

TAURON Polska Energia S.A.

Financial Statements

compliant with the International Financial Reporting Standards

approved by the European Union

for the year ended 31 December 2021

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

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STATEMENT OF COMPREHENSIVE INCOME

	Note	Year ended 31 December 2021	Year ended 31 December 2020 <i>(restated figures)</i>
Sales revenue	11	18 216	11 340
Cost of sales	12	(18 042)	(12 101)
Profit (loss) on sale		174	(761)
Selling and distribution expenses	12	(25)	(21)
Administrative expenses	12	(101)	(118)
Other operating income and expenses		(3)	(10)
Operating profit (loss)		45	(910)
Dividend income	14	1 852	1 082
Interest income on loans	14	247	325
Interest expense on debt	14	(330)	(410)
Revaluation of shares	14	(1 399)	(1 644)
Revaluation of loans	14	(298)	(1 453)
Other finance income and costs	14	119	(180)
Profit (loss) before tax		236	(3 190)
Income tax expense	15.1	24	(62)
Net profit (loss)		260	(3 252)
Measurement of hedging instruments	28.4	455	(103)
Income tax expense	15.1	(76)	9
Other comprehensive income subject to reclassification to profit or loss		379	(94)
Actuarial profits (losses)		1	(1)
Other comprehensive income not subject to reclassification to profit or loss		1	(1)
Other comprehensive income, net of tax		380	(95)
Total comprehensive income		640	(3 347)
Profit (loss) per share (in PLN):			
- basic and diluted, for net profit (loss)	16	0.15	(1.86)

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STATEMENT OF FINANCIAL POSITION

	Note	As at 31 December 2021	As at 31 December 2020 <i>(restated figures)</i>
ASSETS			
Non-current assets			
Investment property	17	24	28
Right-of-use assets	18	22	28
Shares	19	20 559	20 856
Loans granted	20	5 936	4 234
Derivative instruments	21	532	36
Other financial assets	22	-	3
Other non-financial assets	23	14	17
		27 087	25 202
Current assets			
Inventories	24	51	394
Receivables from buyers	25	2 495	1 301
Income tax receivables	15.3	373	82
Loans granted	20	445	1 147
Derivative instruments	21	465	123
Other financial assets	22	70	88
Other non-financial assets	23	54	13
Cash and cash equivalents	26	440	643
Non-current assets classified as held for sale	27	-	53
		4 393	3 844
TOTAL ASSETS		31 480	29 046

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	Note	As at 31 December 2021	As at 31 December 2020 <i>(restated figures)</i>
EQUITY AND LIABILITIES			
Equity			
Issued capital	28.1	8 763	8 763
Reserve capital	28.3	2 749	6 339
Revaluation reserve from valuation of hedging instruments	28.4	299	(80)
Retained earnings / (Accumulated losses)	28.5	290	(3 561)
		12 101	11 461
Non-current liabilities			
Debt	30	9 801	12 118
Derivative instruments	21	116	74
Other financial liabilities	31	11	14
Other non-financial liabilities	34	113	24
Deferred tax liabilities	35	45	-
Provision for the onerous contract	36	154	840
Other provisions, accruals, deferred income and government grants	37	5	5
		10 245	13 075
Current liabilities			
Debt	30	4 669	2 771
Liabilities to suppliers	32	1 745	764
Liabilities due to acquisition of shares in the subsidiary	33	1 061	-
Derivative instruments	21	379	102
Other financial liabilities	31	493	233
Other non-financial liabilities	34	701	347
Provision for the onerous contract	36	68	270
Other provisions, accruals, deferred income and government grants	37	18	23
		9 134	4 510
Total liabilities		19 379	17 585
TOTAL EQUITY AND LIABILITIES		31 480	29 046

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STATEMENT OF CHANGES IN EQUITY

	Note	Issued capital	Reserve capital	Revaluation reserve from valuation of hedging instruments	Retained earnings/ (Accumulated losses)	Total equity
As at 1 January 2020		8 763	6 802	14	(771)	14 808
Coverage of prior years loss		-	(463)	-	463	-
Transactions with shareholders		-	(463)	-	463	-
Net loss		-	-	-	(3 252)	(3 252)
Other comprehensive income		-	-	(94)	(1)	(95)
Total comprehensive income		-	-	(94)	(3 253)	(3 347)
As at 31 December 2020 (restated figures)		8 763	6 339	(80)	(3 561)	11 461
Coverage of prior years loss	28.3	-	(3 590)	-	3 590	-
Transactions with shareholders		-	(3 590)	-	3 590	-
Net profit		-	-	-	260	260
Other comprehensive income		-	-	379	1	380
Total comprehensive income		-	-	379	261	640
As at 31 December 2021		8 763	2 749	299	290	12 101

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STATEMENT OF CASH FLOWS

	Note	Year ended 31 December 2021	Year ended 31 December 2020 <i>(restated figures)</i>
Cash flows from operating activities			
Profit (loss) before tax		236	(3 190)
Depreciation and amortization		13	14
Interest and dividends		(1 745)	(973)
Impairment losses on shares		1 399	1 644
Impairment losses on loans		298	1 453
Exchange differences		(10)	303
Other adjustments of profit before tax		(57)	(84)
Change in working capital	38.1	(349)	1 739
Income tax paid		(35)	-
Net cash from operating activities		(250)	906
Cash flows from investing activities			
Loans granted	38.2	(1 567)	(1 934)
Purchase of shares	38.2	(31)	(691)
Other		-	(16)
Total payments		(1 598)	(2 641)
Dividends received		1 852	1 082
Investment fund units alienation		-	27
Sale of shares	38.2	53	-
Repayment of loans granted	38.2	324	217
Interest received from loans granted		208	227
Total proceeds		2 437	1 553
Net cash from investing activities		839	(1 088)
Cash flows from financing activities			
Repayment of loans	38.3	(3 462)	(4 402)
Redemption of debt securities		(170)	(60)
Payment of lease liabilities		(10)	(9)
Interest paid	38.3	(348)	(380)
Commission paid		(19)	(21)
Total payments		(4 009)	(4 872)
Contracted loans	38.3	2 000	3 360
Issue of debt securities		-	1 000
Total proceeds		2 000	4 360
Net cash from financing activities		(2 009)	(512)
Net increase / (decrease) in cash and cash equivalents		(1 420)	(694)
Net foreign exchange difference		(3)	3
Cash and cash equivalents at the beginning of the period	26	(743)	(49)
Cash and cash equivalents at the end of the period, of which:	26	(2 163)	(743)
restricted cash	26	159	119

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

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

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

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

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

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

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

The core business of TAURON Polska Energia S.A. focuses on:

- activity of central companies (head offices) and holdings, excluding financial holdings → PKD 70.10 Z,
- Electric energy trade → PKD 35.14 Z,
- Sales of coal → PKD 46.71.Z,
- Gas fuel trading in the network system → (PKD 35.23 Z).

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

The Company has prepared the financial statements covering the year ended 31 December 2021 and including comparative figures for the year ended 31 December 2020. These financial statements were approved for publication by the Management Board on 29 March 2022.

The Company has also prepared consolidated financial statements for the year ended 31 December 2021, which were approved for publication by the Management Board on 29 March 2022.

Composition of the Management Board

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

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

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

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

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

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

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

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

2. Shares in related parties

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

Item	Company name	Registered office	Core business	Share of TAURON Polska Energia S.A. in the governing body	Company holding direct shareholding in equity/ General partner
1	TAURON Wydobycie S.A.	Jaworzno	Hard coal mining	100,00%	TAURON Polska Energia S.A.
2	TAURON Wytwarzanie S.A.	Jaworzno	Generation, transmission and distribution of electricity and heat	100,00%	TAURON Polska Energia S.A.
3	Nowe Jaworzno Grupa TAURON Sp. z o.o.	Jaworzno	Generation of electricity	100,00%	TAURON Polska Energia S.A.
4	TAURON Ciepło Sp. z o.o.	Katowice	Production and distribution of heat	100,00%	TAURON Polska Energia S.A.
5	TAURON Serwis Sp. z o.o.	Katowice	Services	95,61%	TAURON Polska Energia S.A.
6	Łągisza Grupa TAURON Sp. z o.o.	Katowice	Generation of electricity	100,00%	TAURON Wytwarzanie S.A.
7	TAURON Ekoenergia Sp. z o.o.	Jelenia Góra	Generation of electricity	100,00%	TAURON Polska Energia S.A.
8	Marselwind Sp. z o.o.	Katowice	Generation of electricity	100,00%	TAURON Polska Energia S.A.
9	TEC1 Sp. z o.o.	Katowice	Head office and holding operations	100,00%	TAURON Polska Energia S.A.
10	TAURON Zielona Energia Sp. z o.o. ¹	Katowice	Head office and holding operations	100,00%	TAURON Polska Energia S.A.
11	TEC1 spółka z ograniczoną odpowiedzialnością Mogilno I sp.k.	Katowice	Generation of electricity	100,00%	TEC1 Sp. z o.o.
12	TEC1 spółka z ograniczoną odpowiedzialnością Mogilno II sp.k.	Katowice	Generation of electricity	100,00%	TEC1 Sp. z o.o.
13	TEC1 spółka z ograniczoną odpowiedzialnością Mogilno III sp.k.	Katowice	Generation of electricity	100,00%	TEC1 Sp. z o.o.
14	TEC1 spółka z ograniczoną odpowiedzialnością Mogilno IV sp.k.	Katowice	Generation of electricity	100,00%	TEC1 Sp. z o.o.
15	TEC1 spółka z ograniczoną odpowiedzialnością Mogilno V sp.k.	Katowice	Generation of electricity	100,00%	TEC1 Sp. z o.o.
16	TEC1 spółka z ograniczoną odpowiedzialnością Mogilno VI sp.k.	Katowice	Generation of electricity	100,00%	TEC1 Sp. z o.o.
17	TEC1 spółka z ograniczoną odpowiedzialnością EW Śniatowo sp.k.	Katowice	Generation of electricity	100,00%	TEC1 Sp. z o.o.
18	TEC1 spółka z ograniczoną odpowiedzialnością EW Dobrzyń sp.k.	Katowice	Generation of electricity	100,00%	TEC1 Sp. z o.o.
19	TEC1 spółka z ograniczoną odpowiedzialnością EW Goldap sp.k.	Katowice	Generation of electricity	100,00%	TEC1 Sp. z o.o.
20	TEC1 spółka z ograniczoną odpowiedzialnością Ino 1 sp.k.	Katowice	Generation of electricity	100,00%	TEC1 Sp. z o.o.
21	WIND T1 Sp. z o.o.	Jelenia Góra	Generation of electricity	100,00%	TAURON Ekoenergia Sp. z o.o.
22	AVAL-1 Sp. z o.o.	Jelenia Góra	Generation of electricity	100,00%	TAURON Ekoenergia Sp. z o.o.
23	Polpower Sp. z o.o.	Połczyn-Zdrój	Generation of electricity	100,00%	TAURON Ekoenergia Sp. z o.o.
24	TAURON Dystrybucja S.A.	Kraków	Distribution of electricity	99,76%	TAURON Polska Energia S.A.
25	TAURON Dystrybucja Pomiary Sp. z o.o. ²	Tamów	Services	99,76%	TAURON Dystrybucja S.A.
26	TAURON Sprzedaż Sp. z o.o.	Kraków	Sale of electricity	100,00%	TAURON Polska Energia S.A.
27	TAURON Sprzedaż GZE Sp. z o.o.	Gliwice	Sale of electricity	100,00%	TAURON Polska Energia S.A.
28	TAURON Czech Energy s.r.o.	Ostrawa, Czech Republic	Sale of electricity	100,00%	TAURON Polska Energia S.A.
29	TAURON Nowe Technologie S.A.	Wrocław	Services	100,00%	TAURON Polska Energia S.A.
30	TAURON Obsługa Klienta Sp. z o.o.	Wrocław	Services	100,00%	TAURON Polska Energia S.A.
31	Kopalnia Wapienia Czatkowice Sp. z o.o.	Krzyszowice	Limestone quarrying and stone quarrying	100,00%	TAURON Polska Energia S.A.
32	Polska Energia-Pierwsza Kompania Handlowa Sp. z o.o.	Warszawa	Sale of electricity	100,00%	TAURON Polska Energia S.A.
33	Finanse Grupa TAURON Sp. z o.o.	Katowice	Services	100,00%	TAURON Polska Energia S.A.
34	Bioeko Grupa TAURON Sp. z o.o.	Stalowa Wola	Wholesale of fuel and derivative products	100,00%	TAURON Polska Energia S.A.
35	Wsparcie Grupa TAURON Sp. z o.o.	Tamów	Services	99,76%	TAURON Dystrybucja S.A.

TAURON Polska Energia S.A.

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

¹ On 1 July 2021, the merger took place by acquisition of TEC3 Sp. z o.o. (the acquiring company) with TEC2 Sp. z o.o. (the acquired company) pursuant to Article 492(1)(1) of the Code of Commercial Companies. On 8 October 2021, the company name was changed from the previous TEC3 Sp. z o.o. to TAURON Zielona Energia Sp. z o.o.

² As at balance sheet day, TAURON Polska Energia S.A. was the user of shares in TAURON Dystrybucja Pomiaru Sp. z o.o.

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

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

On 22 December 2021 an agreement was signed between Fundusz Inwestycji Infrastrukturalnych - Kapitałowy Fundusz Inwestycji Zamknięty Aktywów Niepublicznych managed by PFR Towarzystwo Funduszy Inwestycyjnych S.A. and the Company for the acquisition of 176 000 shares in the company Nowe Jaworzno Grupa TAURON Sp. z o.o., which is described in more detail in Note 33 to these financial statements. As a result of this transaction, the Company shareholding in the capital and in the governing body of Nowe Jaworzno Grupa TAURON Sp. z o.o. increased from 86.29% to 100%.

