refused to approve changes in the electricity tariff for these customers. On 31 July 2020, the Management Board of TAURON Sprzedaż Sp. z o.o. lodged an appeal to the Court of Competition and Consumer Protection against the decision of the President of the Energy Regulatory Office of 8 July 2020.

During 2020, as a result of the application of the above-mentioned price lists and tariffs, the companies generated a loss on electricity sales to its customers and therefore used the above-described provisions for onerous contracts related to 2020 in the amount of PLN 190 414 thousand, including the entire provision for the G tariff in the amount of PLN 130 287 thousand and partial provision for GD tariffs in the amount of PLN 54 957 thousand.

At the same time, as at 31 December 2020, the companies updated the remaining provision for onerous contracts to PLN 76 394 thousand. This provision relates primarily to GD price lists in the amount of PLN 69 051 thousand. On the other hand, as at 31 December 2020, no necessity arose to create a provision for onerous contracts in terms of G tariff. On the basis of the household tariff for 2021, approved by the ERO President in December 2020, the companies will gain revenues from the sale of electricity fully covering the reasonable costs of doing business in this area.

Other provisions for onerous contracts

As at 31 December 2020, a provision was created for onerous contracts in the amount of PLN 8 297 thousand in connection with the partial acceptance by the Court of Appeal in Warsaw of the request for security by ordering the subsidiary, Polska Energia - Pierwsza Kompania Handlowa Sp. z o.o. to execute in full the provisions of the contracts under the existing terms and conditions, in accordance with their contents, until the legal conclusion of the proceedings in the action brought by Pękanino Wind Invest Sp. z o.o. against Polska Energia - Pierwsza Kompania Handlowa Sp. z o.o., as further described in Note 54 hereto.

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

Material provisions recognised within other provisions are described below:

(in PLN thousand)

Operating segment	Description	As at 31 December 2020	As at 31 December 2019
Provision for counterparty claims			
Generation	The provision relates to claims submitted by contractors in connection with the construction of the 910 MW Unit in Jaworzno. A provision of PLN 93 539 thousand was created by the company in the Generation segment for additional increased costs related to ongoing contracts in the year ended 31 December 2019. The change in the provision, in the year ended 31 December 2020, mainly relates to the creation of a provision of PLN 56 590 thousand in relation to new claims and the partial reversal of the provision of PLN 128 477 thousand in connection with the updating and settlement of estimates during the year; the values were charged to capital expenditure.	11 895	93 539
Provision for the increase in remuneration for transmission easements			
Distribution	The provision relates to the risk of increased periodic charges for transmission easements for energy infrastructure located in the territory of forest districts subordinated to the Regional Directorate of State Forests in Wrocław in connection with a change in the nature of land from forest land to land associated with business activities. In the year ended 31 December 2020, the company of the Distribution segment used the provision in the amount of PLN 2 566 thousand and partially released the provision of PLN 5 704 thousand.	59 053	67 323
Provision for a fine to the Energy Regulatory Office ("ERO")			
Distribution	The provision relates to the risk of violation of the Energy Law of 10 April 1997 by misleading the ERO President with respect to the information provided at its request.	6 000	6 000
Provision for real estate tax			
Distribution	Provision for the economic risk in the scope of real estate tax relating to power grid assets.	39 356	39 356
Renewable Energy Source	The provision relates to the risk of the effects of the Constitutional Court judgement of 22 July 2020 on imposing the real estate tax on wind power plants in 2018.	16 776	-
Provision for value added tax			
Sales	In the current reporting period and in the comparable period, the Company updated provisions against tax risks in connection with the inspection proceedings initiated in 2014 and 2016 by the Director of the Tax Inspection Office in Warsaw ("UKS Director") in relation to value added tax. The duration of these proceedings was several times extended by the UKS Director and by the Head of Mazowiecki Customs and Tax Control Office. In the year ended 31 December 2020 and in the comparative period, the Company increased the provision accordingly in connection with interest accrual. On 17 September 2020, the Head of the Mazowiecki Customs and Tax Control Office in Warsaw issued a decision concluding the inspection proceedings initiated in 2014, which was received on 7 October 2020. In connection with the foregoing, the Company has updated the provision accordingly: – in connection with the assessment of the liability, the provision of PLN 54 734 thousand was used; – the provision of PLN 24 497 thousand was reversed in the scope of interest accrued. Payment of the liability in the total amount of PLN 54 734 thousand (of which PLN 51 819 thousand was the principal amount due and PLN 2 915 thousand was the interest due until the date of initiation of the proceedings) took place in October 2020. At the same time, on 20 October 2020, a complaint was lodged by the Company against the decision of the Head of the Mazowiecki Customs and Tax Control Office in Warsaw dated 17 September 2020. The complaint, accompanied by the case file was forwarded to the second instance authority, i.e. the Director of the Revenue Administration Regional Office in Katowice. On 18 December 2020 the Director of the Revenue Administration Regional Office in Katowice issued a notice setting a new deadline for the conclusion of the appeal proceedings. The new deadline was scheduled on 15 April 2021. With regard to the inspection proceedings initiated in 2016, in November 2020 the Company received the result of the inspection, i.e. the document concluding these inspection proceedings, in which no irregularities were found with regard to the subject matter of the inspection. The Company has not created any provisions for the consequences of these proceedings. With regard to another inspection proceedings initiated in 2016, after the balance sheet date, on 15 January 2021, the Head of the Mazowiecki Customs and Tax Control Office in Warsaw issued a decision concluding the inspection 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.	798	77 094

(in PLN thousand)

44. Accruals, deferred income and government subsidies

SELECTED ACCOUNTING PRINCIPLES

Deferred income and government grants

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

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

Accrued expenses

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

44.1. Deferred income and government grants

	As at 31 December 2020	As at 31 December 2019
Deferred income	**28 390**	**48 623**
Donations, subsidies received for the purchase or fixed assets received free-of-charge	25 656	44 521
Other	2 734	4 102
Government grants	**395 137**	**443 433**
Subsidies obtained from EU funds	331 602	349 335
Forgiven loans from environmental funds	16 164	32 764
Measurement of preferential loans	29 661	32 567
Other	17 710	28 767
Total	**423 527**	**492 056**
Non-current	398 621	460 003
Current	24 906	32 053

44.2. Accrued expenses

	As at 31 December 2020	As at 31 December 2019
Bonuses	59 691	59 827
Unused holidays	46 177	46 612
Environmental protection charges	19 523	25 600
Other accrued expenses	16 859	21 452
Total	**142 250**	**153 491**
Non-current	1 007	-
Current	141 243	153 491

45. Liabilities to suppliers

SELECTED ACCOUNTING PRINCIPLES

The Group uses simplified methods of measurement of other financial liabilities which are usually measured at amortised cost, if it does not result in the deformation of information contained in the financial statements, in particular, in case if the period to the moment of settlement of the liability is not long. The liabilities in relation to which simplifications are applied, are measured upon initial recognition and later, including, at the end of the reporting period, in the amount requiring payment. Liabilities to suppliers, investment liabilities (Note 46) and selected other financial liabilities (Note 48) are therefore measured at the amount payable, due to the immaterial impact of discounting.

Short-term liabilities to suppliers as at 31 December 2020 and as at 31 December 2019 are presented in the table below:

(in PLN thousand)

Operating segment	As at 31 December 2020	As at 31 December 2019 *(restated figures)*
Mining	138 064	122 602
Generation*	106 657	124 057
Renevable Energy Sources	13 288	13 552
Distribution, *including:*	242 050	223 173
liability to Polskie Sieci Elektroenergetyczne S.A.	*182 555*	*172 790*
Sales	372 207	287 827
Other	92 840	76 015
Total	**965 106**	**847 226**

** The data of the Generation segment for the comparable period include liabilities of the subsidiary, TAURON Ciepło Sp. z o.o. classified as a disposal group as at 31 December 2020.*

46. Investment liabilities

Short-term investment liabilities as at 31 December 2020 and as at 31 December 2019 are presented in the table below:

Operating segment	As at 31 December 2020	As at 31 December 2019 *(restated figures)*
Mining	101 901	62 059
Generation*	353 460	426 419
Renevable Energy Sources	4 283	2 588
Distribution	253 711	182 150
Sales and Other	125 131	84 727
Total	**838 486**	**757 943**

** The data of the Generation segment for the comparable period include liabilities of the subsidiary, TAURON Ciepło Sp. z o.o. classified as a disposal group as at 31 December 2020.*

Long-term investment liabilities were presented in the consolidated statement of financial position under other financial liabilities. As at 31 December 2020, the related liability amounted to PLN 22 983 thousand (as at 31 December 2019 - PLN 7 414 thousand).

Commitments to incur capital expenditure

As at 31 December 2020 and 31 December 2019, the Group committed to incur expenditures of PLN 3 104 699 thousand and PLN 3 981 923 thousand, respectively, on property, plant and equipment and intangible assets, the key items of which are shown in the table below:

Operating segment	Agreement/investment project	As at 31 December 2020	As at 31 December 2019
Generation	Construction of 910 MW Power Unit in Jaworzno	232 160	598 758
	Project of adjusting generation units to the BAT (Best Available Techniques) conclusions	17 074	313 110
Distribution	Construction of new electrical connections	1 425 541	1 227 019
	Modernization and reconstruction of existing networks	708 659	918 317
Mining	Construction of the "Grzegorz" shaft with the accompanying infrastructure and excavations	126 202	146 380
	Construction of the 800 m drift at "Janina" Mining Plant	3 613	30 681
	Investment Program in "Brzeszcze" Mining Plant	9 501	51 606
Other	Construction of a broadband Internet network under the Operational Programme Digital Poland	153 896	249 798

(in PLN thousand)

47. Liabilities arising from other taxes and charges

	As at 31 December 2020	As at 31 December 2019
Social security	222 833	215 340
VAT	89 263	297 343
Personal Income Tax	59 596	53 974
Excise	12 756	12 063
Other	8 408	10 281
Total	**392 856**	**589 001**

A decline 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 transaction of disposal of CO_2 emission allowances by the Company to subsidiaries in the Generation segment.

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

48. Other financial liabilities

SELECTED ACCOUNTING PRINCIPLES

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

Derivatives are financial liabilities measured at a fair value.