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

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

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

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

On 10 June 2021, TAURON Ekoenergia Sp. z o.o. acquired 100% of the shares of Polpower Sp. z o.o. Consequently, TAURON Polska Energia S.A. holds an indirect share of 100% in the company Polpower Sp. z o.o.

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

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

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

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

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

¹ TAURON Polska Energia S.A. holds an indirect share in Elektrociepłownia Stalowa Wola S.A. through its subsidiary, TAURON Wytwarzanie S.A.

² TAURON Polska Energia S.A. holds a direct share in the issued capital and in the governing body of TAMEH HOLDING Sp. z o.o., which holds 100% interest in the capital and in the governing body of TAMEH POLSKA Sp. z o.o. and TAMEH Czech s.r.o.

3. Statement of compliance

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

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

4. Going concern

These financial statements have been prepared with the assumption of continuation of activities by the Company as a going concern in the foreseeable future, i.e. in the period not shorter than one year following the balance sheet day. As at the date of approval of these financial statements for publication, no circumstances had been identified which would indicate a risk to the Company’s ability to continue as a going concern.

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

In the area of liquidity, financing and securing the continuity of operations, the Management Board, having analysed the financial position of the Company, does not identify any risk to the continuity of operations in the foreseeable future, i.e. within a period of not less than 1 year from the balance sheet day, taking into account the description of the impact of the aggression of the Russian Federation against Ukraine and the COVID-19 outbreak on the Group’s operations, as further discussed in notes 50 and 51 to these financial statements.

5. Functional and presentation currency

Polish zloty is the functional currency of the Company and the presentation currency of these financial statements. These financial statements are presented in the Polish zloty (“PLN”) while all figures are provided in PLN million, unless indicated otherwise.

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

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

When applying the accounting policy, the professional judgement of the management, besides accounting estimates, have been of key importance, affecting the figures disclosed in these financial statements and in the additional explanatory notes. 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 financial statements, no significant changes occurred in the estimates or estimation methods applied, which could affect the current or future periods, other than those described hereinafter in these financial statements.

The items of the financial statements which are exposed to the risk of material adjustment of the carrying amounts of assets and liabilities have been presented in individual notes to these financial statements. The most significant estimates concern allowances for shares in subsidiaries and intercompany loans, as presented in detail in Notes 10, 19 and 20 to these financial statements.

Additionally, the Company makes significant estimates as regards the contingent liabilities recognised, in particular as regards litigation the Company is a party to (Note 42).

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

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

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

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

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

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

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

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

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

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

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

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

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

The accounting principles (policy) adopted for the preparation of these financial statements are consistent with those used for the preparation of the annual financial statements of TAURON Polska Energia S.A. for the year ended 31 December 2020, except for the application of the new standards and amendments to standards and the interpretation as discussed below. The Company has also restated the comparative data as described below.

8.1. Application of amendments to standards

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

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

8.1. Restatement of comparable data

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

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

As at 30 June 2020, the Company assessed that in relation to the shares in TAURON Ciepło Sp. z o.o. the prerequisites resulting from IFRS 5 *Non-current assets held for sale and discontinued operations* were met in the scope of their classification as held for sale, therefore, as at 30 June 2020 the Company reclassified the shares in TAURON Ciepło Sp. z o.o. to non-current assets classified as assets held for sale. The measurement of the fair value of this company, carried out by the Company as at 30 June 2020 on the basis of information gathered in the course of the conducted market sale process of shares in TAURON Ciepło Sp. z o.o., amounted to PLN 1 343 million. As at 31 December 2020, the fair value estimate did not change significantly and amounted to PLN 1 342 million.

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

In order to ensure comparability of the data in the financial statements for the year ended 31 December 2021, the Company restated the comparative data accordingly in terms of presentation and measurement of shares in TAURON Ciepło Sp. z o.o. for the year ended 31 December 2020 and as at 31 December 2020. After the restatement, these shares are presented under *Shares* in the statement of financial position and were measured at their recoverable value based on the estimated value in use of the Company exposure to shares and the carrying amount of loans granted to TAURON Ciepło Sp. z o.o. as at 31 December 2020 amounting to the total of PLN 1 680 million. The key assumptions of the tests performed, in particular with regard to the adopted price paths for coal, electricity and CO₂ emission allowances, are described in Note 10 of the financial statements of TAURON Polska Energia S.A. for the year ended 31 December 2020. Moreover, the feed-in tariff revenue of heat companies has been assumed, ensuring the coverage of justified costs and gaining a reasonable level of return on the capital employed. For the activities related to heat and electricity generation of TAURON Ciepło Sp. z o.o., the lifetime of the generating units up to 2049 has been adopted. For the activity related to heat transmission, a detailed forecast over a 10-year period was adopted including the residual value.

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

Taking into account the fact that as at 31 December 2020 the value in use of the Company exposure to shares and the carrying amount of the loans granted to TAURON Ciepło Sp. z o.o. was estimated at PLN 1 680 million while the carrying amount of the loans granted was PLN 976 million, the Company measured the shares held at PLN 704 million within the data restated as at 31 December 2020. This is associated with the requirement to recognise, within the data restated for the year ended 31 December 2020, of an impairment loss on shares in accordance with IAS 36 *Impairment of Assets* in the amount of PLN 1 056 million.

Within the approved data, taking into account that the measurement of the fair value of TAURON Ciepło Sp. z o.o. amounted to PLN 1 342 million and the carrying amount of loans granted amounted to PLN 976 million, the Company measured its shares held in TAURON Ciepło Sp. z o.o. at a fair value equal to PLN 366 million and recognised them as non-current assets classified as held for sale, which required the recognition of a write-down for revaluation of shares in the company to the fair value in the amount of PLN 1 394 million within the data approved.

The restatement of comparable data in the scope of the impact of the TAURON Ciepło Sp. z o.o. shares measurement on the financial result of the Company in the year ended 31 December 2020 resulted in an increase of the net financial result by PLN 338 million reflecting the difference between the recognition within the data restated of the impairment loss on the shares in TAURON Ciepło Sp. z o.o. in accordance with IAS 36 *Impairment of Assets* in the amount of PLN 1 056 million and the amount recognised within the data restated due to revaluation of TAURON Ciepło Sp. z o.o. shares to the fair value in the amount of PLN 1 394 million.

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

	Year ended 31 December 2020 <i>(authorised figures)</i>	Change of presentation and measurement of shares in TAURON Ciepło Sp. z o.o.	Year ended 31 December 2020 <i>(restated figures)</i>
Operating loss	(910)	-	(910)
Revaluation write-off to fair value of non-current assets classified as held for sale	(1 393)	1 394	1
Revaluation of shares	(589)	(1 056)	(1 645)
Profit before tax (loss)	(3 528)	338	(3 190)
Income tax expense	(62)	-	(62)
Net profit (loss)	(3 590)	338	(3 252)
Other comprehensive income, net of tax	(95)	-	(95)
Total comprehensive income	(3 685)	338	(3 347)
Profit per share (loss) (in PLN):			
- basic and diluted, for net profit (loss)	(2.05)	0.19	(1.86)

	As at 31 December 2020 <i>(authorised figures)</i>	Change of presentation and measurement of shares in TAURON Cieplo Sp. z o.o.	As at 31 December 2020 <i>(restated figures)</i>
ASSETS			
Non-current assets			
Shares	20 152	704	20 856
	24 498	704	25 202
Current assets			
Non-current assets classified as held for sale	419	(366)	53
	4 210	(366)	3 844
TOTAL ASSETS	28 708	338	29 046
EQUITY AND LIABILITIES			
Equity			
Retained earnings / (Accumulated losses)	(3 899)	338	(3 561)
	11 123	338	11 461
Total liabilities	17 585	-	17 585
TOTAL EQUITY AND LIABILITIES	28 708	338	29 046

BUSINESS SEGMENTS

9. Information on operating segments

9.1. Operating segments

The Company carries out its business in two operating segments, namely, "Sales" and "Holding activity".

The "Sales" segment mainly recognises assets, liabilities as well as operating revenue and expenses related to trading in electricity, gas and fuel carried out by the Company and commodity derivative transactions. The sales segment recognises liabilities and expenses relating to the provision for onerous contracts created by the Company.

The assets of the "Holding activities" mainly comprise:

- shares in subsidiaries and jointly-controlled entities;
- receivables on account of loans granted to related companies under the cash pool service;
- receivables on account of other loans granted to related parties;
- assets arising from valuation of hedging instruments relating to the financing incurred.

The liabilities of the "Holding activity" segment comprise:

- bonds issued by the Company, loans received (other than overdrafts), including liabilities arising from valuation of hedging instruments related to the financing incurred;
- liabilities due to loans received from related parties, including under the cash pool service.

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

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

Administrative expenses are presented under unallocated expenses, since they are incurred for the Group as a whole and cannot be directly attributed to a specific operating segment.

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

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

Year ended 31 December 2021

	Sales	Holding activity	Unallocated items	Total
Revenue				
Sales outside the Group	4 008	-	-	4 008
Sales within the Group	14 208	-	-	14 208
Segment revenue	18 216	-	-	18 216
Profit/(loss) of the segment	146	-	-	146
Unallocated expenses	-	-	(101)	(101)
EBIT	146	-	(101)	45
Dividend income	-	1 852	-	1 852
Revaluation of shares	-	(1 399)	-	(1 399)
Revaluation of loans	-	(298)	-	(298)
Other finance income/(costs)	-	(79)	115	36
Profit/(loss) before income tax	146	76	14	236
Income tax expense	-	-	24	24
Net profit/(loss) for the period	146	76	38	260
Assets and liabilities				
Segment assets	3 653	27 311	-	30 964
Unallocated assets	-	-	516	516
Total assets	3 653	27 311	516	31 480
Segment liabilities	3 297	14 781	-	18 078
Unallocated liabilities	-	-	1 301	1 301
Total liabilities	3 297	14 781	1 301	19 379
EBIT	146	-	(101)	45
Depreciation/amortization	(5)	-	(8)	(13)
Impairment	1	-	-	1
EBITDA	150	-	(93)	57
Other segment information				
Capital expenditure *	1	-	-	1

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

Year ended 31 December 2020 (restated data)

	Sales	Holding activity	Unallocated items	Total
Revenue				
Sales outside the Group	1 534	-	-	1 534
Sales within the Group	9 806	-	-	9 806
Segment revenue	11 340	-	-	11 340
Profit/(loss) of the segment	(788)	(4)	-	(792)
Unallocated expenses	-	-	(118)	(118)
EBIT	(788)	(4)	(118)	(910)
Dividend income	-	1 082	-	1 082
Revaluation of shares	-	(1 644)	-	(1 644)
Revaluation of loans	-	(1 453)	-	(1 453)
Other finance income (costs)	-	(395)	130	(265)
Profit/(loss) before income tax	(788)	(2 414)	12	(3 190)
Income tax expense	-	-	(62)	(62)
Net profit/(loss) for the period	(788)	(2 414)	(50)	(3 252)
Assets and liabilities				
Segment assets	2 579	26 312	-	28 891
Unallocated assets	-	-	155	155
Total assets	2 579	26 312	155	29 046
Segment liabilities	2 360	14 956	-	17 316
Unallocated liabilities	-	-	269	269
Total liabilities	2 360	14 956	269	17 585
EBIT	(788)	(4)	(118)	(910)
Depreciation/amortization	(14)	-	-	(14)
Impairment	(1)	-	-	(1)
EBITDA	(773)	(4)	(118)	(895)
Other segment information				
Capital expenditure *	16	-	-	16

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

In the financial year ended 31 December 2021, revenue gained from sales to two major clients accounted for 47% and 15% of the Company total revenue in the Sales segment and amounted to PLN 8 603 million and PLN 2 798 million, respectively.

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

9.2. Geographical areas of operations

The activity of the Company is mostly carried out on the territory of Poland. In the years ended 31 December 2021 and 31 December 2020, export sales revenue amounted to PLN 616 million and PLN 23 million, respectively.

IMPAIRMENT OF SHARES IN SUBSIDIARIES

10. Impairment of financial assets

SELECTED ACCOUNTING PRINCIPLES

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

If there is any objective indication that the assets may be impaired, the assets are tested for impairment. Shares in subsidiaries, which constitute the main financial asset of the Company, are tested. The amount of the impairment loss is the difference between the carrying amount of a financial asset or group of financial assets and the recoverable amount, which is the fair value less costs of disposal or the value in use, whichever is higher. The value in use is calculated as the present value of estimated future cash flows from the operations of subsidiaries and the estimated residual value discounted using the weighted average cost of capital.

The Company recognises an allowance for expected credit losses on debt instruments measured at amortised cost in accordance with the approach described in notes 20 and 40.1.2 to these financial statements and revises the fair value for debt and equity instruments measured at a fair value. The credit risk analyses carried out as at the balance sheet day include, among others, an estimate of future cash flows that may indicate impairment due to credit risk (measurement step 3).

As at 31 December 2021, impairment tests were performed on shares in subsidiaries and analysis in scope of loans granted, taking into account the following indications:

- the Company's capitalization remaining below the net asset carrying amount for a long period;
- changes in global prices of energy resources, energy and CO₂ emission allowances;
- publication and adoption by the European Commission of the "Fit for 55" package to guide the European Union towards ambitious levels of net emission reduction by 2030 and towards becoming the first climate-neutral continent by 2050;
- high volatility of energy prices on the forward market (including the persistent low liquidity) and persistently high prices on the spot market;
- results of the RES auctions to date and a very dynamic development of the prosumer and micro installation sub-sector in connection with the aid programmes launched;
- results of proceeding winter package provisions (including emission standards) adversely affecting the capability of coal-fired units to participate in the capacity market after 1 July 2025;
- tightening of emission standards persisting unfavourable market conditions for the conventional power industry;
- increased risks in commercial coal production;
- adoption by the Council of Ministers of the Polish Energy Policy up to 2040, determining the directions for the transformation of the energy sector;
- failure of the 910 MW unit in Jaworzno;
- limited availability of fuel resulting in fuel price increases;
- increase of inflation level;
- a decrease in the risk-free rate.