PROFESSIONAL JUDGEMENT AND ESTIMATES

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

	As at 31 December 2020	As at 31 December 2019
Wages, salaries	226 473	223 679
Derivative instruments	175 584	124 527
Bid bonds, deposits and collateral received	84 188	94 340
Margin deposits arising from stock exchange transactions	73 221	104
Liabilities due to obligation to repay overpaid amounts to customers in connection with the entry into force of the amended Act*	-	41 720
Other	127 060	155 502
Total	**686 526**	**639 872**
Non-current	136 855	79 417
Current	549 671	560 455

** Act of 28 December 2019 amending the Act on excise duty and certain other acts.*

As at 31 December 2020, liabilities due to negative valuation of derivatives relate to commodity derivatives (including, to a large extent, forward instruments on account of transactions for which CO_2 emission allowances are the underlying commodity) and IRS and CCIRS instruments. Due to the market situation in the current reporting period, mainly related to COVID-19, the occurrence of material changes in commodity derivative prices, the depreciation of the Polish zloty and the decrease in interest rates, an increase in the liabilities arising from the measurement of the above derivatives occurred compared to the end of 2019. Derivatives are described in more detail in Note 51.3 hereto.

The value of variation margins is related mostly to futures transactions in CO_2 emissions allowances concluded on foreign regulated markets. The change in the value of margins compared 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.

The obligation to reimburse customers for overpayments relating to the adjustments recognised by the Group reducing revenue from customers for the first half of 2019, which resulted from the need to adjust prices in this period to the provisions of the amended *Act of 28 December 2018 amending the Excise Tax Act and certain other acts*, was fully settled in the year ended 31 December 2020.

(in PLN thousand)

49. Other current non-financial liabilities

SELECTED ACCOUNTING PRINCIPLES

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

	As at 31 December 2020	As at 31 December 2019
Payments from customers relating to future periods	**418 358**	**360 602**
Amounts overpaid by customers	336 608	299 558
Prepayments for connection fees	43 964	21 085
Other	37 786	39 959
Other current non-financial liabilities	**4 733**	**3 774**
Total	**423 091**	**364 376**

EXPLANATORY NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

50. Significant items of the consolidated statement of cash flows

SELECTED ACCOUNTING PRINCIPLES

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

50.1. Cash flows from operating activities

(in PLN thousand)

Changes in working capital

	Year ended 31 December 2020	Year ended 31 December 2019
Change in receivables	**199 930**	**(298 156)**
Change in receivables from buyers in statement of financial position	(72 339)	(61 346)
Change in receivables due to financial compensation	89 757	-
Change in other financial receivables	232 716	(243 715)
Reclassification to assets classified as held for sale	(57 946)	-
Adjustment by the opening balance of the acquired business	-	3 802
Other adjustments	7 742	3 103
Change in inventories	**(181 433)**	**(175 408)**
Change in inventories in statement of financial position	(93 063)	(174 351)
Reclassification to assets classified as held for sale	(81 859)	-
Adjustment by the opening balance of the acquired business	-	10 579
Adjustment related to transfer of invetories to/from property, plant and equipment	(6 511)	(11 636)
Change in payables excluding loans and borrowings	**4 942**	**(213 341)**
Change in liabilities to suppliers in statement of financial position	115 174	(277 110)
Change in payroll, social security and other financial liabilities	(17 266)	(135 831)
Change in non-financial liabilities in statement of financial position	54 485	27 597
Change in liabilities arising from taxes excluding income tax	(196 145)	183 347
Adjustment of VAT change related to capital commitments	13 639	(8 732)
Reclassification to liabilities directly related to assets classified as held for sale	57 080	-
Adjustment by the opening balance of the acquired business	-	7 472
Other adjustments	(22 025)	(10 084)
Change in other non-current and current assets	**369 501**	**(1 121 021)**
Change in other current and non-current non-financial assets in statement of financial position	110 042	(28 883)
Change in receivables arising from taxes excluding income tax	102 041	(174 968)
Change in non-current and current CO_2 emission allowances	280 723	(287 787)
Change in non-current and current energy certificates	(36 477)	(602 337)
Change in advance payments for property, plant and equipment and intangible assets	(63 950)	(22 460)
Reclassification to assets classified as held for sale	(23 822)	-
Adjustment by impairment losses on other non-financial assets	2 845	(5 577)
Adjustment by the opening balance of the acquired business	-	7 089
Other adjustments	(1 901)	(6 098)
Change in deferred income, government grants and accruals	**(47 852)**	**(70 938)**
Change in deferred income, government grants and accruals in statement of financial position	(79 770)	5 141
Adjustmet related to property, plant and equipment and intangible assets received free of charge	(12 583)	(19 460)
Adjustment related to subsidies received and refunded	(59 669)	(56 069)
Reclassification of accruals and government grants to assets classified as held for sale	108 895	-
Other adjustments	(4 725)	(550)
Change in provisions	**(456 426)**	**955 263**
Change of short term and long term provisions in statement of financial position	(437 468)	1 354 186
Adjustment related to actuarial gains/losses from provisions for post-employment benefits charged to other comprehensive income	(140 992)	(140 320)
Adjustement related to provisions recognized in correspondence with property, plant and equipment	(8 771)	(196 823)
Reclassification of provisions to liabilities directly related to assets classified as held for sale	123 832	-
Adjustment by the opening balance of the acquired business	-	(60 875)
Other adjustments	6 973	(905)
Total	**(111 338)**	**(923 601)**

(in PLN thousand)

Income tax paid

In the year ended 31 December 2020, income tax paid amounted to PLN 60 146 thousand. The Tax Capital Group paid advance income tax payments for 2020 in the amount of PLN 287 300 thousand and received a net inflow from income tax settlements for previous years in the amount of PLN 244 314 thousand, which in total resulted in a net outflow of income tax paid by the Tax Capital Group in the amount of PLN 42 986 thousand.

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

The significant impact on the decrease in income tax paid in 2020 compared to the previous year is due to the fact that in 2020 the Tax Capital Group paid fixed monthly advance payments of income tax determined on the basis of the 2018 tax return, whereas in 2019 the Tax Capital Group paid monthly advance payments determined on the basis of the monthly income tax return.

50.2. Cash flows from investment activities

Purchase of tangible fixed assets and intangible assets

	Year ended 31 December 2020	Year ended 31 December 2019
Purchase of property, plant and equipment	(3 370 927)	(3 436 312)
Purchase of intangible assets	(167 028)	(120 034)
Change in the balance of VAT-adjusted capital commitments	82 473	(20 887)
Change in the balance of advance payments	63 950	22 460
Costs of overhaul and internal manufacturing	(513 917)	(478 006)
Other	(2 159)	(2 353)
Total	**(3 907 608)**	**(4 035 132)**

Loans granted

Borrowing expenses in the amount of PLN 105 275 thousand are related with the following loans granted by the Company:

- tranches of a loan to the jointly controlled entity, Elektrociepłownia Stalowa Wola S.A. in the total amount of PLN 94 775 thousand;
- a loan to PGE EJ 1 Sp. z o.o in the amount of PLN 10 500 thousand.

Purchase of financial assets

Expenditure on the acquisition of shares in the amount of PLN 32 812 thousand is related to the transfer of funds by the Company to the increase the capital of the following companies:

- PGE EJ 1 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;

50.3. Cash flows from financial activities

Repayment of loans/borrowings

Expenditure on repayment of borrowings and loans disclosed in the consolidated statement of cash flows in the amount of PLN 4 406 813 thousand is mainly attributable to repayment by the parent company in the year ended 31 December 2020 of:

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

(in PLN thousand)

Interest paid

	Year ended 31 December 2020	Year ended 31 December 2019
Interest paid in relation to debt securities	(200 099)	(315 954)
Interest paid in relation to loans	(178 281)	(75 685)
Interest paid in relation to the lease and other	(7 095)	(5 129)
Total	**(385 475)**	**(396 768)**
investment expenditure	(169 529)	(184 212)
financial expenditure	(215 946)	(212 556)

In the consolidated statements of cash flows, the Group presents costs of external financing incurred activated in the current period on assets as expenditures for acquisition of property, plant and equipment and intangible assets in cash flows from investment activities. In the year ended 31 December 2020, interest representing external financing costs subject to capitalisation in the value of property, plant and equipment and intangible assets amounted to PLN 169 529 thousand.

Repayment of lease liabilities

The repayment of lease liabilities recognised by the Group under IFRS 16 *Leases* amounted to PLN 102 085 thousand. The total cash outflow from leases (including short-term leases and leases of low-value assets, to which the Group applied a practical solution without recognizing them as at 1 January 2020 in accordance with IFRS 16 *Leases*) amounted to PLN 119 826 thousand.

Issue of debt securities

Proceeds from the issue of debt securities in the amount of PLN 1 000 000 thousand, as discussed further in Note 39.2 to these consolidated financial statements, related to the issue of bonds under the Scheme Agreement with Santander Bank Polska S.A. of 6 February 2020.

Loans drawn

Proceeds from loans drawn in the amount of PLN 3 368 546 thousand, as discussed in more detail in Note 39.1 to these consolidated financial statements, were related primarily 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;
- 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 39.1 to these consolidated financial statements.

50.4. Cash flows from discontinued activities

The Group presents cash flows from jointly the continuing and the discontinued operations in the consolidated statements of cash flows.

Net cash flows attributable to operating, investment and financial activities of discontinued operations are shown in the table below.

	Year ended 31 December 2020	Year ended 31 December 2019
Net cash from operating activity	180 456	217 164
Net cash from investment activity	(95 996)	(75 882)
Net cash from financing activity	(1 525)	(4 734)
Net increase in cash and cash equivalents on discontinued operations	**82 935**	**136 548**

FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT

51. Financial instruments

SELECTED ACCOUNTING PRINCIPLES

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

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

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

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

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

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

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

PROFESSIONAL JUDGEMENT AND ESTIMATES

The Group makes judgements regarding classification of financial instruments.

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

The Group recognises an impairment loss upon initial recognition of a financial asset and then remeasures the loss amount as at each reporting day. The Group recognises the allowance for expected credit losses on financial assets measured at amortised cost mostly on receivables from customers and loans granted. The measurement of methodology is presented in Notes 32 and 52.1.4. hereto.

(in PLN thousand)

51.1. 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	**2 662 298**		**2 582 793**	
Receivables from buyers	2 473 416	2 473 416	2 290 746	2 290 746
Deposits	53 448	53 448	50 228	50 228
Loans granted	26 190	26 190	39 467	39 467
Other financial receivables	109 244	109 244	202 352	202 352
2 Financial assets measured at fair value through profit or loss (FVTPL)	**1 397 075**		**2 004 034**	
Derivative instruments	158 846	158 846	86 067	86 067
Shares	85 454	85 454	140 508	140 508
Shares classified as fixed sasets held for sale	91 227	91 227	-	-
Loans granted	72 523	72 523	216 018	216 018
Other financial receivables	67 680	67 680	296 867	296 867
Investment fund units	-	-	26 622	26 622
Cash and cash equivalents	921 345	921 345	1 237 952	1 237 952
3 Derivative hedging instruments	**-**	**-**	**19 462**	**19 462**
4 Financial assets excluded from the scope of IFRS 9 *Finanical Instruments*	**586 559**		**559 144**	
Investments in joint ventures	586 559		559 144	
Total financial assets, *of which in the statement of financial position:*	**4 645 932**		**5 165 433**	
Non-current assets	**890 915**		**1 032 701**	
Investments in joint ventures	586 559		559 144	
Loans granted to joint ventures	96 293		238 035	
Other financial assets	208 063		235 522	
Current assets	**3 755 017**		**4 132 732**	
Receivables from buyers	2 363 085		2 290 746	
Loans granted to joint ventures	2 420		4 999	
Other financial assets	266 431		599 035	
Cash and cash equivalents	909 453		1 237 952	
Assets classified as held for sale	213 628		-	

The above note includes financial instruments of the subsidiary TAURON Ciepło Sp. o.o. recognized by the Group as at the balance sheet date as assets classified as held for sale.

Based on the analysis performed, the collaterals transferred whose value as at 31 December 2020 amounted to PLN 67 680 thousand, were classified as other financial receivables at a fair value through profit or loss due to the fact that this classification provides the best reflection of the nature of these financial assets. The remaining other financial receivables are classified as measured at amortised cost.

The Group classifies the loan granted to Elektrociepłownia Stalowa Wola S.A. under an agreement of 28 February 2019 to assets measured at a fair value though profit or loss, as discussed in detail in Note 27 to these consolidated financial statements.

(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	**15 913 883**		**15 428 187**	
Preferential loans and borrowings	16 717	16 717	12 488	12 488
Arm's length loans and borrowings	5 973 155	6 004 972	7 014 824	7 030 597
Bank overdrafts	2 261	2 261	23 339	23 339
Bonds issued	7 522 209	7 939 153	6 257 022	6 537 537
Liabilities to suppliers	1 021 364	1 021 364	850 628	850 628
Other financial liabilities	245 623	245 623	223 920	223 920
Capital commitments	880 373	880 373	765 357	765 357
Salaries and wages	232 274	232 274	223 679	223 679
Insurance contracts	19 907	19 907	56 930	56 930
2 Financial liabilities measured at fair value through profit or loss (FVTPL)	**85 523**		**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*	**1 146 094**		**1 006 603**	
Liabilities under leases	1 146 094		1 006 603	
Total financial liabilities, *of which in the statement of financial position:*	**17 235 561**		**16 559 317**	
Non-current liabilities	**13 245 304**		**11 909 600**	
Debt	13 108 449		11 830 183	
Other financial liabilities	136 855		79 417	
Current liabilities	**3 990 257**		**4 649 717**	
Debt	1 478 550		2 484 093	
Liabilities to suppliers	965 106		847 226	
Capital commitments	838 486		757 943	
Other financial liabilities	549 671		560 455	
Liabilities associated with assets classified as held for sale	158 444		-	

The above note includes financial instruments of the subsidiary TAURON Ciepło Sp. o.o. recognized by the Group as at the balance sheet date as liabilities related to assets classified as held for sale.

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

Financial asset/liability classes	Fair value measurement level	Fair value measurement methodology
Financial assets/liability measured at fair value		
Derivatives, *including:*		Derivatives have been measured in line with the methodology presented in Note 51.3 hereto.
IRS and CCIRS	2	
Currency forwards	2	
Commodity forwards and futures	1	
Shares	3	The Group estimated the fair value of shares held in not listed companies using the adjusted net assets method, considering its share in the net assets and adjusting the value by relevant factors affecting the measurement, such as the non-controlling interest discount and the discount for the limited liquidity of the above instruments or using a mixed approach. As the key factors affecting the value of the assumed shares had not changed at a given end of the reporting period compared to the initial recognition, in the case of other instruments the Group assumes that the historical cost is an acceptable approximation of the fair value.
Loans granted	3	Fair value measurement of the loan had the form of the current value of future cash flows, including borrower’s credit risk.
Financial liabilities whose fair value is disclosed		
Loans, borrowings and bonds issued	2	Liabilities arising from fixed interest debt are measured at fair value. The fair value measurement was carried out based on the present value of future cash flows discounted using an interest rate applicable to given bonds or borrowings, i.e. applying market interest rates.

(in PLN thousand)

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 individual periods for the following reasons:

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

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

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

	Year ended 31 December 2020		Year ended 31 December 2019	
	Not quoted shares	Loans granted	Not quoted shares	Loans granted
Opening balance	**140 508**	**216 018**	**138 492**	**199 256**
Gains/(losses) for the period recognized in financial revenue/expenses	(1 376)	(143 495)	(10 044)	16 762
Purchased	47 049	-	12 072	-
Sold (liquidation)/repaid	-	-	(12)	-
Other changes	(9 500)	-	-	-
Closing balance	**176 681**	**72 523**	**140 508**	**216 018**

Neither in the year ended 31 December 2020 nor in the year ended 31 December 2019, reclassification occurred between level 1 and 2 of the fair value hierarchy; nor did such reclassification occur from or to level 3 of that hierarchy.

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

Year ended 31 December 2020

	Assets/ liabilities at fair value through profit or loss	Financial assets at amortized cost	Financial liabilities at amortized cost	Hedging instruments	Financial assets/liabilities excluded from the scope of IFRS 9	Total
Dividends and shares in profits	6 176	-	-	-	-	**6 176**
Interest income / (expense)	4 158	20 669	(206 080)	(29 465)	(46 792)	**(257 510)**
Currency translation differences	(4 713)	7 864	(249 503)	-	-	**(246 352)**
Impairment / revaluation	111 441	(223 200)	(12 919)	(34)	-	**(124 712)**
Commission relating to borrowings and debt securities	-	-	(18 162)	-	-	**(18 162)**
Gain/(loss) on disposal of investments	2 074	(4 547)	-	-	-	**(2 473)**
Gain/(loss) on exercised derivative instruments*	11 838	-	-	-	-	**11 838**
Net financial income (costs)	**130 974**	**(199 214)**	**(486 664)**	**(29 499)**	**(46 792)**	**(631 195)**
Revaluation	(1 926)	(57 697)	-	-	-	**(59 623)**
Gain/(loss) on exercised derivative instruments*	(136 382)	-	-	-	-	**(136 382)**
Net operating income/(costs)	**(138 308)**	**(57 697)**	**-**	**-**	**-**	**(196 005)**
Remeasurement	-	-	-	(103 172)	-	**(103 172)**
Other comprehensive income	**-**	**-**	**-**	**(103 172)**	**-**	**(103 172)**

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

(in PLN thousand)

Year ended 31 December 2019 *(restated figures)*

	Assets/ liabilities at fair value through profit or loss	Financial assets at amortized cost	Financial liabilities at amortized cost	Hedging instruments	Financial assets/liabilities excluded from the scope of IFRS 9	Total
Dividends and shares in profits	4 254	-	-	-	-	**4 254**
Interest income / (expense)	7 414	20 902	(205 674)	743	(41 901)	**(218 516)**
Currency translation differences	4 007	(3 128)	29 200	-	-	**30 079**
Impairment / revaluation	(26 952)	(602)	(3 271)	34	-	**(30 791)**
Commission relating to borrowings and debt securities	-	-	(20 338)	-	-	**(20 338)**
Gain/(loss) on disposal of investments	17	(1 974)	-	-	-	**(1 957)**
Gain/(loss) on exercised derivative instruments*	(18 144)	-	-	-	-	**(18 144)**
Net financial income (costs)	**(29 404)**	**15 198**	**(200 083)**	**777**	**(41 901)**	**(255 413)**
Revaluation	21 386	(27 818)	-	-	-	**(6 432)**
Gain/(loss) on exercised derivative instruments*	(34 054)	-	-	-	-	**(34 054)**
Net operating income/(costs)	**(12 668)**	**(27 818)**	**-**	**-**	**-**	**(40 486)**
Remeasurement	-	-	-	15 179	-	**15 179**
Other comprehensive income	**-**	**-**	**-**	**15 179**	**-**	**15 179**

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

51.3. Derivatives and hedge accounting

SELECTED ACCOUNTING PRINCIPLES

Derivative financial instruments within the scope of IFRS 9 *Financial Instruments* are classified as financial assets/liabilities measured at a fair value through profit or loss, except for derivatives designated as hedging instruments and covered by hedge accounting. Derivative instruments for the purchase and sale of non-financial assets acquired and held for internal purposes as excluded from the scope of IFRS 9 *Financial Instruments* are not measured at the balance sheet date. Derivatives subject to the scope of IFRS 9 *Financial Instruments* are disclosed as assets if their value is positive or as liabilities if their value is negative.

As at the balance sheet date, the Group holds the following derivatives subject to the scope of IFRS 9 *Financial Instruments*:

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

Hedge accounting

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

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

Cash flow hedges are accounted for as follows:

- the portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognised directly in other comprehensive income; and
- the ineffective portion of the gain or loss on the hedging instrument shall be recognised in profit or loss for the 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 Group measures fair value at each balance sheet date. The methodology is presented below. The Group tests the effectiveness of the hedge at each balance sheet date.