Shares and intra-group loans account for about 85% of the balance sheet total as at the balance sheet day.

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

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

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

- the operation of TAURON Wytwarzanie S.A. generation units was assumed until 2035, including: the unit in Jaworzno III Branch until 2025; two units in Jaworzno III Branch until 2028; two units in Jaworzno II Branch until 2030; the unit in Łagisza Branch until 2035. The operation of the Nowe Jaworzno Grupa TAURON Sp. z o.o. generation unit was assumed until 2060.
- the forecast for hydroelectric power plants covers the period up to 2066 while for wind farms - up to 2040;

- the operation of the mining units was assumed until 2049, including ZG Sobieski and ZG Janina until 2049 and ZG Brzeszcze until 2040;
- The operation of generation units of TAURON Ciepło Sp. z o.o. until 2049 was assumed.

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

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

Category	Description
Coal	The projected prices of hard coal in the next 3 years (in fixed prices) remain at higher levels than before, which results from the observed upward trends in the domestic mining cost and the current situation in the world coal market. However, in the long term (2025-2040), coal prices will continue to fall due to the accelerated implementation of the decarbonisation policy promoted by the European Union, aimed at reaching the climate neutrality in Europe by 2050. Its manifestation is the gradual reduction of the share of coal in the energy mix of individual countries (including Germany, the Czech Republic and Poland), which is associated with an increase in the share of energy from RES in the energy balance of the European Union Member States. After 2025, the price of coal in Poland will begin to fall, as a result of decreased electricity generation with the use of this raw material as well as an expected increase in import volumes in view of high levels of mining cost in the country. A real decline in power coal prices by 16.1% was assumed in the years 2022-2040.
Electricity	<p>The adopted forecast of wholesale electricity prices for the period 2022-2040 has been updated and adjusted in the first three years (2022-2024) to current levels recorded in the market, taking into consideration the contracting level. In 2023, a continued increase in energy prices of around 8% compared to 2022 has been assumed, which results, among others, from a sharp rise in the prices of CO₂ emission allowances in 2021. In 2024, the price is approximately 19.9% higher compared to 2022. In 2025-2040, the wholesale electricity price (in fixed prices) will decrease by approx. 6.2%. The forecast of wholesale electricity prices is affected by the current and expected balancing situation in the national power system, forecasts of fuel prices and the costs of purchasing CO₂ emission allowances. The observed change in the structure of electricity generation and increase in the share of renewable energy sources reduces the level of margins achieved when selling electricity from coal-fired sources - this effect is partially compensated by assuming the impact of the <i>Scarcity Pricing</i> mechanism after 2025 on wholesale electricity prices. The increase in prices from 2029 to 2032 results from the projected difficult balancing situation in Europe caused by the integration of conventional sources with a direct impact on the level of the interchange balance.</p> <p>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.</p>
CO₂	<p>CO₂ 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.</p> <p>The CO₂ emission allowance price growth path has been adopted throughout the forecasting horizon. In 2023, a 18.6% higher price of CO₂ emission allowances was assumed compared to the average price in 2022. In 2024, compared to 2022, the price of CO₂ emission allowances is 37.7% higher. In the period 2024-2030, a price increase to the level of approx. 70 EUR/Mg in constant prices (approx. 90 EUR/Mg in current prices) has been assumed due to the assumption of an increase in the Linear Reduction Factor (LRF) to the level of 4.2% proposed by the European Commission (from the current 2.2%). The level of CO₂ emission allowances projected for 2030 is consistent with the assessment of the impact of the EU ETS price revision on the CO₂ price level published with the "Fit for 55" package (SWD(2021) 601 final). A further increase in the price of CO₂ emission allowances is assumed in the years 2031-2040, compared to 2030, which stems from the assumed increase in the decarbonisation rate of the economy and the target of achieving climate neutrality of Europe in 2050. The price of CO₂ projected for 2040 amounts to approx. 86 EUR/Mg (approx. 123 EUR/Mg in current prices).</p>
Certificates of energy origin	The price path for certificates of energy origin and the obligatory redemption in the subsequent years have been adopted based on the provisions of the RES Act and the system balance forecast.
Capacity market	The Capacity Market mechanism implementation has been taken into account in accordance with the adopted and notified Act on the Capacity Market and the Capacity Market Regulations. It is assumed that payments for capacity will be launched from 2021 and maintained until 2025 for existing coal-fired units which do not meet the EPS 550 criterion (for which the unit emission performance exceeds 550 kg/MWh). For entities which received long-term contracts by 31 December 2019 and do not meet the EPS 550 criterion, maintaining of payments until the end of the contract effectiveness period has been assumed.
RES	As regards the RES Area, the existing support systems were taken into account (the system of certificates of origin, the auction system, the FIT/FIP guaranteed tariff system, the guarantee of origin system, the Capacity market), of which the most important is the system of certificates of origin. As part of this system, for green energy, limited support periods were included, in line with the provisions of the RES Act defining new mechanisms for granting the support for electricity generated from this type of sources. The support period was limited to 15 years counted from the moment of first injection to the grid of electricity eligible to receive the energy origin certificate.
Natural gas	Natural gas prices for the assumptions adopted as at 31 December 2021 were raised in relation to the previous assumptions as at 30 June 2021 over the entire forecast horizon. The main reason for the projected increases in gas prices are higher estimates concerning the forecast of the demand for natural gas presented by GAZ-SYSTEM S.A. in the horizon up to 2040. 2022 is the effect of a significant price increase on the annual contract that took place in the second half of 2021. The decline in prices in the years 2023-2025 results from the normalisation of the stock situation in Europe. On the other hand, in Poland, we assume the commissioning of the Baltic Pipe, the expansion of

TAURON Polska Energia S.A.

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(in PLN million)

Category	Description
	the LNG terminal in Świnoujście, the Poland-Lithuania Interconnector (GIPL) as well as the commissioning of the floating LNG terminal in the Gulf of Gdańsk and the gas units in the Dolna Odra Power Plant by 2028 at the latest. The key factor of the projected price increase is the decline in gas production in Europe, with a simultaneous increase in its consumption. After 2025, a decline in raw material extraction from the Norwegian Continental Shelf is assumed. In the years 2026-2030, further growth in the number of natural gas-fired sources in Poland is assumed, which is determined by the continued growth in demand. Beyond 2030, the demand for gas in Europe and Asia will grow significantly.
WACC	<p>The weighted average cost of capital (WACC) during the projection period for individual CGUs has been adopted in the range of 5.23%-14.19% in nominal terms after tax, taking into account the risk-free rate corresponding to the yield on 10-year Treasury bonds (at a level of 1.78%) and the risk premium for operations relevant for the power industry (6.75%). The growth rate used for extrapolation of projected cash flows going beyond the detailed planning period has been adopted at a level of 2.5% and corresponds to the estimated long-term inflation rate.</p> <p>The WACC level as at 31 December 2021 compared to the level as at 31 December 2020 increased in individual segments, mainly due to an increase in the risk-free rate.</p>
Regulated revenue	Regulated revenue of distribution companies has been assumed, ensuring the coverage of justified costs and a reasonable level of return on capital. The return on capital depends on the Regulatory Asset Value. In the years 2022-2031, an increase in electricity supply by 1.15% year-on-year has been assumed.
Sales volume and production capacity	<p>The volume of sales to end customers was assumed taking into account the GDP growth, the competitive situation in the market, the significant increase in financial costs (trade credit costs) incurred by sales companies. This has caused a decrease in volume in the years 2022-2023. From 2024, a gradual recovery of the lost volume is planned.</p> <p>The economic useful lives of fixed assets and the maintenance of production capacity as a result of replacement investments were taken into account.</p>

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

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

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

The assumptions consistent with the impairment tests of shares and stocks were also used in the analyses performed in the scope of measurement of loans granted to Elektrociepłownia Stalowa Wola S.A., the results of which indicated that there was no need to change the carrying value of the loans granted.

Test results

The impairment tests conducted in compliance with IAS 36 *Impairment of Assets* as at 31 December 2021 indicated impairment of the carrying amount of shares of Nowe Jaworzno Grupa and TAURON Sp. z o.o. The analyses conducted also showed the legitimacy of the reversal of the impairment loss on the shares in TAURON Ekoenergia Sp. z o.o.

Company	WACC* assumed in tests as at			Recoverable amount of shares, intra-group loans	The amount of the recognized impairment losses on shares	The amount of the reversed impairment losses on shares
	31 December 2021	30 June 2021 (unaudited)	31 December 2020			
Nowe Jaworzno Grupa TAURON Sp. z o.o.	8.96%	8.23%	8.52%	As at 31 December 2021 4 814	Year ended 31 December 2021 (1 764)	-
TAURON Ekoenergia Sp. z o.o.	6.43%	6.45%	6.58%	2 094	-	376
Total					(1 764)	376

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

The necessity to apply the impairment loss on the shares in Nowe Jaworzno Grupa TAURON Sp. z o.o. resulted in particular from the following factors:

- an increase in the prices of CO₂ emission allowances resulting from more stringent climate policy of the European Union strongly targeted at accelerating the pace of decarbonisation in pursuit of the climate neutrality of Europe,
- a change in the energy mix in Poland towards low- and zero-emission sources, resulting in lower electricity production volumes from conventional sources, in particular coal-fired power plants,
- a projected decline in market margins in the medium- and long-term perspective as a result of an increase in the variable costs of production from conventional sources, mainly due to the increase in the price of CO₂ emission allowances and the growth in the share of renewable energy sources and new natural gas-fired sources,
- the shutdown of the 910 MW unit in Jaworzno in the period from June 2021 to 29 April 2022, as assumed in the tests,
- the repurchase of shares in the Nowe Jaworzno Grupa TAURON Sp. z o.o. from funds managed by the Polish Development Fund and including at tests analysis the effect of termination by TAURON Polska Energia S.A. and Nowe Jaworzno Grupa TAURON Sp. z o.o., a long-term sales agreement for sales energy, which guaranteed margin on determined level for the company. Consequently, in relation to the tests as at 31 December 2020, on a basis of termination agreement, a long-term agreement purchase of electricity, e.g form 1 January 2022, the sales of electricity by Nowe Jaworzno Grupa TAURON Sp. z o.o. will be performed at prices determined by price paths based on expected market conditions, taking into account contraction settled between TAURON Polska Energia S.A. and Nowe Jaworzno Grupa TAURON Sp. z o.o. as at agreement termination day.

The possibility of reversing the impairment loss on the shares in TAURON Ekoenergia Sp. z o.o. is a consequence of the increase in wholesale electricity prices, whose direct beneficiaries are the units generating energy from renewable energy sources.

Sensitivity analysis in Nowe Jaworzno TAURON sp. z o.o.

The estimated changes in the impairment loss on shares of Nowe Jaworzno Grupa TAURON Sp. z o.o. as at 31 December 2021 are presented below.

Parametr	Change	Impact on impairment	
		Increase of impairment loss (net)	Decrease of impairment loss (net)
Change of electricity prices in the forecast period	+1%	-	209
	-1%	209	-
Change of CO ₂ emission allowances prices in the forecast period	+1%	122	-
	-1%	-	122
Change of WACC (net)	+0,1 p.p.	31	-
	-0,1 p.p.	-	32
Change of coal prices in the forecast period	+1%	44	-
	-1%	-	44
No scarcity pricing mechanism*	-100%	1 101	-

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

EXPLANATORY NOTE TO THE STATEMENT OF COMPREHENSIVE INCOME

11. Sales revenue

SELECTED ACCOUNTING PRINCIPLES

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

Revenue should be recognised in the amount expected by the Company from sales of goods for resale, materials and services, following reduction by value added tax (VAT) and excise duty, other sales taxes, charges and discounts.

The Company has introduced a five-step model of revenue recognition comprising, successively: identifying the contract(s) with a customer; identifying the performance obligations contained in the contract; determining the transaction price; allocating the transaction price to each performance obligation; and recognising the revenue when (or as) the entity satisfies a performance obligation.

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

Revenue from sales of goods includes the total positive result on transactions related to CO₂ emission allowances, concluded within the trading portfolio, i.e. intended for sale and to accomplish short-term profit arising from market price fluctuations, including trading in emission allowances, fair value measurement of inventories as well as measurement and settlement of derivative commodity instruments related to CO₂ emission allowances.

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

	Year ended 31 December 2021	Year ended 31 December 2020
Revenue from sales of goods for resale and materials	17 537	11 199
Electricity	14 816	10 514
CO ₂ emission allowances	2 107	340
Gas	600	333
Other	14	12
Rendering of services	375	141
Capacity market	206	-
Trading income	138	108
Using trademark	23	27
Other	8	6
Total revenue from contracts with customers	17 912	11 340
Restructuration in the portfolio of CO ₂ emission allowances	304	-
Total sales revenue	18 216	11 340

Revenues in compliance with IFRS 15 Revenue from contracts with customers

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

- Electricity - the increase in revenue by the amount of PLN 4 302 million is mainly attributable to sales contracted in the forward market of electricity and sales in the SPOT market in a 22% higher volume and price simultaneously higher, on average by 16%. The increase in volume is the result of sales of a higher volume of electricity to generation companies in order to secure the performance of contracts concluded by the Group's generation companies, including as a consequence of electricity repurchases mainly on the SPOT market due to the failure of the 910MW unit at Nowe Jaworzno Grupa TAURON Sp. z o.o;
- CO₂ emission allowances - the increase in the revenue from sales of CO₂ emission allowances in the current period in relation to the comparable period by the amount of PLN 1 767 million results mainly from the following transactions:
 - sales to subsidiaries in the Generation segment of emission allowances for redemption purposes in connection with the emission for both 2020 (PLN 858 million) and 2021 (PLN 1 045 million). In the comparable period, sales from CO₂ emission allowances for redemption purposes for 2019 and 2020, were amounted to PLN 165 million and PLN 169 million, respectively.
 - transactions resulting from restructuring of CO₂ emission allowances in the portfolio of the subsidiary company, Nowe Jaworzno Grupa TAURON Sp. z o.o. As part of its management of the portfolio of CO₂ emission allowances

of its subsidiaries, the Company purchases allowances for redemption purposes of the Group's generation companies. In connection with the delayed commissioning of the 910 MW unit and the resulting lower production, a significant surplus of allowances contracted for the purpose of meeting the redemption obligation for 2020 over the actual demand was generated in the portfolio of the subsidiary, Nowe Jaworzno Grupa TAURON Sp. z o.o. Consequently, the Company has undertaken two measures to manage the resulting surplus. One of the measures undertaken was the repurchase of the volume of 691 000 CO₂ emission allowances from the subsidiary, Nowe Jaworzno Grupa TAURON Sp. z o.o. and the subsequent sale to the market. The revenue on this account amounted to PLN 135 million. As the second measure, the Company restructured its portfolio of CO₂ emission allowances in terms of forward contracts, as discussed below.