(in PLN thousand)

Derivative instrument	Methodology of determining fair value
IRS	Difference between the discounted interest cash flows based on the floating and fixed interest rates. Reuters' interest rate curve is the input data.
CCIRS	Difference between the discounted interest cash flows of the payable and receivables streams, in two various currencies, denominated in the measurement currency. Reuters' interest rate curve, basis spreads and NBP fixing for relevant currencies are the input data.
Forward currency contracts	Difference between the discounted future cash flows between the future price as at the valuation date and the transaction price multiplied by the par value of the FX contract. Reuters' NBP fixing and the interest rate curve implied from fx swap transaction for a relevant currency is the input data.
Commodity (forwards, futures)	The fair value of forwards for the purchase and sale of CO_2 emission allowances, electricity and other commodities is based on prices quoted on an active market or based on cash flows being the difference between the price reference index (forward curve) and the contract price.

Due to the delay in commissioning the power unit in Jaworzno, as at the balance sheet date, the Group had a significant surplus of CO_2 emission allowances contracted to be purchased for redemption by a subsidiary in connection with the emissions for 2020. As at the balance sheet date, the Group intended to acquire CO_2 emission allowances in maturity date, therefore these contracts were recognized as excluded from IFRS 9 *Financial Instruments* and therefore were not measured at fair value as at the balance sheet date.

As of 31 December 2020, the Group holds the following derivative instruments:

Instrument	Description
Derivatives subject to hedge accounting	
IRS	IRS (Interest Rate Swap) instruments are used to hedge a portion of interest rate risk in relation to cash flows associated with exposure to WIBOR 6M determined under a 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, expiring in December 2024; • interest on bonds with a total nominal value of PLN 3 090 000 thousand, for periods commencing in December 2019, 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 variable interest rate in PLN.
Derivatives at fair value through profit or loss not subject to hedge accounting	
CCIRS	The CCIRS (Coupon Only Cross Currency Swap fixed-fixed) derivative consists of 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 euro. CCIRS derivatives to hedge currency flows generated by interest payments on issued Eurobonds.
Forward/futures commodities	Commodity derivatives (futures, forwards) include forward transactions for the purchase and sale of CO_2 emission allowances and other commodities.
Currency forwards	Currency forward derivatives to hedge currency flows generated from operations.

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

	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
Derivatives subject to hedge accounting								
IRS	(6 230)	(83 831)	**-**	**(90 061)**	121	19 341	**19 462**	**-**
Derivatives measured at fair value through profit or loss								
CCIRS	3 268	-	**5 023**	**(1 755)**	(12 885)	-	**-**	**(12 885)**
Commodity forwards/futures	2 321	-	**86 089**	**(83 768)**	4 248	-	**86 067**	**(81 819)**
Currency forwards	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)

(in PLN thousand)

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

	As at 31 December 2020		As at 31 December 2019	
	Level 1	Level 2	Level 1	Level 2
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**

52. Principles and objectives of financial risk management

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

Risk exposure	Risk management	Regulation
	Credit risk	
Possible loss resulting from the counterparty default on contractual obligations. The credit exposure involves a default risk (the amount that may be lost if a counterparty defaults on its obligations for goods or 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 situation of the TAURON Group's counterparties and mitigating the risk of credit exposures at risk of impairment. Commercial transactions of significant value are preceded by an assessment of the counterparty's creditworthiness, including an economic and financial analysis of the entity. Based on the assessment, the counterparty is granted a credit limit, which is a limit on the maximum credit exposure understood as the amount that may be lost if the counterparty fails to meet its contractual obligations within a specified period of time (taking into account the value of the collateral provided). Credit exposure is calculated for the current day and divided into exposure due to payment and exposure of replacement. The TAURON Group has a decentralised credit risk management system, which means that each risk owner is actively responsible for managing the credit risks that arise within their business scope, but control, monitoring and reporting is performed at the Company-wide level. The TAURON Group's Credit Risk Management Policy sets out the credit risk management procedures for the entire Group with the view to reduce the impact of the risk on the Group's strategic objectives. Based on the value of exposure and assessment of financial standing of each client, the value of credit risk to which the TAURON Group is exposed is calculated using statistical methods to determine value at risk based on the total loss probability distribution.	Credit risk management policy for the TAURON Group
	Liquidity risk	
Possible loss or limitation of the ability to make payments on a day-to-day basis due to an inappropriate volume or structure of liquid assets as compared to current liabilities or an insufficient level of the actual net proceeds from operating activities.	The liquidity situation of TAURON Capital Group is monitored on an on-going basis in terms of potential deviations against the assumed plans and the availability of external sources of financing whose amount significantly exceeds the expected demand in a short term mitigates the risk of losing liquidity. To this end, the Company applies the rules of determining the liquidity position both of individual companies and the entire TAURON Group which helps ensure funds that would cover any potential liquidity gaps by allocating funds between companies cash-pooling) as well as using external financing. The Company also manages the financing risk, understood as no capability to obtain new funding, an increase in funding costs and the risk of terminating the existing funding agreements. To mitigate the financing risk, the Company's policy assumes obtaining funding for the TAURON Group in advance of the planned time of use, i.e. up to 24 months prior to the planned demand. The key objective of the policy is to ensure flexible selection of funding source, use favourable market conditions and reduce the risk related to the necessity to contract new debt on adverse terms.	Liquidity management policy for the TAURON Group
	Market risk - interest rate and currency risks	
The possibility of an adverse effect on the Group's performance through	The TAURON Group manages currency and interest rate risks on the basis of the TAURON Group Financial Risk Management Policy developed and adopted for use, as well as the risk tolerance, the global limit for financial risk and its decomposition	Financial risk management policy for the

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

The notes below include the financial assets and liabilities of the subsidiary TAURON Ciepło Sp. z o.o. recognized by the Group as at the balance sheet date as assets classified as held for sale and liabilities related to these assets.

52.1. Credit risk

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

Classes of financial instruments	As at 31 December 2020	As at 31 December 2019
Receivables from buyers	2 473 416	2 290 746
Cash and cash equivalents	921 345	1 237 952
Loans granted	98 713	255 485
Derivative instruments	158 846	105 529
Deposits	53 448	50 228
Other financial receivables	176 924	499 219

52.1.1 Credit risk related to receivables from customers

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

	As at 31 December 2020	As at 31 December 2019
Institutional clients	64.45%	76.65%
Individual clients	35.55%	23.35%
Total	**100%**	**100%**

The Group has no significant concentrations of credit risk related to its core business. Amounts due from PSE S.A. constitute the largest item of receivables from buyers with a share of 8.06% as at 31 December 2020 and 6.69% as at 31 December 2019, respectively.

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

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.

The ageing of receivables from customers and information on impairment losses on receivables from customers is presented in Note 32 to these consolidated financial statements.

(in PLN thousand)

52.1.2 Credit risk related to other financial receivables

The Group's other financial receivables at 31 December 2020 and as at 31 December 2019 mainly relate to institutional customers (share of 99.69% and 99.94%, respectively).

As at 31 December 2020, the main item of other financial receivables are margin deposits and other collaterals provided in respect of transactions entered into on stock exchange markets. In the Company's opinion commodity exchange mechanisms and collateral used materially mitigate the credit risk. In addition to stock exchange collaterals, there is no significant concentration of credit risk associated with other financial receivables.

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

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

	Not past due	Past due					Total
		< 30 days	30-90 days	90-180 days	180-360 days	> 360 days	
Value of item before allowance/write-down	114 190	2 717	9 440	8 284	6 473	79 925	**221 029**
Allowance/write-down	(6 706)	(1 190)	(9 327)	(8 277)	(6 380)	(79 905)	**(111 785)**
Net Value	**107 484**	**1 527**	**113**	**7**	**93**	**20**	**109 244**

Ageing of other financial receivables measured at amortised cost as at 31 December 2019

	Not past due	Past due					Total
		< 30 days	30-90 days	90-180 days	180-360 days	> 360 days	
Value of item before allowance/write-down	206 721	5 526	5 055	1 428	2 124	97 633	**318 487**
Allowance/write-down	(9 330)	(3 317)	(2 576)	(1 391)	(2 113)	(97 408)	**(116 135)**
Net Value	**197 391**	**2 209**	**2 479**	**37**	**11**	**225**	**202 352**

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

	Year ended 31 December 2020	Year ended 31 December 2019
Opening balance	**(116 135)**	**(119 302)**
Recognised	(2 349)	(3 143)
Utilized	222	560
Reversed	6 477	5 750
Closing balance	**(111 785)**	**(116 135)**

52.1.3 Credit risk related to cash and cash equivalents and derivatives

Cash and equivalents

The Group manages its cash credit risk by diversifying the banks where surplus cash can be deposited while reducing the cost of holding cash in accounts. These banks receive investment rating. The share of the three banks where the Group holds its largest cash balances was 76% as at 31 December 2020.

Derivative instruments

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

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

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

52.1.4 Credit risk related to loans granted

Loans measured at amortised cost

As far as granted loans measured at amortized cost are concerned, the Group assesses the risk of insolvency on the part of the borrowers based on the ratings assigned to the counterparties using an internal scoring model. The individual ratings are assigned with the probability of default, implied by the quotation of CDS instruments (denoting the market macroeconomic environment), in terms of time perspective and averaged for the counterparties rated under a given rating. The expected credit loss is calculated based on the time value of money.

As part of the model used, the Group continuously analyses the level of credit risk of financial assets and possible changes in the level of this risk. For the purpose of identifying a significant increase in credit risk, the Group aggregates financial assets that have similar characteristics. Based on changes in the credit risk of financial assets since the moment of their initial recognition, financial assets are assigned to one of the following levels:

- level 1 - financial assets for which no significant increase in credit risk has been identified and assets that have a low level of credit risk as at the balance sheet date,
- level 2 - financial assets where a significant increase in credit risk has been identified,
- level 3 - financial assets found to be impaired.

For assets allocated to level 1, the allowance for expected credit losses is estimated on the basis of a 12-month period. For assets allocated to levels 2 and 3, the allowance for expected credit losses is estimated on the basis of the entire expected lifetime of the asset.

As at each reporting date, the Group analyses the occurrence of indications resulting in the classification of financial assets into the levels mentioned above.

If a counterparty has an investment grade rating as at the reporting date, it is assumed that the counterparty's credit risk has not increased significantly. For the purposes of determining the calculation horizon for expected credit losses, material credit risk increases related to certain financial assets are analysed beginning from the initial recognition of a given asset.

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

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

If a given counterparty's receivables are overdue by more than 90 days, they are classified as bad debt, i.e. the 100% probability of insolvency is assigned to that counterparty. The loans granted by the Group as at 31 December 2020 and 31 December 2019 were not overdue.

Loans measured at a fair value

The measurement of the loan granted to the joint venture, Elektrociepłownia Stalowa Wola S.A., classified as financial assets measured at 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.

52.2. Liquidity risk

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

The TAURON Group carries out a centralized finance management policy, allowing effective management in this respect on the Group level. Among others, the TAURON Group has adopted *Liquidity management policy for the TAURON Group*, which facilitates optimization of liquidity management at the TAURON Group, reduces the risk of liquidity loss, 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 a reduction in administrative costs. The corporate finance model also makes it possible to acquire sources of financing that are not available to individual companies.

In 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 undertaken 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 59 to these consolidated financial statements.

In 2020, the Group demonstrated full capacity to settle its liabilities on their maturity date.

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

(in PLN thousand)

Financial liabilities as at 31 December 2020

Classes of financial instruments	Carrying amount	Non-discounted contractual payments	of which non-discounted contractual payments maturing within *(after the balance sheet date)*					
			less than 3 months	3 - 12 months	1 - 2 years	2 - 3 years	3 - 5 years	more than 5 years
Financial liabilities other than derivative instruments								
Interest-bearing loans and borrowings and issued bonds	**13 514 342**	**(15 318 768)**	(1 075 424)	(561 180)	(2 542 068)	(590 074)	(5 318 932)	(5 231 090)
Liabilities to suppliers	**1 021 364**	**(1 021 364)**	(1 019 911)	(757)	(696)	-	-	-
Capital commitments	**880 373**	**(880 373)**	(832 511)	(24 879)	(22 824)	(159)	-	-
Other financial liabilities	**497 804**	**(497 804)**	(428 360)	(29 303)	(19 708)	(6 161)	(7 628)	(6 644)
Obligations under finance leases	**1 146 094**	**(2 263 186)**	(77 145)	(48 968)	(98 745)	(84 251)	(148 751)	(1 805 326)
Derivative financial liabilities								
Derivate instruments - commodity	**83 768**	**(17 920)**	(288)	(12 956)	(4 676)	-	-	-
Derivate 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	**17 235 561**	**(20 103 275)**	**(3 435 385)**	**(710 984)**	**(2 721 910)**	**(704 326)**	**(5 482 889)**	**(7 047 781)**

Financial liabilities as at 31 December 2019

Classes of financial instruments	Carrying amount	Non-discounted contractual payments	of which non-discounted contractual payments maturing within *(after the balance sheet date)*					
			less than 3 months	3 - 12 months	1 - 2 years	2 - 3 years	3 - 5 years	more than 5 years
Financial liabilities other than derivative instruments								
Interest-bearing loans and borrowings and issued bonds	**13 307 673**	**(15 536 815)**	(1 693 417)	(977 598)	(650 705)	(3 882 401)	(1 981 047)	(6 351 647)
Liabilities to suppliers	**850 628**	**(850 628)**	(847 226)	-	(1 706)	(1 696)	-	-
Capital commitments	**765 357**	**(765 357)**	(757 850)	(93)	(3 708)	(3 706)	-	-
Other financial liabilities	**504 529**	**(504 529)**	(362 412)	(90 370)	(32 194)	(5 081)	(7 376)	(7 096)
Obligations under finance leases	**1 006 603**	**(1 927 467)**	(66 996)	(43 897)	(94 969)	(77 448)	(137 372)	(1 506 785)
Derivative financial liabilities								
Derivate instruments - commodity	**81 819**	**(29 676)**	(24 602)	(4 950)	(124)	-	-	-
Derivative instruments - currency	**29 823**	**(29 823)**	(2 505)	(19 911)	(7 407)	-	-	-
Derivate instruments - CCIRS	**12 885**	**(49 267)**	-	(6 207)	(6 188)	(6 120)	(12 326)	(18 426)
Total	**16 559 317**	**(19 693 562)**	**(3 755 008)**	**(1 143 026)**	**(797 001)**	**(3 976 452)**	**(2 138 121)**	**(7 883 954)**

52.3. Market risk

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

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

52.3.1 Interest rate risk

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

The purpose of interest rate risk management is to limit negative effects of market interest rate fluctuations on the Group's cash flows to an acceptable level and to minimize finance costs. In order to hedge interest rate risk related to floating-rate debt, the Group entered into interest rate swap (IRS) contracts, described in detail in Note 51.3 hereto. IRS transactions concluded in order to hedge interest rate risk are subject to hedge accounting.

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

(in PLN thousand)

Financial instruments by interest rate type

Financial instruments	As at 31 December 2020			As at 31 December 2019		
	Fixed interest rate	Floating interest rate	Total	Fixed interest rate	Floating interest rate	Total
Financial assets						
Deposits	53 448	-	**53 448**	50 228	-	**50 228**
Loans granted	96 293	2 420	**98 713**	246 243	9 242	**255 485**
Cash and cash equivalents	-	788 277	**788 277**	-	1 143 598	**1 143 598**
Derivative instruments-CCIRS	5 023	-	**5 023**	-	-	**-**
Derivative instruments-IRS	-	-	**-**	19 462	-	**19 462**
Financial liabilities						
Bank overdrafts	-	2 261	**2 261**	-	23 339	**23 339**
Preferential loans and borrowings	-	16 717	**16 717**	-	12 488	**12 488**
Arm's length loans and borrowings	2 789 476	3 183 679	**5 973 155**	2 892 708	4 122 116	**7 014 824**
Bonds issued	6 782 151	740 058	**7 522 209**	5 756 491	500 531	**6 257 022**
Obligations under finance leases	1 146 094	-	**1 146 094**	1 006 603	-	**1 006 603**
Derivative instruments-CCIRS	1 755	-	**1 755**	12 885	-	**12 885**
Derivative instruments-IRS	90 061	-	**90 061**	-	-	**-**

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

Sensitivity analysis

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

The interest rate risk sensitivity analysis is conducted by the Group using the parallel shift in the yield curve by the potential change in reference interest rates within a horizon until the date of the next financial statements. The interest rate risk sensitivity analysis has been carried out based on average reference interest rates in the year. The scale of potential changes in interest rates has been estimated on the basis of implied volatility for interest rate options quoted on the interbank market for currencies which expose the Group to the interest rate risk as at the balance sheet date.

The Group 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.

Classes of finacial instruments	31 December 2020		Sensitivity analysis for interest rate risk as at 31 December 2020		31 December 2019		Sensitivity analysis for interest rate risk as at 31 December 2019	
	Carrying amount	Value at risk	WIBOR +225 pb	WIBOR -225 pb	Carrying amount	Value at risk	WIBOR +38 pb	WIBOR -38 pb
			*Profit/(Loss) / Other comprehensive income**				*Profit/(Loss) / Other comprehensive income**	
Loans granted	98 713	74 943	(15 002)	19 352	255 485	225 260	(9 883)	10 398
Cash and cash equivalents	921 345	788 277	14 790	(7 787)	1 237 952	1 143 598	4 237	(4 237)
Derivatives (assets)	158 846	5 023	29 458	(29 458)	105 529	19 462	37 204	(37 204)
Preferential loans	16 717	16 717	(376)	376	12 488	12 488	(47)	47
Arm's length loans	5 973 155	4 934 027	(111 016)	111 016	7 014 824	6 320 285	(24 017)	24 017
Bonds issued	7 522 209	2 829 640	(63 667)	63 667	6 257 022	1 890 467	(7 184)	7 184
Derivates (liabilities)	175 584	91 816	415 964	(415 964)	124 527	12 885	6 098	(6 098)
Total			**270 151**	**(258 798)**			**6 408**	**(5 893)**

**Refers to Interest Rate Swap financial derivatives covered by hedge accounting, as further discussed in Note 51.3 to these consolidated financial statements.*

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

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

(in PLN thousand)

52.3.2 Currency risk

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

Classes of financial instruments	As at 31 December 2020					As at 31 December 2019				
	Total carrying amount in PLN	EUR		CZK		Total carrying amount in PLN	EUR		CZK	
		in currency	in PLN	in currency	in PLN		in currency	in PLN	in currency	in PLN
Financial assets										
Receivables from buyers	2 473 416	2 022	9 330	61 124	10 715	2 290 746	2 170	9 251	50 029	8 384
Other financial receivables	176 924	11 153	51 470	20 342	3 566	499 219	49 784	212 005	20 346	3 410
Cash and cash equivalents	921 345	26 767	123 524	29 458	5 164	1 237 952	4 187	17 832	48 443	8 119
Derivatives (assets)	158 846	17 529	80 894	-	-	105 529	14 214	60 531	-	-
Total		**57 471**	**265 218**	**110 924**	**19 445**		**70 355**	**299 619**	**118 818**	**19 913**
Financial liabilities										
Bank overdrafts	2 261	487	2 249	-	-	23 339	5 304	22 585	-	-
Issued bonds	7 522 209	857 840	3 958 759	-	-	6 257 022	851 101	3 624 412	-	-
Liabilities to suppliers	1 021 364	12 363	57 053	8 340	1 462	850 628	5 770	24 572	8 884	1 489
Capital commitments	880 373	14 985	63 813	-	-	765 357	-	-	-	-
Other financial liabilities	245 623	15 867	73 221	-	-	223 920	2 530	10 774	-	-
Derivatives (liabilities)	175 584	17 026	78 573	-	-	124 527	13 206	56 238	-	-
Total		**918 568**	**4 233 668**	**8 340**	**1 462**		**877 911**	**3 738 581**	**8 884**	**1 489**
Net currency position		**(861 097)**	**(3 968 450)**	**102 584**	**17 983**		**(807 556)**	**(3 438 962)**	**109 934**	**18 424**

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

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

Sensitivity analysis

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

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

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

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

(in PLN thousand)