- Gas - an increase in the revenue by the amount of PLN 267 million is mainly attributable to the sales of a higher volume by an average of 17% while prices increased by an average of 54%. The sales performed are mainly aimed at securing the gas sales agreements and contracts concluded by TAURON Sprzedaż Sp. z o.o. and achieving a positive margin on trading activities.
- Capacity Market - from 1 January 2021, pursuant to the *Act of 8 December 2017 on the Capacity Market*, introducing service of capacity obligation, consisting in keeping the preparedness of the capacity market unit to supply electrical capacity to the system and the obligation to supply a certain capacity to the system during a period of emergency, the Capacity Market started operating. The Company, as the capacity supplier, is obliged to fulfil the capacity obligation in favour of PSE S.A., therefore it recognises revenues received from PSE S.A. on account of the fulfilment of the capacity obligation by means of Capacity Market units owned by the TAURON Group companies. In the year ended 31 December 2021, the revenue of the Company from the Capacity Market amounted to PLN 206 million. The Company assesses that as the capacity supplier it exercises control over the service provided and therefore recognises revenues from the Capacity Market as a principal within the meaning of IFRS 15 *Revenue from contracts with customers*

TAURON Polska Energia S.A. acts as an agent responsible for coordinating and supervising activities in the scope of purchase, supply and transport of fuels. The Company buys coal from entities outside TAURON Group and from the Group, whereas the sale is targeted at related companies. The Company recognises revenues from agency services, i.e. the arrangement of supplies in the revenue on sales of trade services. In the year ended 31 December 2021, the value of fuel purchased and subsequently resold as a result of the aforementioned transactions amounted to PLN 1 306 million. The Company recognised revenue of PLN 26 million on account of the agency service.

Restructuring of the portfolio of CO₂ emission allowances

In March 2021, the Company restructured the portfolio of CO₂ emission allowances of its subsidiary, Nowe Jaworzno Grupa TAURON Sp. z o.o., with respect to a volume of 3 258 000 CO₂ emission allowances concluded under forward contracts with the acceptance date in March 2021. As a result of the analysis of new premises and circumstances, the Company changed its intention regarding the above-mentioned CO₂ emission allowances and decided to perform their rollover including the conclusion of new contracts with delivery dates in March 2022, 2023 and 2024.

In connection with the foregoing, the original contracts were not settled by physical delivery and consequently the Company recognised the contracts in compliance with IFRS 9 *Financial Instruments* at a fair value under the date of the change in the judgement, i.e. in March 2021 and subsequently recognised the result from the settlement of instruments, which resulted in an increase in the sales revenue and the operating profit in the amount of PLN 304 million (i.e. EUR 66 million). New contracted transactions with delivery dates between 2022 and 2024 were concluded and are held in accordance with the Group's expected redemption requirements and will be settled by physical delivery and are therefore excluded from the scope of IFRS 9 *Financial Instruments* and are not measured at a fair value. At the same time, these transactions were performed at prices higher than the purchase originally contracted, implying higher costs of purchasing CO₂ emission allowances for the purpose of resale to the subsidiary. Accordingly, in the year ended 31 December 2021, the Company recognised a provision for onerous contracts which amounted to PLN 222 million as at the balance sheet day, as further disclosed in Note 36 to these financial statements.

12. Costs by type

SELECTED ACCOUNTING PRINCIPLES

The Company presents costs by function.

Costs by function, include:

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

The cost of goods sold includes the total positive result on transactions on CO₂ emission allowances, concluded within the trading portfolio, i.e. intended for sale and to accomplish short-term profit arising from market price fluctuations, including trading in emission allowances, fair value measurement of inventories, as well as measurement and settlement of derivative commodity instruments related to sales of CO₂ emission allowances.

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

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

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

	Year ended 31 December 2021	Year ended 31 December 2020
Capacity Market	(205)	-
Employee benefits expense	(95)	(96)
Other external services	(41)	(41)
Depreciation of property, plant and equipment, right-of-use assets and amortization of intangible assets	(13)	(14)
Advertising expenses	(15)	(17)
Other costs by type	(3)	(17)
Total costs by type	(372)	(185)
Selling and distribution expenses	25	21
Administrative expenses	101	118
Cost of goods for resale and materials sold	(17 796)	(12 055)
Cost of sales	(18 042)	(12 101)

In the year ended 31 December 2021 compared to the comparative period, the cost of goods and materials was amounted to PLN 5 741 million, which is caused mainly by:

- an increase in the cost of electricity purchase by PLN 4 692 million, which results from the purchase of the 22% higher volume of electricity at 16% higher average electricity purchase prices. The increase in the volume of electricity purchased by the Company is related to the failure of unit 910 owned by Nowe Jaworzno Grupa TAURON Sp. z o.o. and the lack of electricity production by this unit. In order to secure the fulfilment of the contracts concluded by Nowe Jaworzno Grupa TAURON Sp. z o.o., the Company purchased electricity for the needs of Nowe Jaworzno Grupa TAURON Sp. z o.o., and subsequently bought back the energy as part of the fulfilment of the contract between the companies,
- the impact of a higher cost of electricity purchase from Nowe Jaworzno Grupa TAURON Sp. z o.o. on the value of goods and materials sold was reduced by the use of the provision for the onerous contract in the amount of PLN 524 million and its total realised as at the balance sheet day in amount of PLN 588 million (net release), which is discussed in more detail in Note 36 to these financial statements,
- recognition of the value of resold CO₂ emission allowances in the amount of PLN 2 096 million, mainly in connection with the transactions of sales of allowances to subsidiaries from the Generation segment and sales of allowances repurchased from Nowe Jaworzno Grupa TAURON Sp. z o.o. to the market, which is described in Note 11 to these financial statements (PLN 299 million in the comparable period),
- recognition of the cost of creation of the provision for onerous contracts in the amount of PLN 222 million, in connection with the restructuring of CO₂ emission allowances in the portfolio of the subsidiary, Nowe Jaworzno Grupa TAURON Sp. z o.o., as further described in Note 36 to these financial statements,

- charging, in the comparative period, the value of goods and materials sold by the Company with the amount of PLN 124 million as a result of a change in the strategy for securing the redemption needs related to CO₂ emission allowances of the Generation area.

In the year ended 31 December 2021 the Company recognized costs on account of the performance of the capacity obligation by generating units belonging to subsidiaries for the purposes of the Capacity Market in the amount of PLN 205 million, in connection with the commencement of the operation of the Capacity Market as of 1 January 2021;

13. Employee benefit expenses

	Year ended 31 December 2021	Year ended 31 December 2020
Wages and salaries	(77)	(80)
Social security costs	(12)	(12)
Costs of employee retirement plans and post-employment benefits expenses	(4)	(1)
Other employee benefits expenses	(2)	(3)
Total	(95)	(96)
Items included in cost of sales	(17)	(18)
Items included in selling and distribution expenses	(8)	(7)
Items included in administrative expenses	(70)	(71)

14. Financial revenues and costs

SELECTED ACCOUNTING PRINCIPLES

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

- revenues from profit sharing in other entities, including mainly dividends;
- interest,
- revaluation of financial instruments, except financial assets measured at fair value where the effects are recognized in other comprehensive income and charged to revaluation reserve and derivative commodity instruments falling within the scope of IFRS 9 *Financial Instruments* in the case of which gains/losses on change in measurement and on exercising are presented within operating activities where gains/losses on the related trading in goods are also recognized;
- changes in the balance of a provision resulting from the nearing deadline to incur the expense (discount unwinding effect);
- foreign exchange differences resulting from transactions performed during the reporting period and balance sheet measurement of assets and liabilities at the end of the reporting period, except for differences recognized in the initial value of a fixed asset;

Transactions expressed in a foreign currency are converted to functional currency at initial recognition according to the average exchange rate determined for a given currency by the National Bank of Poland as at the day preceding such a day. As at balance sheet day:

- monetary items expressed in foreign currency are converted applying the closing exchange rate (the average exchange rate determined for a given currency by the National Bank of Poland on that day is deemed the closing exchange rate),
- non-monetary items measured at historical cost in foreign currency are converted applying the exchange rate as at the day of original transaction, and
- non-monetary items measured at the fair value in foreign currency are converted applying the exchange rate as at the day of determining the fair value.

The exchange differences arising from the conversion are recognised, respectively, as financial revenues (expenses) or, in cases specified in the accounting principles (policy), they are capitalised in the value of assets.

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

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

	Year ended 31 December 2021	Year ended 31 December 2020 <i>(restated figures)</i>
Dividend income	1 852	1 082
Interest income on loans	247	325
Interest expense	(330)	(410)
Revaluation of shares	(1 399)	(1 644)
Revaluation of loans	(298)	(1 453)
Other finance income and costs, of which:	119	(180)
Gain/(loss) on derivative instruments	116	125
Commissions due to external financing	(25)	(18)
Exchange differences	14	(303)
Other finance income	21	39
Other finance costs	(7)	(23)
Total, of which:	191	(2 280)
Income and costs from financial instruments	190	(2 305)
Other finance income and costs	1	25

Significant changes in the items of financial revenues and expenses in the year ended 31 December 2021, as compared to the corresponding period, resulted mainly from the recognition of:

- higher revenues due to dividend;
- lower interest expenses, which mainly results from the change in the use of financing instruments and changes in interest rates;
- lower cost of revaluation of shares value, which in the current period results mainly from recognition of impairment losses on shares of Nowe Jaworzno Grupa TAURON Sp. z o.o. in total amount of PLN 1 764 million and reversal of impairment losses on shares of TAURON Ekonenergia Sp. z o.o. in total amount of PLN 376 million, due to impairment tests performed, as described in more detail in Note 10 to these financial statements;
- lower net impairment loss on loans, which in the current period results mainly from a write-down of PLN 329 million on a loan granted to a subsidiary in the Generation segment which was recognised at initial recognition as a financial asset impaired due to credit risk;
- surplus of exchange rate losses over gains in the amount of PLN 14 million (in the comparative period, the surplus of exchange rate gains over losses in the amount of PLN 303 million). The exchange differences mainly relate to exchange differences associated with the liabilities of the Company on account of debt in EUR.

15. Income Tax

SELECTED ACCOUNTING PRINCIPLES

Current Tax

Income tax recognised in profit or loss for the period includes actual tax charge for the given reporting period determined by the Company in line with provisions of the Act on corporate income tax and taking into account the common settlement of the Tax Capital Group the Company belongs to as at the balance sheet date, as well as any tax settlements for previous years.

Deferred Tax

The accounting policy related to deferred tax is described in note 35 to these financial statements.

15.1. Tax expense in the statement of comprehensive income

	Year ended 31 December 2021	Year ended 31 December 2020
Current income tax expense	(7)	(30)
Deferred tax	31	(32)
Income tax expense in profit or loss	24	(62)
Income tax expense in other comprehensive income	(76)	9

15.2. Reconciliation of the effective tax rate

	Year ended 31 December 2021	Year ended 31 December 2020 <i>(restated figures)</i>
Profit (loss) before tax	236	(3 190)
Tax at Poland's statutory tax rate of 19%	(45)	606
Dividends	352	206
(Recognition)/Reversal of non-tax provisions	198	(212)
Impairment loss on shares and loans in subsidiaries	(319)	(584)
Other non-tax incomes and costs	(8)	4
Write-off of deferred tax assets	40	(88)
Utilisation of tax loss in the Tax Capital Group	(194)	-
Other	-	6
Tax at the effective tax rate of -10.2% (2020: -1.9%)	24	(62)
Income tax expense in profit/(loss)	24	(62)

15.3. Tax Capital Group

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 ("TCG") since 1 January 2021 include: TAURON Polska Energia S.A., TAURON Wytwarzanie S.A., Nowe Jaworzno Grupa TAURON Sp. z o.o., TAURON Dystrybucja S.A., TAURON Sprzedaż Sp. z o.o., TAURON Sprzedaż GZE Sp. z o.o., TAURON Obsługa Klienta Sp. z o.o., TAURON Ekoenergia Sp. z o.o., TEC1 sp. z o.o., TAURON Zielona Energia Sp. z o.o. (formerly TEC3 Sp. z o.o.) and Kopalnia Wapienia Czatkowice Sp. z o.o.

As at 31 December 2021, the TCG had income tax receivables of PLN 373 million, which mainly represents receivables of the PGK for 2021, representing the surplus of advances paid in the amount of PLN 401 million over the tax burden in the amount of PLN 28 million.

At the same time, due to the settlement of the Company as a Representative Company with subsidiaries belonging to the TCG, the Company had a liability to these subsidiaries due to overpayment of tax in the amount of PLN 331 million, which was presented in the statement of financial position as other financial liabilities.

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

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 financial statements may change in the future.

16. Earnings/(loss) per share

SELECTED ACCOUNTING PRINCIPLES

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

	Year ended 31 December 2021	Year ended 31 December 2020
Basic and diluted net profit (loss) per share (in PLN)	0.15	(1.86)

Presented below data as the basis for calculation of the basic and diluted profit (loss) per share presented in the statement of comprehensive income.