Classes of finacial instruments	31 December 2020		Sensitivity analysis for currency risk as at 31 December 2020		31 December 2019		Sensitivity analysis for currency risk as at 31 December 2019	
			EUR/PLN				EUR/PLN	
	Carrying amount	Value at risk	exchange rate EUR/PLN +5.78%	exchange rate EUR/PLN -5.78%	Carrying amount	Value at risk	exchange rate EUR/PLN +4.24%	exchange rate EUR/PLN -4.24%
Receivables from buyers	2 473 416	9 330	539	(539)	2 290 746	9 251	392	(392)
Other financial receivables	176 924	51 470	2 975	(2 975)	499 219	212 005	8 989	(8 989)
Cash and cash equivalents	921 345	123 524	7 140	(7 140)	1 237 952	17 832	756	(756)
Derivatives (assets)	158 846	153 651	160 819	(160 819)	105 529	60 531	2 567	(2 567)
Overdraft	2 261	2 249	(130)	130	23 339	22 585	(958)	958
Bonds issued	7 522 209	3 958 759	(228 816)	228 816	6 257 022	3 624 412	(153 675)	153 675
Liabilities to suppliers	1 021 364	57 053	(3 298)	3 298	850 628	24 572	(1 042)	1 042
Capital commitments	880 373	63 813	(3 688)	3 688	765 357	-	-	-
Other financial liabilities	245 623	73 221	(4 232)	4 232	223 920	10 774	(457)	457
Derivatives (liabilities)	175 584	80 328	(1 370)	1 370	124 527	98 946	79 408	(79 408)
Total			**(70 061)**	**70 061**			**(64 020)**	**64 020**

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

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

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

At 31 December 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 Group’s gross profit/loss.

53. Operational risk

The commercial operational risk is managed at the level of the TAURON Group, as described in section 3.3 of the Management Board's report on the activities of TAURON Polska Energia S.A. and TAURON Capital Group for the financial year 2020. The Group manages its commercial risk following the *Commercial risk management policy in the TAURON Group*, which has introduced an early warning system in addition to a system of limiting the exposure to risk in various commercial areas.

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

Fuel type	Unit	2020		2019	
		Volume	Purchase cost	Volume	Purchase cost
Coal	tonne	2 814 471	702 943	3 809 329	1 002 443
Gas	MWh	3 965 153	331 111	3 498 481	345 742
Electricity	MWh	32 036 767	8 092 668	32 326 975	7 906 677
Heat energy	GJ	4 769 991	209 438	5 718 634	226 430
Total			**9 336 160**		**9 481 292**

OTHER INFORMATION

54. Contingent liabilities

Claims related to termination of long-term contracts

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

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

As at the date of approval of these consolidated financial statements for publication, the amount of damages claimed in the lawsuits amounts to: Polenergia Group companies - PLN 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 agreements concluded between Polska Energia-Pierwsza Kompania Handlowa Sp. z o.o. and Amon Sp. z o.o. and those concluded between Polska Energia-Pierwsza Kompania Handlowa Sp. z o.o. and Talia Sp. z o.o. for the purchase of electricity and property rights resulting from certificates of origin are ineffective and do not produce legal effect in the form of termination of both agreements, as a result of which the agreements after the notice period, i.e. after 30 April 2015, remain in force in respect of all provisions and are binding on the parties. Moreover, the courts also recognised the claims of Amon Sp. z o.o. and Talia Sp. z o.o. for payment of damages justified as to the merits, without, however, prejudging the amount of potential damages. The judgements are not final. Polska Energia-Pierwsza Kompania Handlowa sp. z o.o. filed a complaint against the judgments.

These partial and preliminary judgements, do not change the Group's assessment that the chances of losing the case are not higher than the chances of winning it.

In the case filed by Pękanino Wind Invest Sp. z o.o. for the provision of security for claims for determining that the terminations of long-term contracts submitted by Polska Energia-Pierwsza Kompania Handlowa Sp. z o.o. are ineffective, the Court of Appeasl in Warsaw on 6 November 2019 partially granted the application for security by ordering Polska Energia-Pierwsza Kompania Handlowa Sp. z o.o. to perform the provisions of the contracts in their entirety on the existing terms and conditions, in accordance with their content, until the proceedings from the suit of Pękanino Wind Invest Sp. z o.o. are legally concluded against Polska Energia-Pierwsza Kompania Handlowa Sp. z o.o., pending before the Regional Court in Warsaw. The decision regarding the security is binding. This decision does not prejudge the merits of the action, which can only take place in a binding judgement, but only temporarily regulates the parties' relations for the duration of the proceedings. In view of the need to realise the security provision referred to above, Polska Energia-Pierwsza Kompania Handlowa Sp. z o.o. created a provision for onerous contracts, the value of which as at the balance sheet date amounts to PLN 8 297 thousand.

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

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

In connection with the transaction of purchase on 3 September 2019 by the 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. of five wind farms belonging to the in.ventus group and the financial receivables due to Hamburg Commercial Bank AG against the companies operating the wind farms, the lawsuits of the companies of the in.ventus group initiated 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 a motion to commence proceedings in order for the plaintiff to withdraw the lawsuit with a waiver of the claim. In June 2020, the court took up the proceedings and the companies filed statements of withdrawal of the lawsuits with waiver of claims. By its order of 3 July 2020, the court discontinued the proceedings in the case. The court order is final.

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

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

As at the date of approval of these consolidated financial statements for publication, the amount of damages claimed in the lawsuits amounts to: Polenergia Group companies - PLN 78 855 thousand, Wind Invest group companies - PLN 272 450 thousand.

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

In connection with the transaction of purchase on 3 September 2019 by the 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. of five wind farms belonging to the in.ventus group and the financial receivables due to Hamburg Commercial Bank AG against the companies operating the wind farms, the lawsuits of the companies of the in.ventus group initiated 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 a motion to commence proceedings in order for the plaintiff to withdraw the lawsuit with a waiver of the claim. At the unanimous request of the parties, the court resumed the proceedings. By its letter dated 5 June 2020, the plaintiff withdrew the claim with a disclaimer. By its order of 6 August 2020, the court discontinued the proceedings in the case. The court order is final.

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. received notices in cases from motions filed by two Polenergia group companies against TAURON Sprzedaż Sp. z o.o. for a settlement attempt as to a total amount of PLN 78 855 thousand as compensation for alleged damage caused to Polenergia group companies as a result of the unjustified termination of the long-term contract concluded between these companies and Polska Energia-Pierwsza Kompania Handlowa Sp. z o.o. The companies indicated in their motions that the Company, Polska Energia-Pierwsza Kompania Handlowa Sp. z o.o. and the liquidators of Polska Energia-Pierwsza Kompania Handlowa Sp. z o.o. had caused and continue to cause damage to Polenergia Group companies, and TAURON Sprzedaż Sp. z o.o. has deliberately taken advantage of this damage and - according to Polenergia Group companies - is liable for it. TAURON Sprzedaż Sp. z o.o. considered the demands of the Polenergia group companies as unjustified, and therefore no settlement was concluded. 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 to create 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 of WorleyParsons Nuclear Services JSC, WorleyParsons International Inc, WorleyParsons Group Inc (hereinafter referred to as the "WorleyParsons consortium"), which is a research contractor within the investment process related to the construction of a nuclear power plant by PGE EJ 1 Sp. z o.o. (hereinafter referred to as: "the Agreement"), reported in connection with the Agreement - in a call for payment to the PGE EJ 1 Sp. z o.o. - claims for the total amount of PLN 92 315 thousand. As a result, on 15 April 2015 the Company (as a holder of 10% of shares in the issued capital of PGE EJ 1 Sp. z o.o.) concluded an agreement with PGE EJ 1 Sp. z o.o. and its other shareholders (i.e. PGE Polska Grupa Energetyczna S.A., KGHM Polska Miedź S.A. and ENEA S.A.) that regulated mutual relations of the parties to the agreement as regards the claims, including principles of providing additional funds (if any) to PGE EJ 1 Sp. z o.o. by its shareholders.

In the company's view, its potential additional exposure to PGE EJ 1 Sp. z o.o. arising from the agreement shall not exceed its percentage equity share in PGE EJ 1 Sp. z o.o.

In November 2015, the District Court in Warsaw served PGE EJ 1 Sp. z o.o. with the claim made by the WorleyParsons consortium for the amount approximating PLN 59 million, in 2017 and 2019 to approx. PLN 128 million. PGE EJ 1 Sp. z o.o. did not accept the claim and believed that the probability that the court would decide in favour of the plaintiffs was remote. No provision was recognised in relation to the above events.

Claims filed by Huta Łaziska S.A.

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

By the statement of claim of 12 March 2007 Huta demands from GZE and the State Treasury - the President of the Energy Regulatory Office (in solidum) to adjudicate the amount of PLN 182 060 thousand with interest from the date of filing the statement of claim to the date of payment as compensation for the alleged damage caused by the failure of GZE to implement the decision of the President of the Energy Regulatory Office of 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 defendant for the costs of the proceedings. The judgement is not legally binding. Huta appealed (dated 25 July 2019), challenging the above judgement in its entirety and requesting that it be amended by upholding the claim in its entirety and ordering the defendants to pay the costs of the proceedings in favour of Huta, or, in the alternative, that the contested judgement be set aside in its entirety and the case be referred back to the court of first instance. In response to the appeal of 9 August 2019, the Company requested that the appeal be dismissed in its entirety as manifestly unfounded and that the costs of the appeal proceedings be awarded against Huta in favour of the Company.

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

Case filed by ENEA S.A.

Case filed by ENEA S.A. ("ENEA") against TAURON Polska Energia S.A., which has been heard by the Regional Court in Katowice since 2016, regards the payment of PLN 17 086 thousand with statutory interest from 30 June 2015 until the payment date. The actual basis of ENEA's claim are allegations concerning unjust enrichment of the Company in connection with possible errors in the determination of the aggregated measurement and settlement data by ENEA Operator Sp. z o.o. constituting the basis for settlements between ENEA and the Company and Polskie Sieci Elektroenergetyczne S.A. on account of imbalance on the Balancing Market in the period from January to December 2012. In the course of the proceedings at the request of ENEA additional sellers were summoned, for whom TAURON Polska Energia S.A. acted as an entity responsible for trade balancing, including the Company's subsidiaries, i.e. TAURON Sprzedaż Sp. z o.o. and TAURON Sprzedaż GZE Sp. z o.o. The claim for payment by the above subsidiaries amounting in total to PLN 8 414 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 balance sheet date, on 22 March 2021, the Regional Court in Katowice dismissed ENEA's claim in its entirety and ruled that ENEA reimbursed the Company the costs of the proceedings. The judgement is not legally 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.