	Year ended 31 December 2021	Year ended 31 December 2020
Net profit (loss) attributable to ordinary shareholders	260	(3 252)
Number of ordinary shares	1 752 549 394	1 752 549 394

EXPLANATORY NOTE TO THE STATEMENT OF FINANCIAL POSITION

17. Investment property

SELECTED ACCOUNTING PRINCIPLES

The Company holds an investment property generating revenue from rental fees. The property is rented to a subsidiary. At initial recognition, the investment property is measured at acquisition costs or cost including transaction costs. Following the initial recognition, the Company measures all investment property held in accordance with the model based on the purchase price or manufacturing cost described in IAS 16 *Property, Plant and Equipment*. This means, that the Company gradually depreciates the property throughout the period of its useful life.

	Year ended 31 December 2021	Year ended 31 December 2020
COST		
Opening balance	54	42
Direct purchase	-	12
Closing balance	54	54
ACCUMULATED DEPRECIATION		
Opening balance	(26)	(22)
Depreciation for the period	(4)	(4)
Closing balance	(30)	(26)
NET CARRYING AMOUNT AT THE BEGINNING OF THE PERIOD	28	20
NET CARRYING AMOUNT AT THE END OF THE PERIOD, of which:	24	28
Buildings	17	22
Perpetual usufruct of land	7	6

The investment property is composed of the perpetual usufruct right to land and buildings located in Katowice Szopienice, at ul. Lwowska 23. The rental revenue in the year ended 31 December 2021 amounted to PLN 7 million. The Company estimates that as at the balance sheet day, the fair value of the property amounts to approximately PLN 37 million.

18. Right-of-use assets

SELECTED ACCOUNTING PRINCIPLES

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

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

A right-of-use asset is measured at cost including:

- the amount of the initial measurement of the lease liability,
- 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 amortization principles applied to assets used under leases are consistent with those applied to depreciation and/or amortization of assets owned by the Company.

PROFESSIONAL JUDGEMENT AND ESTIMATES

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

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

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

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(in PLN million)

Depreciation and/or amortization principles applied to the rights-of-use of assets are consistent with those applied to depreciation and/or amortisation of assets owned by the Company. If there is no reasonable certainty that the Company will obtain ownership by the end of the lease term the asset item is fully depreciated over the shorter of the lease term and its useful life.

	Year ended 31 December 2021			Year ended 31 December 2020		
	Buildings and premises	Motor vehicles	Total right-of-use assets	Buildings and premises	Motor vehicles	Total right-of-use assets
COST						
Opening balance	43	2	45	40	2	42
Increase/(decrease) due to lease changes	1	-	1	3	-	3
Closing balance	44	2	46	43	2	45
ACCUMULATED DEPRECIATION						
Opening balance	(15)	(2)	(17)	(7)	(1)	(8)
Depreciation for the period	(7)	(1)	(8)	(8)	(1)	(9)
Other	-	1	1	-	-	-
Closing balance	(22)	(2)	(24)	(15)	(2)	(17)
NET CARRYING AMOUNT AT THE BEGINNING OF THE PERIOD	28	-	28	33	1	34
NET CARRYING AMOUNT AT THE END OF THE PERIOD	22	-	22	28	-	28

19. Shares

SELECTED ACCOUNTING PRINCIPLES

Shares in subsidiaries and jointly controlled entities

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

Shares in other entities

Shares in entities other than subsidiaries and jointly controlled entities held at the balance sheet day are measured by the Company at a fair value through profit or loss.

PROFESSIONAL JUDGEMENT AND ESTIMATES

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

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

Change in shares for the year ended 31 December 2021

No.	Company	Gross value			Impairment losses			Net value	
		Opening balance (restated figures)	(Decreases) Increases	Closing balance	Opening balance (restated figures)	Decreases (Increases)	Closing balance	Opening balance (restated figures)	Closing balance
Consolidated subsidiaries									
1	TAURON Wydobycie S.A.	1 342	-	1 342	(1 342)	-	(1 342)	-	-
2	TAURON Wytwarzanie S.A.	7 866	-	7 866	(7 830)	-	(7 830)	36	36
3	Nowe Jaworzno Grupa TAURON Sp. z o.o.	5 506	1 072	6 578	-	(1 764)	(1 764)	5 506	4 814
4	TAURON Ciepło Sp. z o.o.	1 928	-	1 928	(1 224)	-	(1 224)	704	704
5	TAURON Ekoenergia Sp. z o.o.	1 940	-	1 940	(376)	376	-	1 564	1 940
6	TAURON Zielona Energia Sp. z o.o.*	600	-	600	-	-	-	600	600
7	TAURON Dystrybucja S.A.	10 512	-	10 512	-	-	-	10 512	10 512
8	TAURON Nowe Technologie S.A.	650	-	650	-	-	-	650	650
9	TAURON Sprzedaż Sp. z o.o.	614	-	614	-	-	-	614	614
10	TAURON Sprzedaż GZE Sp. z o.o.	130	-	130	-	-	-	130	130
11	Kopalnia Wapienia Czatkowice Sp. z o.o.	41	-	41	-	-	-	41	41
12	Polska Energia-Pierwsza Kompania Handlowa Sp. z o.o.	79	11	90	(79)	(11)	(90)	-	-
13	TAURON Obsługa Klienta Sp. z o.o.	40	-	40	-	-	-	40	40
14	Finanse Grupa TAURON Sp. z o.o.	28	-	28	(24)	-	(24)	4	4
15	Pozostałe	7	-	7	-	-	-	7	7
Joint ventures									
16	TAMEH HOLDING Sp. z o.o.	416	-	416	-	-	-	416	416
Entities measured at fair value									
17	EEC Magenta Sp. z o.o. ASI spółka komandytowo-akcyjna	2	2	4	-	-	-	2	4
18	EEC Magenta Sp. z o.o. 2 ASI spółka komandytowo-akcyjna	19	18	37	-	-	-	19	37
19	Pozostałe	11	(1)	10	-	-	-	11	10
Total		31 731	1 102	32 833	(10 875)	(1 399)	(12 274)	20 856	20 559

* On 8 October 2021, the company name was changed from the previous TEC3 Sp. z o.o. to TAURON Zielona Energia Sp. z o.o.

Purchase of shares in the subsidiary, Nowe Jaworzno TAURON sp. z o.o.

Pursuant to the agreement concluded on 22 December 2021 between the Company and Fundusz Inwestycji Infrastrukturalnych - Kapitałowe FIZAN, the Company acquired 176 000 shares in the subsidiary, Nowe Jaworzno Grupa TAURON Sp. z o.o. representing 13.71% of the total number of votes at the shareholders' meeting of Nowe Jaworzno Grupa TAURON Sp. z o.o. for PLN 1 061 million, which is described in more detail in note 33 of these financial statements. In addition, the Company incurred acquisition-related costs of PLN 11 million. As a result of the transaction, the Company became the owner of 100% of the shares and holds 100% of the votes at the shareholders' meeting of Nowe Jaworzno Grupa TAURON Sp. z o.o.

Impairment allowances on shares

In the year ended 31 December 2021, the Company recognised the creation of impairment losses on shares in subsidiaries in the amount of PLN 1 775 million, including as a result of impairment tests in the total amount of PLN 1 764 million and recognised reversal of impairment losses on subsidiary shares in total amount of PLN 376 million, as further discussed in note 10 to these financial statements.

Change in shares for the year ended 31 December 2020

No.	Company	Gross value			Impairment losses			Net value	
		Opening balance	(Decreases) Increases (restated figures)	Closing balance (restated figures)	Opening balance	Decreases (Increases) (restated figures)	Closing balance (restated figures)	Opening balance	Closing balance (restated figures)
Consolidated subsidiaries									
1	TAURON Wydobycie S.A.	1 342	-	1 342	(1 342)	-	(1 342)	-	-
2	TAURON Wytwarzanie S.A.	7 866	-	7 866	(7 636)	(194)	(7 830)	230	36
3	Nowe Jaworzno Grupa TAURON Sp. z o.o.	4 861	645	5 506	-	-	-	4 861	5 506
4	TAURON Ciepło Sp. z o.o.	1 928	-	1 928	(168)	(1 056)	(1 224)	1 760	704
5	TAURON Ekoenergia Sp. z o.o.	1 940	-	1 940	-	(376)	(376)	1 940	1 564
6	TEC3 Sp. z o.o.	600	-	600	-	-	-	600	600
7	TAURON Dystrybucja S.A.	10 512	-	10 512	-	-	-	10 512	10 512
8	TAURON Nowe Technologie S.A.*	640	10	650	-	-	-	640	650
9	TAURON Sprzedaż Sp. z o.o.	614	-	614	-	-	-	614	614
10	TAURON Sprzedaż GZE Sp. z o.o.	130	-	130	-	-	-	130	130
11	Kopalnia Wapienia Czatkowice Sp. z o.o.	41	-	41	-	-	-	41	41
12	Polska Energia-Pierwsza Kompania Handlowa Sp. z o.o.	61	18	79	(61)	(18)	(79)	-	-
13	TAURON Obsługa Klienta Sp. z o.o.	40	-	40	-	-	-	40	40
14	Finanse Grupa TAURON Sp. z o.o.	28	-	28	(24)	-	(24)	4	4
15	Pozostałe	7	-	7	-	-	-	7	7
Joint ventures									
16	TAMEH HOLDING Sp. z o.o.	416	-	416	-	-	-	416	416
Entities measured at fair value									
17	PGE EJ 1 Sp. z o.o.	14	(14)	-	-	-	-	14	-
18	EEC Magenta Sp. z o.o. ASI spółka komandytowo-akcyjna	1	1	2	-	-	-	1	2
19	EEC Magenta Sp. z o.o. 2 ASI spółka komandytowo-akcyjna	11	8	19	-	-	-	11	19
20	Other	22	(11)	11	-	-	-	22	11
Total		31 074	657	31 731	(9 231)	(1 644)	(10 875)	21 843	20 856

*On 1 June 2020, the name of the company was changed from former TAURON Dystrybucja Serwis S.A. to TAURON Nowe Technologie S.A.

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

In connection with the failure to fulfil the premises of classification of shares held in the subsidiary, TAURON Ciepło Sp. z o.o. as held for sale as at 31 December 2021, in accordance with paragraph 28 of IFRS 5 *Non-current assets held for sale and discontinued operations*, the Company restated the comparative data for the year ended 31 December 2020 and as at 31 December 2020, recognising the shares in TAURON Ciepło Sp. z o.o. in the net value of PLN 704 million, which is described in more detail in Note 8.2 to these financial statements.

20. Loans granted

SELECTED ACCOUNTING PRINCIPLES

Loans granted by the Company include term loans granted to subsidiaries, cash pool loans and loans granted to the joint venture. Loans are classified as financial assets measured at amortized cost or at fair value through profit or loss. Loans with the maturity date exceeding 12 months from the balance sheet day are classified as fixed assets and loans with the maturity date not exceeding 12 months from the balance sheet day, are classified as current assets, taking into consideration the expectations as regards the loan repayment as at the balance sheet day (intentions concerning the maturity period extension or refinancing).

PROFESSIONAL JUDGEMENT AND ESTIMATES

The Company makes appropriate classification and valuation of the loans granted. Loans granted and previously intragroup bonds with a maturity period of less than one year, for which an extension of the repayment period or roll-over is planned, are classified as long-term instruments. As at 31 December 2021, the nominal value of loans with a repayment term of less than one year which had been classified as long-term loans due to the expectation of the Company as at the balance sheet day regarding the repayment term of loans over 12 months from the balance sheet day, amounted to PLN 2 150 million and referred to the loan for the company from the Mining segment (at the same time, these loans are measured as a zero value).

In accordance with the requirements of *IFRS 9 Financial Instruments*, the Company estimates the amount of impairment losses on loans, as described in detail below and in Note 40.1.2 of these financial statements.

Balances of loans granted by the Company as at 31 December 2021 and 31 December 2020 are presented in the table below.

	As at 31 December 2021			As at 31 December 2020		
	Gross value	Impairment loss	Carrying amount	Gross value	Impairment loss	Carrying amount
Loans measured at amortized cost						
Loans granted to subsidiaries	6 335	(83)	6 252	5 074	(71)	5 003
Loans granted to EC Stalowa Wola S.A.	28	(3)	25	27	(1)	26
Loans granted under cash pool agreement	30	-	30	313	(34)	279
Loans measured at fair value						
Loans granted to EC Stalowa Wola S.A.	74	n.a.	74	73	n.a.	73
Total	6 467	(86)	6 381	5 487	(106)	5 381
Non-current	6 015	(79)	5 936	4 336	(102)	4 234
Current	452	(7)	445	1 151	(4)	1 147

20.1. Loans granted to subsidiaries

Company	As at 31 December 2021			As at 31 December 2020				
	Outstanding principal and contractual interest accrued	Gross value	Impairment loss	Carrying amount	Outstanding principal and contractual interest accrued	Gross value	Impairment loss	Carrying amount
TAURON Dystrybucja S.A.	4 125	4 105	(10)	4 095	3 310	3 284	(11)	3 273
TAURON Wydobywanie S.A.	3 663	-	-	-	3 056	-	-	-
TAURON Ciepło Sp. z o.o.	981	981	(6)	975	978	977	(1)	976
TAURON Wytwarzanie S.A.	905	905	(66)	839	504	504	(54)	450
TAURON Ekoenergia Sp. z o.o.	160	155	(1)	154	160	154	(1)	153
WIND T1 Sp. z o.o.	131	131	-	131	-	-	-	-
TAURON Sprzedaż Sp. z o.o.	-	-	-	-	100	100	(2)	98
Other	58	58	-	58	54	55	(2)	53
Total	10 023	6 335	(83)	6 252	8 162	5 074	(71)	5 003
Non-current		5 913	(76)	5 837		3 929	(68)	3 861
Current		422	(7)	415		1 145	(3)	1 142

In the year ended 31 December 2021, the most significant intra-group financing transactions were related to:

- consolidating the loans granted to TAURON Ciepło Sp. z o.o. falling due in February 2021 with the total nominal value of PLN 905 million and replacing them with a loan with the final repayment date of 26 February 2030,
- granting loans to subsidiaries: TAURON Dystrybucja S.A. with a nominal value of PLN 800 million, TAURON Wytwarzanie S.A. with a nominal value of PLN 600 million, TAURON Wydobycie S.A. with a nominal value of PLN 250 million and WIND T1 Sp. z o.o. with a nominal value of PLN 131 million.

The loan granted to TAURON Wydobycie S.A. in the amount of PLN 250 million was recognised at initial recognition as an impaired financial asset due to credit risk. The amount of credit loss as at the date of recognition was estimated based on the loan repayment scenarios assumed by the Company taking into account the results of the most recent asset impairment test. The analyses of credit risk of the loans granted to TAURON Wydobycie S.A., taking into account, among others, the estimation of the future cash flows of the company showed that it was reasonable to measure the carrying amount of the loans at a zero value. Accordingly, the loss due to the initial measurement of the loan in the amount of PLN 250 million reduced the gross value of the loan and charged the profit (loss) of the Company.

- repayment of loans or loan instalments in the amount of PLN 200 million by TAURON Wytwarzanie S.A. and in the amount of PLN 100 million by TAURON Sprzedaż Sp. z o.o.

After the balance sheet day, there was concluded a loan agreement with TAURON Nowe Technologie S.A. up to PLN 50 million, annexes to the loan agreements with TAURON Wydobycie S.A. extending the financing period and an annex to the loan agreement with Wind T1 Sp. z o.o. increasing the loan amount to PLN 197 million.

Change in loans and impairment losses

	Year ended 31 December 2021				Year ended 31 December 2020			
	Level 1: allowance equal to 12 monthly expected credit losses (no impairment)	Level 2: allowance for expected credit losses over the life period (no impairment)	Instruments purchased with an impairment	Total	Level 1: allowance equal to 12 monthly expected credit losses (no impairment)	Level 2: allowance for expected credit losses over the life period (no impairment)	Instruments purchased with an impairment	Total
Gross value								
Opening balance	4 559	515	-	5 074	4 053	302	268	4 623
Loan repayment	(113)	(211)	-	(324)	(200)	-	-	(200)
Loan granting	948	600	-	1 548	904	-	44	948
Reclassification between the levels	-	-	-	-	(511)	511	-	-
Significant modifications	-	-	-	-	302	(302)	-	-
Modification of loans	-	-	-	-	(62)	-	-	(62)
Impairment	-	-	-	-	-	-	(312)	(312)
Interest accrued	198	47	-	245	168	10	126	304
Interest received	(162)	(46)	-	(208)	(95)	(6)	(126)	(227)
Closing balance	5 430	905	-	6 335	4 559	515	-	5 074
Impairment loss								
Opening balance	(15)	(56)	-	(71)	(18)	(16)	(3)	(37)
Recognition	(6)	(12)	-	(18)	(3)	(56)	-	(59)
Reversal	3	3	-	6	6	16	-	22
Utilized	-	-	-	-	-	-	3	3
Closing balance	(18)	(65)	-	(83)	(15)	(56)	-	(71)
Net carrying amount at the beginning of the period	4 544	459	-	5 003	4 035	286	265	4 586
Net carrying amount at the end of the period	5 412	840	-	6 252	4 544	459	-	5 003

20.2. Loans to joint ventures

Loans granted to the Elektrociepłownia Stalowa Wola S.A. joint venture as at 31 December 2021 and as at 31 December 2020 are presented in the table below.

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

After the balance sheet day, on 2 March 2022, the Company entered into a loan agreement with Elektrociepłownia Stalowa Wola S.A. up to the amount of PLN 120 million, in order to settle by Elektrociepłownia Stalowa Wola S.A. Of the liability resulting from the settlement agreement with Abener Energia S.A. concluded on 31 December 2021, as further described in note 50 to these financial statements. In accordance with the agreement, the loan including the interest accrued will be repaid by 30 June 2033 and, if the subordinated nature of the loan is waived, by 31 December 2022. The loan bears interest at a fixed rate and the repayment, accrued interest and costs and other amounts due to the Company under the

agreement are secured by a blank promissory note of the borrower together with a promissory note declaration. On 8 March 2022, the Company paid the full amount of the loan to the borrower.

20.3. Loans granted under the cash pool service

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

The balance of receivables arising as a result of cash pooling as at 31 December 2021 and 31 December 2020 is presented in the table below.

	As at 31 December 2021			As at 31 December 2020		
	Gross value	Impairment loss	Carrying amount	Gross value	Impairment loss	Carrying amount
Receivables from cash pool transactions	30	-	30	312	(34)	278
Interest receivable from cash pool transactions	-	-	-	1	-	1
Total	30	-	30	313	(34)	279
Non-current	-	-	-	310	(34)	276
Current	30	-	30	3	-	3

Information concerning cash pool liabilities is presented in Note 30.5 to these financial statements.

21. Derivatives and hedge accounting

SELECTED ACCOUNTING PRINCIPLES

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

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

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

Hedge accounting

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

At the inception of the hedge the Company 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 measurement 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 or is recognised in the initial cost of the asset acquisition (capitalisation of borrowing costs). For IRS, interest costs arising from debt are adjusted accordingly.

PROFESSIONAL JUDGEMENT AND ESTIMATES

The Company estimates fair value at each balance sheet day using the methodology described in the table below. The Group tests the effectiveness of the hedge at each balance sheet day.

As a result of the delayed commissioning of the Jaworzno power unit, as at 31 December 2020, the Company held a significant surplus of CO₂ emission allowances contracted to be purchased on account of redemption by the subsidiary in connection with the emission for 2020. In the first quarter of 2021, as a result of the analysis of new premises and circumstances, the Company changed its intention regarding the above-mentioned forward contracts of purchase CO₂ emission allowances and decided to perform their rollover including the conclusion of new contracts with delivery dates in March 2022, 2023 and 2024 (as described in more detail in Note 11).

Instrument	Methodology of determining fair value	As at 31 December 2021
Derivative instruments subject to hedge accounting		
IRS	The difference between discounted floating-rate interest cash flows and those based on fixed interest rates. Refinitiv interest rate curve is the input data.	<p>IRS (Interest Rate Swap) instruments are used to hedge a portion of the interest rate risk on the cash flows associated with the exposure to WIBOR 6M designated under the dynamic risk management strategy, i.e:</p> <ul style="list-style-type: none"> • interest on a loan with a nominal value of PLN 750 million, for periods commencing respectively from July 2020 and expiring in December 2024; • interest on bonds with a total nominal value of PLN 3 090 million, for periods commencing in December 2019 and expiring successively from 2023 to 2029. <p>In accordance with the terms of the transaction, the Company pays interest accrued based on a fixed interest rate in PLN, while receiving payments at a floating interest rate in PLN.</p>
Derivative instruments measured at a fair value through the profit and loss other than subject to hedge accounting		
CCIRS	The difference between discounted interest cash flows relating to payments and receipts, in two different currencies, expressed in the valuation currency. Interest rate curves, basis spreads and NBP fixing for the relevant currencies from Refinitiv are the input data.	CCIRS (Coupon Only Cross Currency Swap fixed-fixed) derivatives involve an exchange of interest payments on a total notional amount of EUR 500 million. The transaction matures in July 2027. In accordance with the terms of the transaction, the Company pays interest based on a fixed interest rate in PLN, while receiving payments at a fixed interest rate in EUR. CCIRS derivatives aimed at securing the currency flows generated by interest payments on Eurobonds issued.
Commodity forward/future	The fair value of forwards for the purchase and sale of CO ₂ emission allowances, electricity and other commodities is based on prices quoted on an active market or based on cash flows being the difference between the price reference index (forward curve) and the contract price.	Derivative instruments (future, forward) comprise forward transactions for the purchase and sale of CO ₂ emission allowances and other commodities.
FX forward	The difference between discounted future cash flows: the forward price at the valuation date and the transaction price, multiplied by the nominal value of the contract in a foreign currency. NBP fixing and the implied interest rate curve from FX swap transactions for the relevant currency from Refinitiv are the input data.	FX forward derivative instruments aimed at hedging currency flows generated due to the activities conducted.

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

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

Due to changes in prices of the underlying instruments, i.e. interest rates, currencies and commodities, mainly CO₂ emission allowances, a significant increase in the valuation of derivative assets and liabilities was recorded.

22. Other financial assets

SELECTED ACCOUNTING PRINCIPLES

Other financial assets include, among others, Tax Capital Group receivables from subsidiaries, deposits, performance bonds, collaterals provided and receivables arising from sales of property, plant and equipment and intangible assets.

	As at 31 December 2021	As at 31 December 2020
Bid bonds, deposits, collateral transferred	38	19
Initial and variation margin deposits arising from stock exchange transactions	32	49
Receivables arising from income tax settlements of the TCG companies	-	23
Total	70	91
Non-current	-	3
Current	70	88

23. Other non-financial assets

SELECTED ACCOUNTING PRINCIPLES

The Company recognises mainly tax and fee settlements as other non-financial assets, with the exception of income tax which is presented as a separate item - accruals and prepaid deliveries in the statement of financial position.

Settlements due to taxes and fees comprise:

- Settlements due to VAT and excise duty;
- Personal income tax and social security settlements;
- Environmental fees and other public law settlements.

Prepayments are determined at a level of expenditure incurred, determined reasonably, referring to future periods, which will result in future inflows of economic benefits to the entity. Write-downs on prepayments of costs may be applied adequately to the lapse of time or the level of benefits.

	As at 31 December 2021	As at 31 December 2020
VAT receivables	43	4
Prepaid fee on debt	13	14
Other	12	12
Total	68	30
Non-current	14	17
Current	54	13

24. Inventories

SELECTED ACCOUNTING PRINCIPLES

Within inventories, the Company primarily recognises acquired CO₂ emission rights that held for trading purposes.

CO₂ emission allowances recognised in inventories, 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 upon their initial recognition and as at each balance sheet day.

Inventories of CO₂ emission allowances, purchase for redemption purposes of the Group's companies are initially recognised at a purchase price and measured as at the balance sheet day at a lower of the purchase price or the net achievable sales price. If the purchase price is higher than the net achievable sales prices, the Company recognises the relevant allowance, which is charged to operating expenses.

Disposal of purchased CO₂ emission rights is measured using the FIFO method.

	As at 31 December 2021			As at 31 December 2020		
	Gross Value	Allowance/ write-down	Net value	Gross Value	Allowance/ write-down	Net value
CO ₂ emission allowances	51	-	51	395	(1)	394

As at balance sheet day, total amount of CO₂ emission allowances possessed by the Company concern purchase for redemption purposes of the Group's companies.

25. Receivables from customers

SELECTED ACCOUNTING PRINCIPLES

Receivables from customers are recognised and presented at the amounts originally invoiced, except where the effect of the time value of money is material, taking into account an impairment allowance/write-down.

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.

The Company has allocated a portfolio of strategic counterparties and a portfolio of other counterparties for receivables from customers.

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

For the portfolio of strategic counterparties, it is expected that the historical performance does not provide full information on the expected credit losses that the Company may be exposed to. The risk of insolvency on the part of strategic counterparties is assessed based on ratings assigned to the counterparties using an internal scoring model and appropriately restated to account for the probability of default. The expected credit loss, in line with *IFRS 9 Financial Instruments*, is calculated based on the estimated potential recoveries from security interests.

It is expected that the historical performance information concerning receivables from other counterparties may reflect the credit risk that will be faced in future periods. The expected credit losses for this group of counterparties 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 order to consider future factors, the Company adjusts the historical probability of default using the probability level implied by quotations of annual Credit Default Swap (CDS) instruments for each rating.

	As at 31 December 2021	As at 31 December 2020
Gross Value		
Receivables from buyers	2 501	1 309
Receivables claimed at court	1	1
Total	2 502	1 310
Allowance/write-down		
Receivables from buyers	(6)	(8)
Receivables claimed at court	(1)	(1)
Total	(7)	(9)
Net Value		
Receivables from buyers	2 495	1 301
Receivables claimed at court	-	-
Total	2 495	1 301

As at 31 December 2021 and 31 December 2020, receivables from the subsidiary, TAURON Sprzedaż Sp. z o.o. constituted the highest balance of receivables from customers amounting to PLN 1 513 million and PLN 748 million, respectively.

Aging of receivables from customers, was presented in table below.

	As at 31 December 2021			Total	As at 31 December 2020		
	Not past due	Past due			Not past due	Past due	Total
		<30 days	>360 days			>360 days	
Value of item before allowance/write-down	2 448	53	1	2 502	1 309	1	1 310
Allowance/write-down	(6)	-	(1)	(7)	(8)	(1)	(9)
Net Value	2 442	53	-	2 495	1 301	-	1 301

Transactions with related parties and balances of settlements with these entities are presented in note 45.1 of these financial statements.

26. Cash and equivalents

SELECTED ACCOUNTING PRINCIPLES

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

The balance of cash and cash equivalents shown in the cash flow statement consists of cash and cash equivalents as defined above. If the entity uses overdraft facilities as a cash management solution, in line with *IAS 7 Statement of Cash Flows*, the balance of cash is presented in the statement of cash flows less the outstanding balance of such facilities.

	As at 31 December 2021	As at 31 December 2020
Cash at bank and in hand	440	393
Short-term deposits (up to 3 months)	-	250
Total cash and cash equivalents presented in the statement of financial position, including:	440	643
restricted cash, including:	159	119
collateral of settlements with Izba Rozliczeniowa Giełd Towarowych S.A.	156	109
Cash pool	(2 603)	(1 383)
Foreign exchange	-	(3)
Total cash and cash equivalents presented in the statement of cash flows	(2 163)	(743)

The balances of short-term loans granted and borrowings incurred under cash pool transactions do not represent cash flows from investment or financial activities but constitute cash adjustments, since they mainly serve to manage the Group's current liquidity.