Administrative proceedings initiated by the President of the Energy Regulatory Office ("ERO")

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

With regard to proceedings initiated against a company in the Distribution segment and a company in the Sales segment for which the ERO President has issued decisions imposing fines, the companies have established provisions for pending proceedings. The companies appealed to the SOKiK against the ERO President's decision to impose a penalty in the cases.

Administrative proceedings initiated by the President of the Office for Competition and Consumer Protection ("UOKiK")

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

Use of real estate without a contract

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

As at the balance sheet date, provisions in the amount of PLN 47 090 thousand were created, recognised in the statement of financial position within other provisions (note 43.1) and PLN 29 589 thousand recognised within liabilities relating to assets classified as held for sale (created by a subsidiary classified as a disposal group as at the balance sheet date).

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

In December 2017, the subsidiary, TAURON Wydobycie S.A. received a claim from Galeria Galena Sp. z o.o., with its registered office in Gliwice, for payment of the amount of PLN 22 785 thousand as reimbursement of expenses for protecting the facility located in Jaworzno against the effects of mining exploitation. In addition, on 5 April 2018, company received a claim for payment filed by Galeria Galena Sp. z o.o. against the legal successors of Kompania Węglowa S.A. together with an application for merging this case for joint consideration with the case against TAURON Wydobycie S.A. Currently, the case has been combined for joint examination against the defendants by Galeria Galena Sp. z o.o., i.e. against the State Treasury - Director of the Regional Mining Office in Katowice and legal successors of Kompania Węglowa S.A. in Katowice. The parties have been providing explanations and serving pleadings on an ongoing basis. The case is pending before District Court in Katowice (the first instance). In the course of the proceedings, an expert opinion was drawn up by a court expert, to which objections were raised. A supplementary opinion was requested in February 2020.

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

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

The investment agreement signed by the Company with the Closed-End Investment Funds (the “Funds”) managed by Polish Development Found provides for a number of situations the occurrence of which constitutes a material breach of the agreement on the part of the Company. The above situations, some of which are beyond the direct control of the Company, include, among others, the occurrence of events of a legal nature, events relating to the financial situation of the TAURON Group, decisions of an investment and operational nature taken by the Group with respect to the financing and construction of the 910 MW unit, as well as events relating to the future operation of the unit. 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.

On 27 March 2020, an annex to the investment agreement was concluded, removing from the catalogue of significant breaches of the agreement on the part of the Company the breaches referring to debt ratios combined with a simultaneous amendment to the shareholders' agreement, consisting in granting the Funds special rights in case of exceeding the agreed levels of these ratios.

On 4 May 2020, the subsidiary company 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 910 MW unit, in which the estimated date of commissioning of the 910 MW unit was postponed to 15 November 2020, which is further described in Note 54 to these consolidated financial statements. On 5 August 2020, annexes to the investment agreement were concluded between the Company, the subsidiary Nowe Jaworzno Grupa TAURON Sp. z o.o. and the Funds, as well as an annex to the contingency agreement on the sale of the Funds' shares in Nowe Jaworzno Grupa TAURON Sp. z o.o. concluded by the Company with the Funds. By virtue of these annexes, in particular, the commissioning cut-off date set in the investment agreement has been postponed by six months. On 13 November 2020, the 910 MW unit was commissioned, which, in the context of the signed annexes to the investment agreement, means that the cut-off date for commissioning the block was not exceeded, and therefore there was no breach of the investment agreement.

As at the date of approval of these consolidated financial statements for publication, the Company does not identify on its side any risk of material breach of agreement beyond the Company's direct control and takes the view that there is no realistic possibility, including in the future, of such breaches occurring. Accordingly, the Group, having regard to the provisions of IAS 32 *Financial Instruments: Presentation*, does not recognise the Funds' involvement as a liability but as a non-controlling interest.

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

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

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

(in PLN thousand)

In response to the contractor's request for a guarantee of payment for the construction works, TAURON Wydobycie S.A. granted the contractor a guarantee of payment in the form of a bank letter of credit valid until 18 January 2021. The bank letter of credit has not been extended.

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

After the balance sheet date, in February 2021, company filed a request for mediation with the Court of Arbitration at the Polish Attorney General's Office.

55. Security for liabilities

Among the collateral established and in force as at 31 December 2020 for the repayment of the Group's liabilities, the most significant items, set out in the table below, are the collaterals for contracts entered into by the parent company.

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. for intraday loan 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	

[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 others (in the case of the 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 balance sheet date

- bank guarantees were issued to the IRGiT as security for the Company liabilities. As at the date of approval of these consolidated financial statements for publication, two guarantees in the total amount of PLN 80 000 thousand are in force, with expiry dates of 16 April and 18 June 2021;
- on 12 March 2021, an annex was signed to the agreement with Bank Gospodarstwa Krajowego for bank guarantees for IRGiT, on the basis of which a declaration of submission to enforcement was issued up to the

(in PLN thousand)

amount of PLN 300 000 thousand, valid until 14 March 2024. The new declaration replaces the declaration on submission to enforcement up to the amount of PLN 600 000 thousand, valid until 14 March 2023.

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

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

	As at 31 December 2020	As at 31 December 2019
Other financial receivables	48 663	184 353
Real estate	7 935	10 482
Cash	8 363	45
Total	**64 961**	**194 880**

The main item consists of collaterals of forward transactions - derivative financial instruments concluded by the Company on foreign stock exchange markets. As at 31 December 2020 and 31 December 2019, the related collaterals amounted to PLN 48 663 thousand and PLN 184 353 thousand, respectively.

Transfer of CO_2 emission allowances and property rights of certificates of origin

In 2019 and in February 2020, agreements for the transfer of 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 at 31 December 2020, 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, and
- the subsidiary, TAURON Wytwarzanie S.A. transferred the allowances owned by TAURON Wytwarzanie S.A. to the IRGiT in the total amount of 816 799 tons.

After the balance sheet date, on 16 February 2021, all rights owned by the subsidiary were returned to the account of TAURON Wytwarzanie S.A. and no longer constitute the subject of the transfer of property. Additionally, on 17 March 2021, the portion of allowances in the amount of 1 660 000 tonnes were returned to the Company.

On 10 February 2020, two agreements of transfer of ownership as collateral concerning property rights to certificates of 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 balance sheet date, 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.

Other collaterals for the repayment of liabilities of the Group and joint ventures

Other material collaterals for the repayment of the Group's liabilities and joint ventures as at 31 December 2020 are described below.

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

Under the agreement of 15 May 2015, the parent company established a financial pledge on its shares in the share capital of TAMEH HOLDING Sp. z o.o, with a total nominal value of PLN 329 340 thousand, representing approximately 50% of the shares in the share capital, a financial pledge, a registered pledge with highest priority of satisfaction on the shares up to the highest amount of security in the amount of CZK 3 950 000 thousand and a registered pledge with highest priority of satisfaction on the shares up to the highest level of security in the amount of PLN 1 370 000 thousand in favour of RAIFFEISEN BANK INTERNATIONAL AG. The Company also agreed to establish a financial pledge and registered pledges on the new shares. 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 Group companies 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.

Consolidated financial statements for the year ended 31 December 2020 compliant with the IFRS, as endorsed by the European Union (in PLN thousand)

As at 31 December 2020, the carrying amount of the investment in joint venture accounted for using the equity method in the TAMEH HOLDING Sp. z o.o. group was PLN 585 863 thousand.

- Blank promissory notes

Agreement/transaction secured by blank promissory notes	Issuer of a blank promissory note	As at 31 December 2020
Agreements concerning loans granted to subsidiary TAURON Wytwarzanie S.A. and TAURON Ciepło Sp. z o.o. by Regional Fund for Environmental Protection and Water Management in Katowice. The companies have provided declarations of submission to enforcement as collateral for the loans in question.	TAURON Polska Energia S.A.	70 000*
Performance bonds under contracts and agreements concluded by the company, including co-funding of engagements being carried out.	TAURON Dystrybucja S.A.	200 167
Performance bond and reimbursement security under the co-funding agreements concluded with the National Fund for Environmental Protection and Water Management in Warsaw and the Regional Fund for Environmental Protection and Water Management in Katowice	TAURON Ciepło Sp. z o.o.	109 851
Performance bonds under the co-funding agreements concluded with Centrum Projektów Polska Cyfrowa in Warsaw.	TAURON Obsługa Klienta Sp. z o.o.	187 841
An agreement with PSE S.A. to provide electricity supply services, an agreement with the National Fund for Environmental Protection and Water Management in Warsaw concerning partial cancellation of a loan and an agreement with the National Centre for Research and Development in Warsaw for the funding of a project.	TAURON Wytwarzanie S.A.	63 708

**As at 31 December 2020, the outstanding amount under loans, secured with bills of exchange, amounts to PLN 8 000 thousand.*

- Corporate and bank guarantees
  - Corporate guarantee granted by the Company

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

  - Corporate guarantee granted in the Renewable Energy Sources segment

On 15 December 2020, TAURON Ekoenergia Sp. z o.o. granted a corporate guarantee for the liabilities of WIND T1 Sp. z o.o. to a third party up to EUR 24 600 thousand (PLN 113 524 thousand). The guarantee is valid until WIND T1 Sp. z o.o. performs all obligations under the agreement concluded. After the balance sheet date, on 20 January 2021, the value of the collateral was increased to EUR 30 258 thousand.

  - Liability towards MUFG Bank, Ltd.

At the Company's request, MUFG Bank, Ltd. issued a bank guarantee as security for the receivables of Bank Gospodarstwa Krajowego, resulting from the loan agreement concluded on 8 March 2018 between the borrower Elektrociepłownia Stalowa Wola S.A. and Bank Gospodarstwa Krajowego and Polskie Górnictwo Naftowe i Gazownictwo S.A.