Information on balances arising from the cash pool agreement is presented in notes 20.3 and 30.5 of these financial statements.

27. Non-current assets classified as held for sale

SELECTED ACCOUNTING PRINCIPLES

The Company classifies assets that meet the following criteria as fixed assets classified as held for sale:

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

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

PROFESSIONAL JUDGEMENT AND ESTIMATES

The Company recognises the impairment loss at the time of initial or subsequent revaluation of an assets component (or a disposal group) to the fair value less disposal costs.

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

Moreover, on 26 March 2021, the Shareholders concluded the annex to the agreement of 15 April 2015 concerning the case of WorleyParsons with PGE EJ 1 Sp. z o.o., regulating the principles of Shareholders' liability for potentially arising liabilities or benefits due as a result of the settlement of the dispute between PGE EJ 1 Sp. z o.o. and WorleyParsons, which is described in more detail in Note 42 to these financial statements.

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

28. Equity

28.1. Issued capital

SELECTED ACCOUNTING PRINCIPLES

Issued capital

In the financial statements, issued capital is presented at the amount specified in the articles of association and entered in the Company's court register.

Reserve capital

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.

Revaluation reserve from valuation of hedging instruments

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

Issued capital as at 31 December 2021

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

As at 31 December 2021, the value of issued capital, the number of shares and the nominal value of the shares has not changed since 31 December 2020.

28.2. Major Shareholders

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

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

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

To the best of the Company knowledge, the shareholding structure as at 31 December 2021 has not changed compared to the structure as at 31 December 2020.

28.3. Reserve capital

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

The decrease in the value of reserve capital in the period ended 31 December 2021 results from the coverage of the net loss of the Company for the financial year 2020 in the amount of PLN 3 590 million.

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

28.4. Revaluation reserve from valuation of hedging instruments

	Year ended 31 December 2021	Year ended 31 December 2020
Opening balance	(80)	14
Remeasurement of hedging instruments	449	(97)
Remeasurement of hedging instruments charged to profit or loss	6	(6)
Deferred income tax	(87)	20
Write-off of deferred tax assets	11	(11)
Closing balance	299	(80)

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

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

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

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

	As at 31 December 2021	As at 31 December 2020 <i>(restated figures)</i>
Loss for the year ended 31 December 2021	260	-
Loss for the year ended 31 December 2020	-	(3 590)
Restated profit/(loss) for the year ended 31 December 2020	338	338
Effects of implementing IFRS 9 <i>Financial Instruments</i>	(388)	(388)
Settlement of mergers with subsidiaries	81	81
Actuarial gains and losses on provisions for post-employment benefits	(1)	(2)
Total retained earnings/ (accumulated losses)	290	(3 561)

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

On 29 March 2021, the Management Board of TAURON Polska Energia S.A. adopted the resolution concerning the submission of the motion to the Ordinary General Meeting of TAURON Polska Energia S.A. requesting covering the net loss of the Company for the financial year 2020 in the amount of PLN 3 590 million from the reserve capital of the Company. On 24 May 2021 the Ordinary General Meeting of the Company adopted the resolution in compliance with the recommendation of the Management Board.

29. Dividends paid and proposed for disbursement

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

30. Debt liabilities

SELECTED ACCOUNTING PRINCIPLES

Within debt obligations in the statement of financial position, the Company presents:

- loans, borrowings, bonds issued

At initial recognition, all loans, borrowings and bonds issued are measured at fair value less the cost incurred to obtain a loan or

borrowing as well as discounts or bonuses obtained due to the liability. After the initial recognition, interest-bearing facilities, loans and debt securities are subsequently measured at an 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 amortized cost using the effective interest rate method, the Company estimates future cash flows considering all contractual terms of a given financial instrument, including the early repayment option. As at the reporting period end, early buy-back of bonds was included in the measurement of liabilities arising from issue of hybrid bonds under agreements concluded with the European Investment Bank and Bank Gospodarstwa Krajowego, in relation to the intention to buy back the bonds after the end of the first financing period.

In the case of a loan agreement defining the maximum term of individual loans tranches up to 1 year or with maturity date on the end of interest period, where the financing available under the agreement is revolving and the term of availability exceeds 1 year, the Company classifies the tranches according to the intention and possibility of maintaining financing under the agreement, i.e. as long-term or short-term liabilities.

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

	As at 31 December 2021			As at 31 December 2020		
	Long-term	Short-term	Total	Long-term	Short-term	Total
Unsubordinated bonds	4 377	201	4 578	4 551	201	4 752
Subordinated bonds	1 967	5	1 972	1 994	4	1 998
Bank loans	2 676	1 819	4 495	4 783	1 169	5 952
Loans from the subsidiary	766	2	768	768	2	770
Cash pool loans received	-	2 632	2 632	-	1 386	1 386
Lease	15	10	25	22	9	31
Total	9 801	4 669	14 470	12 118	2 771	14 889

30.1. Bonds issued

Investor	Interest rate	Currency	As at 31 December 2021			As at 31 December 2020		
			Bonds issued at nominal value in currency	Maturity date	Carrying amount	Bonds issued at nominal value in currency	Maturity date	Carrying amount
Bank Gospodarstwa Krajowego	floating, based on WIBOR 6M	PLN	700	2022-2028	700	800	2021-2028	800
			560	2022-2029	560	630	2021-2029	630
A series bonds (TPE 1025)	floating, based on WIBOR 6M	PLN	1 000	30.10.2025	1 002	1 000	30.10.2025	1 000
Eurobonds	fixed	EUR	500	5.07.2027	2 316	500	5.07.2027	2 322
Unsubordinated bonds					4 578			4 752
Bank Gospodarstwa Krajowego	floating, based on WIBOR 6M	PLN	400	29.03.2031 ²	401	400	29.03.2031 ²	400
European Investment Bank	fixed ¹	EUR	190	16.12.2034 ²	847	190	16.12.2034 ²	865
		PLN	400	17.12.2030 ²	386	400	17.12.2030 ²	391
		PLN	350	19.12.2030 ²	338	350	19.12.2030 ²	342
Subordinated bonds					1 972			1 998
Total bonds					6 550			6 750

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, includes earlier redemption, intention of bonds redemption is after end of first period of financing.

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

Subordinated hybrid bonds

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

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

- EIB subscribed bonds in PLN - maturity of 12 years from the issue date (17 and 19 December 2030) with two financing periods: 7 and 5 years.
EIB subscribed bonds in EUR - maturity of 18 years from the issue date (16 December 2034) with two financing periods: 8 and 10 years.
In the first period, the interest rate is fixed, while in the second period, it is floating and based on the base rate (WIBOR for bonds issued in PLN and EURIBOR for bonds issued in EUR) increased by an agreed margin.
- Bonds with a nominal value of PLN 400 million subscribed by BGK - maturity of 12 years from the issue date (29 March 2031). In the first 7-year period, the interest rate is variable, based on WIBOR 6M increased by a fixed margin, whereas the margin is further increased in the second 5-year financing period.

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

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

30.2. Bank loans

Borrowing institution	Purpose	Interest rate	Currency	Maturity date	As at 31 December 2021	As at 31 December 2020
Consortium of banks I ¹	Redemption of bonds, investment and Group's general expenditures	floating	PLN	14.04.2021 ³	-	602
				30.04.2021 ³	-	200
				29.06.2021 ³	-	1 100
				10.09.2021 ³	-	100
				25.01.2021	-	300
				28.01.2021	-	600
				29.01.2021	-	100
				17.01.2022	300	-
				20.01.2022	400	-
				24.01.2022	350	-
31.01.2022	650	-				
Bank Gospodarstwa Krajowego	Group's capital expenditures and refinancing of a portion of debt	floating	PLN	20.12.2033	999	998
European Investment Bank	Construction of a boiler fired with biomass at Jaworzno III Power Plant and renovation of a steam turbine	fixed	PLN	15.12.2021	-	20
				15.12.2021	-	29
	Modernization and extension of power grid			15.06.2024	100	138
				15.09.2024	54	72
				15.09.2024	68	90
Modernization and extension of power grid and improvement of hydropower plants	15.03.2027	162	191			
Intesa Sanpaolo S.p.A.	Group's investment expenditure, except for financing or refinancing projects related to coal assets	floating	PLN	19.12.2024	752	752
SMBC BANK EU AG	Group's general corporate expenses, excluding financing and refinancing of coal-fired power plants	fixed	PLN	23.03.2025	499	499
Consortium of banks II ²	Group's general corporate expenses, excluding financing of any new coal assets-related projects	floating	PLN	10.03.2022 ³	161	161
Total					4 495	5 952

¹ The consortium of banks I consists of: Bank Handlowy w Warszawie S.A., Santander Bank Polska S.A., CaixaBank S.A. (Joint-Stock Company) Branch in Poland, Industrial and Commercial Bank of China (Europe) S.A. Branch in Poland, ING Bank Śląski S.A., mBank S.A., MUFG Bank (Europe) N.V., MUFG Bank (Europe) N.V. S.A. Branch in Poland and Powszechna Kasa Oszczędności Bank Polski S.A.

² The consortium of banks II consists of: Intesa Sanpaolo S.p.A. acting through Intesa Sanpaolo S.p.A. S.A. Branch in Poland and China Construction Bank (Europe) S.A. acting through China Construction Bank (Europe) S.A. (Joint Stock Company) Branch in Poland,

³ A tranche classified as non-current liability.

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

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

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

Lender	Description	Year ended 31 December 2021	
		Drawdown	Repayment
Consortium of banks I	Drawdown of new tranches and repayment of tranches according to maturity date	8 150	(9 450)
Consortium of banks II	Drawdown of new tranches and repayment of tranches according to maturity date	320	(320)
European Investment Bank	Repayment of capital instalments according to schedule	-	(162)
Total, including:		8 470	(9 932)
Cash flows		2 000	(3 462)
Net settlement (without cash flow)		6 470	(6 470)

After the balance sheet day, the Company under the agreement:

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

In 2021 the Company has concluded following loans agreements:

- Facility agreement with the European Investment Bank**

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

After the balance sheet date, on 24 February 2022, the Company has made a drawdown in amount of PLN 800 million with 18 years of maturity date.

- Facility Agreements with Erste Group Bank AG**

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

In accordance with the agreement, the Company is able to use the funds within 18 months from the date of conclusion of the Agreement. The loan will be repaid within 5 years from the date of conclusion of the Agreement and interest rate will be based on a floating interest rate increased by the bank's margin.

After the balance sheet date, on 16 February 2022, the Company has made a drawdown in amount of PLN 96 million with maturity date on December 2026.

30.3. 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 to EBITDA ratio (for domestic long-term loans agreements and domestic bond issue schemes) which sets the debt less cash in relation to generated EBITDA. The net debt/EBITDA covenant for banks is examined on the basis of consolidated data as at 30 June and 31 December while its permissible limit value is 3.5.

As at 31 December 2021, the net debt/EBITDA ratio amounted to 2,44, therefore the covenant was not exceeded.

30.4. Loans from subsidiary

The liability of the Company amounting to PLN 768 million (EUR 167 million) as at 31 December 2021 relates to the long-term loan received from the subsidiary, Finanse Grupa TAURON Sp. z o.o. under the agreement concluded between TAURON Polska Energia S.A. and the subsidiary, Finanse Grupa TAURON Sp. z o.o. (formerly TAURON Sweden Energy AB (publ)). The loan agreement was concluded in 2014 and bears interest at a fixed rate while the interest is paid annually, in December each year, until the full repayment of the loan. The repayment deadline of the loan falls on 29 November 2029.

30.5. Loans received under the cash pool service

As at 31 December 2021 and as at 31 December 2020, the Company had current liabilities due to cash pool transactions amounting to PLN 2 632 million and PLN 1 386 million, respectively.

The receivables arising from cash pool transactions are presented in Note 20.3 to these financial statements.

30.6. Lease liabilities

Lease liability relates to the right of perpetual usufruct of land, lease of office premises and warehouses, parking spaces and cars.

Ageing of the lease liability

Maturity within <i>(after the balance sheet date)</i>	As at 31 December 2021	As at 31 December 2020
Within 1 year	10	10
Within 1 to 5 years	14	21
More than 5 years	5	5
Gross lease liabilities	29	36
Discount	(4)	(5)
Present value of lease payments	25	31

31. Other financial liabilities

SELECTED ACCOUNTING PRINCIPLES

Other financial liabilities include, among others, liabilities to companies arising from Tax Capital Group settlements, payroll liabilities, deposits, performance bonds received and liabilities on account of purchase of tangible and intangible assets which are measured at the amount of the payment due, as a result of the immaterial impact of discounting.

	As at 31 December 2021	As at 31 December 2020
Liabilities arising from income tax settlements of the TCG companies	331	91
Margin deposits arising from stock exchange transactions	102	73
Bid bonds, deposits and collateral received	24	25
Measurement of financial guarantee	16	28
Commissions related to borrowings	8	5
Wages and salaries as well as other employee related liabilities	7	8
Other	16	17
Total	504	247
Non-current	11	14
Current	493	233

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

The value of initial and variation margins is related mostly to futures transactions in CO₂ emission allowances concluded on foreign regulated markets. The change in the value of margins in relation to the comparable period results mainly from a significant increase in the price of allowances, while taking into account the number of exchange contracts open as at the balance sheet day. The supplementary 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 day.

32. Liabilities to suppliers

SELECTED ACCOUNTING PRINCIPLES

Current liabilities to suppliers are recognised at the amount due.