As at the balance sheet date, the amount of security granted is PLN 517 500 thousand, with a term to 11 April 2021. The guarantee was issued on the basis of a guarantee limit agreement concluded in January 2020 with MUFG Bank, Ltd. and 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 2021.

After the balance sheet date, 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 receivables of MUFG Bank, Ltd. towards the Company are secured by a declaration of submission to enforcement up to the amount of PLN 621 000 thousand, valid until 31 October 2022.

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

In order to secure funds to cover future decommissioning costs, the Group's subsidiaries TAURON Wydobycie S.A. and Kopalnia Wapienia Czatkowice Sp. z o.o. create the Mine Decommissioning Fund.

(in PLN thousand)

56. Related party disclosures

56.1. Transactions with joint ventures

The group has interest in the following joint ventures: Elektrociepłownia Stalowa Wola S.A. and the TAMEH HOLDING Sp. z o.o. capital group, which are further described in Note 26 to these consolidated financial statements.

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

	Year ended 31 December 2020	Year ended 31 December 2019
Revenue	295 641	123 504
Costs	(117 555)	(63 354)

The main item of settlements with jointly-controlled entities are the loans granted to Elektrociepłownia Stalowa Wola S.A., which is discussed in more detail in Note 27 to these consolidated financial statements.

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

56.2. Transactions with State Treasury companies

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

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

Revenues and expenses

	Year ended 31 December 2020	Year ended 31 December 2019
Revenue	2 472 555	2 354 188
Costs	(2 747 239)	(2 815 591)

Receivables and liabilities

	As at 31 December 2020	As at 31 December 2019
Receivables	319 612	277 032
Payables	387 636	290 373

As at 31 December 2020 and as at 31 December 2019, the receivables item in the table above includes advance payments for the purchase of fixed assets in the amount of PLN 2 996 thousand and PLN 2 439 thousand, respectively.

Among the State Treasury companies, the largest customers of TAURON Polska Energia S.A. Group in the year ended 31 December 2020 included KGHM Polska Miedź S.A., PSE S.A., Polska Grupa Górnicza S.A. and Spółka Restrukturyzacji Kopalń S.A. In total, sales to the above-mentioned counterparties amounted to 89% of the volume of revenues generated in transactions with State Treasury companies. The largest purchase transaction was performed by the Group with PSE S.A., Polska Grupa Górnicza S.A. and Węglokoks S.A. Purchases from the above counterparties accounted for 87% of the value of purchases from State Treasury companies in the year ended 31 December 2020.

Among the State Treasury companies, the largest customers of TAURON Polska Energia S.A. Group in the year ended 31 December 2019 included KGHM Polska Miedź S.A., PSE S.A., Polska Grupa Górnicza S.A. In total, sales to the above-mentioned counterparties amounted to 82% of the volume of revenues generated in transactions with State Treasury companies. The largest purchase transaction was performed by the Group with PSE S.A., Polska Grupa Górnicza S.A. and Węglokoks S.A. Purchases from the above counterparties accounted for 89% of the value of purchases from State Treasury companies in the year ended 31 December 2019.

The Capital Group conducts material transactions on the energy market through Izba Rozliczeniowa Giełd Towarowych S.A. As it is only responsible for organisation of commodities exchange trading, it has been decided to abandon classification of purchase and sale transactions made through this entity as related-party transactions.

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

(in PLN thousand)

56.3. Compensation of the executives

The amount of compensation and other benefits paid and/or due to the Management Board, Supervisory Boards and other key management personnel of the parent company and the subsidiaries 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	
	Parent	Subsidiaries	Parent	Subsidiaries
Management Board	**4 679**	**23 513**	**5 209**	**19 801**
Short-term benefits (with surcharges)	3 699	22 835	4 650	18 220
Employment termination benefits	829	658	541	1 577
Other	151	20	18	4
Supervisory Board	**648**	**1 274**	**898**	**1 062**
Short-term employee benefits (salaries and surcharges)	648	1 168	898	952
Other	-	106	-	110
Other key management personnel	**16 853**	**45 446**	**17 805**	**42 419**
Short-term employee benefits (salaries and surcharges)	14 910	43 750	15 707	40 762
Jubilee bonuses	-	109	-	94
Employment termination benefits	959	197	933	110
Other	984	1 390	1 165	1 453
Total	**22 180**	**70 233**	**23 912**	**63 282**

In accordance with the accounting policy adopted, the Group recognises provisions for benefits due to termination of management contracts of members of the Management Board and employment contracts with other key management personnel that may be paid or due to be paid in subsequent reporting periods. The table above takes into account the amounts paid and due to be paid until 31 December 2020.

57. Finance and capital management

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

Detailed information concerning finance management are described in section 7.3. of the Management Board's reports on the activities of TAURON Polska Energia S.A. and TAURON Capital Group for the financial year 2020.

In 2020, the Company and TAURON Group demonstrated full capacity to settle their liabilities on their maturity date.

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

The Group primarily monitors the debt ratio, defined as the ratio of net financial debt to EBITDA.

The TAURON Group's net financial debt is defined in the individual financing agreements and generally represents the obligation to pay or repay money on account of loans, borrowings and debt securities and on account of financial leases, excluding: subordinated bond liabilities and lease liabilities recognised under IFRS 16 *Leases*, which would not meet the conditions for classification as lease liabilities under the provisions of IAS 17 *Leases*, less cash and short-term investments with a maturity of up to 1 year. EBITDA means the TAURON Group's operating profit or loss plus depreciation and amortisation and write-downs on non-financial assets. The value of the ratio is monitored by the financing institutions of the Group and rating agencies and influences the possibility and cost of obtaining financing as well as the Company credit rating.

As at the balance sheet date, the debt ratio stood at 2.51, which is acceptable to financial institutions.

(in PLN thousand)

	Year ended 31 December 2020	Year ended 31 December 2019
Loans and borrowings	4 794 846	4 727 633
Bonds [1]	5 322 625	4 254 660
Finance lease [2]	-	-
Non-current debt liabilities	**10 117 471**	**8 982 293**
Loans and borrowings	1 197 287	2 323 018
Bonds [1]	201 217	88 935
Finance lease [2]	-	-
Short-term debt liabilities	**1 398 504**	**2 411 953**
Total debt	**11 515 975**	**11 394 246**
Cash and cash equivalents [3]	921 345	1 237 952
Short-term investments maturing within one year	100	26 722
Net debt	**10 594 530**	**10 129 572**
EBITDA	**4 222 717**	**3 599 367**
Operating profit (loss)	(1 731 977)	295 454
Depreciation/amortization	(1 954 142)	(1 991 733)
Impairment	(4 000 552)	(1 312 180)
Net debt / EBITDA	**2.51**	**2.81**

[1] *Debt does not include liabilities arising from subordinated bonds*
[2] *Liabilities arising from lease in line with IAS 17 Lease*
[3] *Cash and cash equivalents include cash of TAURON Ciepło Sp. z o.o. classified as at the balance sheet date as the disposal group.*

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

Debt	Year ended 31 December 2020	Year ended 31 December 2019
Opening balance	**14 314 276**	**10 963 377**
subordinated bonds	(1 913 427)	(1 541 659)
lease indebtedness (except for those meeting the conditions of IAS 17 *Leases*)	(1 006 603)	-
Opening balance - debt in the calculation of debt ratio	**11 394 246**	**9 421 718**
Effects of implementing new IFRS	-	**918 115**
Proceeds arising from debt taken out	**4 359 573**	**5 645 485**
financing received	4 368 546	5 650 000
transaction costs	(8 973)	(4 515)
Interest accrued	**427 015**	**450 716**
charged to profit or loss	257 486	266 504
capitalized to property, plant and equipment and intangible assets	169 529	184 212
Debt related payments	**(4 954 773)**	**(3 759 175)**
debt securities redemption	(60 400)	(2 420 000)
principal repaid	(4 406 813)	(867 360)
lease instalments paid	(102 085)	(75 047)
interest paid	(215 946)	(212 556)
interest paid, capitalized to investment projects	(169 529)	(184 212)
Change in the balance of overdraft facility and cash pool	**(16 417)**	**21 453**
Recognition of new lease agreements and change of lease agreements	**186 932**	**84 474**
Business acquisition - recognition of acquired lease liabilities	**-**	**35 215**
Change in debt measurement	**339 126**	**(42 619)**
Reclassification of the Group for sale as for sale	**(64 625)**	**-**
Other non-monetary changes	**(4 108)**	**(2 765)**
Closing balance	**14 586 999**	**14 314 276**
subordinated bonds	(1 998 367)	(1 913 427)
lease debt (except for debt meeting the conditions of IAS 17 *Leases*)	(1 072 657)	(1 006 603)
Closing balance - debt in the calculation of debt ratio	**11 515 975**	**11 394 246**

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

Information on the statutory 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.

59. Other material information

Commissioning of the 910 MW power unit

As a result of damage to one of the boiler components which occurred during the last testing phase of the 910 MW power unit ("the Unit") in Jaworzno, the Consortium of RAFAKO S.A. – MOSTOSTAL WARSZAWA S.A., (the "Consortium") being the contractor of the Unit, the designer of the boiler and the entity responsible for the commissioning of the boiler indicated that it was necessary to postpone the date of 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 balance sheet date, 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 operations of the Group

The development of COVID-19 cases has been observed in Poland during the year ending 31 December 2020. As a result, numerous restrictions have been put in place in the country to contain 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 enterprise 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 set out below.

- 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 in TAURON Wydobycie S.A., 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 19 628 thousand and financial expenses by PLN 14 497 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 will take all possible steps to mitigate any negative effects of the COVID-19 pandemic on the TAURON Group.

60. Events after the balance sheet date

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 the Company in the 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 seven years following the issue, earlier redemption of the bonds by the Company is not possible and the earlier sale of bonds by BGK to third parties is not possible. 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 consolidated 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.

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 will increase the costs of establishing a provision by the Group for liabilities due to CO_2 emissions for 2021 and subsequent financial years.

As a result of the above, the Group estimates that the total impact of the restructuring on its operating results in 2021-2023 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