	As at 31 December 2021	As at 31 December 2020
Liabilities to subsidiaries, including:	1 547	545
TAURON Sprzedaż Sp. z o.o.	638	143
Nowe Jaworzno Grupa TAURON Sp. z o.o.	602	163
TAURON Wytwarzanie S.A.	135	62
TAURON Wydobywanie S.A.	50	94
Other subsidiaries	122	83
Liabilities to other suppliers	198	219
Total	1 745	764

33. Liabilities due to acquisition of shares in the subsidiary

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

The parties agreed that, upon payment of the sales price, the shareholders' agreement and the investment agreement concluded in 2018 between the Company, Nowe Jaworzno Grupa TAURON Sp. z o.o. and the PFR Fund, determining the terms and conditions of the PFR Fund capital investment in Nowe Jaworzno Grupa TAURON Sp. z o.o., would be terminated. At the same time, the parties agreed that from the moment of conclusion of the Agreement until the full payment of the sales price, the shareholders' agreement and the investment agreement, to the extent to which they relate to the corporate rights of the PFR Fund as a partner of Nowe Jaworzno Grupa TAURON Sp. z o.o. specified in the Agreement, shall not apply, i.e. they shall be suspended in accordance with the rules set forth in the Agreement.

In order to secure the Fund's claims under the Agreement, the Company established a registered pledge and ordinary pledge on acquired shares and provide a security in the form of a declaration of submission to enforcement, which is described in more detail in Note 43 to these financial statements.

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

34. Other non-financial liabilities

SELECTED ACCOUNTING PRINCIPLES

Other non-financial liabilities include, in particular, liabilities on account of advances received which are settled by the delivery of goods as well as tax and fee settlements which include:

- VAT settlements;
- Tax settlements related to civil law transactions;
- Personal income tax and social security settlements;
- Environmental fees and other public law settlements.

	As at 31 December 2021	As at 31 December 2020
Advances received for deliveries	704	356
VAT	89	8
Tax on civil law transactions	11	-
Other	10	7
Total	814	371
Non-current	113	24
Current	701	347

Under the advances received for supplies, the Company presents advances received from a subsidiary, TAURON Wytwarzanie S.A. for the delivery of CO₂ emission allowances resulting from transaction agreements concluded.

35. Deferred income tax

SELECTED ACCOUNTING PRINCIPLES

Deferred Tax

In connection with temporary differences between the value of assets and liabilities recognised in the accounts and their tax value as well as tax loss deductible in the future, the Company recognises the liability and determines assets due to deferred income tax.

The carrying amount of a component of assets due to deferred income tax is verified as at each balance sheet day. The Company decreases the carrying amount of a component of assets due to deferred income tax to the extent it is improbable to achieve taxable income sufficient for the partial or full realisation of the component of assets due to deferred income tax. Unrecognised assets due to deferred income tax are subject to verification as at each balance sheet day and recognised to the extent it becomes probable that the future taxable income will enable their realisation. The Company recognises deferred tax assets for deductible temporary differences associated with investments in subsidiaries only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the deductible temporary differences can be utilised.

Assets due to deferred income tax and the liability due to deferred income tax are measured by applying tax rates which, according to the expectations will be applied if the component of assets is realised or if the provision is reversed, adopting as a base tax rates (and tax regulations) which were legally applicable or in relation to which the legislative process has been, in principle, completed as at the balance sheet day.

Income tax relating to items recognised outside the profit or loss, i.e. items recognised in other comprehensive income or directly in equity, is recognised in other comprehensive income or equity, respectively.

The Company sets off deferred tax assets against deferred tax liabilities when it has a legally enforceable right to set off current tax assets against current tax liabilities and when the deferred tax asset and liability relate to the same tax authority.

PROFESSIONAL JUDGEMENT AND ESTIMATES

The Company assesses the realisability and verifies unrecognised deferred tax assets at each balance sheet day. As at the balance sheet day, the Company recognised a partial write-down of deferred tax assets in the amount of PLN 48 million due to the projected inability to fully realise the asset, maturing within 12 months following the balance sheet day.

The Company assesses that with regard to the negative temporary differences associated with the recognition of impairment losses on shares and stocks in subsidiaries in the amount of PLN 12 274 million, the conditions indicated above for the recognition of deferred tax assets are not met.

	As at 31 December 2021	As at 31 December 2020 (restated figures)
Deferred tax liabilities		
measurement of derivative instruments	119	30
valuation of hedging instruments	71	-
difference between tax base and carrying amount of other financial assets	12	9
other	6	7
Total	208	46
Deferred tax assets		
measurement of derivative instruments	94	16
accrued interest and the valuation of debt	52	58
provisions, accruals, deferred income and government grants	32	3
different timing of recognition of revenue and cost of sales for tax purposes	19	31
difference between tax base and carrying amount of other financial liabilities	9	11
valuation of hedging instruments	-	17
other	5	9
Total	211	145
Write-off of deferred tax assets in correspondence with the financial result	(48)	(88)
Write-off of deferred tax assets in correspondence with other comprehensive income	-	(11)
Deferred tax assets/(liabilities), net	(45)	-

36. Provision for the onerous contract

SELECTED ACCOUNTING PRINCIPLES

Provision for an onerous contracts

The Company creates the provision for an onerous contracts since it is a party to the agreement under which unavoidable costs of fulfilling the obligation outweigh the benefits to be obtained thereunder. The Company recognises and measures the current obligation under such agreement 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.

	Year ended 31 December 2021			Year ended 31 December 2020	
	Provision for an onerous contract				
	Multi-annual agreement for electricity purchase	Agreements for the sale of CO ₂ emission allowances	Total	Multi-annual agreement for electricity purchase	Total
Opening balance	1 110	-	1 110	-	-
Unwinding of discount and change in discount rate	2	2	4	-	-
Recognition/(Reversal) net	(588)	220	(368)	1 110	1 110
Utilisation	(524)	-	(524)	-	-
Closing balance	-	222	222	1 110	1 110
Non-current	-	154	154	840	840
Current	-	68	68	270	270

Provision for the multi-annual agreement for the purchase of electricity from the subsidiary, Nowe Jaworzno Grupa TAURON Sp. z o.o.

As at 31 December 2020, the Company recognised the provision in the amount of PLN 1 110 million for the effects of a multi-annual agreement for the purchase of the total volume of electricity generated in the 910 MW unit in Jaworzno by the Company from its subsidiary, Nowe Jaworzno Grupa TAURON Sp. z o.o. (hereinafter: the "Agreement") The Agreement concluded in 2018 constitutes an element of transaction documentation related to the investment of Closed-End Investment Funds managed by Polski Fundusz Rozwoju S.A. in Nowe Jaworzno Grupa TAURON Sp. z o.o. (at the time of signing, implementing a project of construction of the 910 MW power unit in Jaworzno).

The provision created in accordance with IAS 37 *Provisions, contingent liabilities and contingent assets* was calculated assuming the purchase by the Company from Nowe Jaworzno Grupa TAURON sp. z o.o. of the volume of electricity generated by the 910 MW unit at prices estimated in accordance with the provisions of the Agreement, by the end of 2026. The calculation of the provision was based on the price difference between the purchase price of electricity purchased from Nowe Jaworzno Grupa TAURON Sp. z o.o. in the cost-plus formula enabling the company Nowe Jaworzno Grupa TAURON Sp. z o.o. to achieve the determined return on assets and the sales price of electricity to the subsidiaries, TAURON Sprzedaż Sp. z o.o. and TAURON Sprzedaż GZE Sp. z o.o. The average annual volume of electricity purchased from Nowe Jaworzno Grupa TAURON Sp. z o.o. was estimated at a level of approximately 7 TWh.

In the year ended 31 December 2021, in accordance with the Agreement, the Company purchased electricity from Nowe Jaworzno Grupa TAURON Sp. z o.o. under the cost-plus formula, and therefore used the previously established provision of PLN 524 million.

Pursuant to the agreement concluded on 22 December 2021 with Fundusz Inwestycji Infrastrukturalnych – Kapitałowy FIZAN, the Company purchased non-controlling interests in the subsidiary, Nowe Jaworzno Grupa TAURON Sp. z o.o., as further described in Note 19 to these financial statements. As a result of the above transaction, the Company applied to Nowe Jaworzno Grupa TAURON Sp. z o.o. for termination of the Agreement. As at the balance sheet day, the Company and Nowe Jaworzno Grupa TAURON agreed on the key terms of termination of the Agreement. The aforementioned agreement was signed by the Company and Nowe Jaworzno Grupa TAURON Sp. z o.o. on 4 February 2022 with effect from 31 December 2021.

As a result of the termination of the Agreement, as of the balance sheet day, the Company released provision entirety for the effects of the multi-annual energy purchase agreement from the subsidiary, Nowe Jaworzno Grupa TAURON Sp. z o.o.

Provision for agreements for the sale of CO₂ emission allowances

In March 2021, the Company performed the restructuring of the portfolio of CO₂ emission allowances of the subsidiary, Nowe Jaworzno Grupa TAURON Sp. z o.o., as further described in Note 11 to these financial statements.

As a result of the delayed commissioning of the 910 MW unit and the consequent lower production, a significant surplus of allowances contracted for the purpose of meeting the redemption obligation for 2020 over the actual demand (contracts with the delivery date in March 2021) was generated in the portfolio of the company. The Company decided to roll them over with the conclusion of new contracts with delivery dates in March 2022, 2023 and 2024. New contracted transactions with delivery dates in 2022-2024 were performed at prices higher than the purchase originally contracted, implying higher costs of purchasing CO₂ emission allowances for the purpose of resale to the subsidiary. The value of the new contracts for the purchase of CO₂ emission allowances concluded into in connection with the roll-over of contracts with an exercise date in March 2021 exceeds the expected revenue of the Company from the sale of allowances to the subsidiary. At the same time, in the year ended 31 December 2021, the Company recognised the provision for onerous contracts in amount of PLN 222 million since, based on the transaction agreements concluded with the subsidiary, the unavoidable costs of fulfilment of the obligation to deliver CO₂ emission allowances outweigh the benefits to be received under these agreements.

37. Other provisions, accruals and governmental subsidies

SELECTED ACCOUNTING PRINCIPLES

Accruals and government subsidies

The Company recognises accruals mainly for bonuses and unused holiday leave.

Provisions for employee benefits

In accordance with the Remuneration Regulations, employees of the Company are entitled to post-employment benefits: retirement and disability severance pay, death benefits and benefits from the Company Social Benefits Fund.

The current value of such liabilities as at each balance sheet day is calculated by an independent actuary. The accrued liabilities are equal to discounted future payments, including employee turnover, and pertain to the time remaining until the balance sheet day. Demographic information and employee turnover data are based on historical data. Actuarial gains and losses on post-employment benefits are fully charged to other comprehensive income.

Other provisions

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

	As at 31 December 2021	As at 31 December 2020
Accruals and governmental subsidies, including:	15	19
<i>Accruals due to premium</i>	8	8
Provision for post-employment employee benefits	4	4
Other provisions	4	5
Total	23	28
Non-current	5	5
Current	18	23

EXPLANATORY NOTE TO THE STATEMENT OF CASH FLOWS

SELECTED ACCOUNTING PRINCIPLES

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

38. Significant items of the statement of cash flows

38.1. Cash flows from operating activities

Changes in working capital

	Year ended 31 December 2021	Year ended 31 December 2020
Change in receivables	(1 197)	396
Change in inventories	343	(245)
Change in payables excluding loans	1 436	554
Change in other non-current and current assets	(38)	(3)
Change in deferred income, government grants and accruals	(4)	2
Change in provisions	(889)	1 035
Change in working capital	(349)	1 739

38.2. Cash flows from investment activities

Loans granted

	Year ended 31 December 2021	Year ended 31 December 2020
Loans granted to companies:		
TAURON Dystrybucja S.A.	(800)	(250)
TAURON Wytwarzanie S.A.	(600)	(500)
TAURON Wydobycie S.A.	(250)	(898)
Wind T1 Sp. z o.o.	(131)	-
TAURON Sprzedaż Sp. z o.o.	-	(100)
Elektrociepłownia Stalowa Wola S.A.	-	(95)
Other companies	(17)	(65)
Change in the balance of loans granted to subsidiaries under the long-term exposure cash pool agreement	231	(26)
Total	(1 567)	(1 934)

Purchase of shares

	Year ended 31 December 2021	Year ended 31 December 2020
Increase of the capital of companies:		
EEC Magenta Sp. z o.o. 2 ASI spółka komandytowo-akcyjna	(18)	(8)
Nowe Jaworzno Grupa TAURON Sp. z o.o.	-	(645)
Other companies	(2)	(20)
Capital contribution to Polska Energia-Pierwsza Kompania Handlowa Sp. z o.o.	(11)	(18)
Total	(31)	(691)

Sale of shares

	Year ended 31 December 2021	Year ended 31 December 2020
Sale of shares in PGE EJ1 Sp. z o.o.	53	-

Repayment of loans granted

	Year ended 31 December 2021	Year ended 31 December 2020
Repayment of loans granted to companies:		
TAURON Wytwarzanie S.A.	200	200
TAURON Sprzedaż Sp. z o.o.	100	-
Other companies	24	17
Total	324	217

38.3. Cash flows from financial activities

Repayment of loans

	Year ended 31 December 2021	Year ended 31 December 2020
Repayment by the Company of tranches of loans to the Consortium of banks I	(3 300)	(4 240)
The repayment of the loan installments by the Company to the European Investment Bank	(162)	(162)
Total	(3 462)	(4 402)

Interest paid

	Year ended 31 December 2021	Year ended 31 December 2020
Interest paid in relation to loans and borrowings	(127)	(206)
Interest paid in relation to debt securities	(221)	(174)
Total	(348)	(380)

Contracted loans

	Year ended 31 December 2021	Year ended 31 December 2020
The launch of financing by the Company under loan agreements		
Banks Consortium I (launch of loan tranches)	2 000	1 950
Intesa Sanpaolo S.p.A. (activation of all available financing)	-	750
SMBC BANK EU AG (launch of all available funding)	-	500
Banks Consortium II (launch of loan tranches)	-	160
Total	2 000	3 360

FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT

39. Financial instruments

SELECTED ACCOUNTING PRINCIPLES

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

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

As at the balance sheet day, the Company 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 above equity instruments are measured at fair value through profit or loss in line with IFRS 9 *Financial Instruments*.

The Company divides the liabilities into the following classes:

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

PROFESSIONAL JUDGEMENT AND ESTIMATES

The Company makes judgements regarding classification of financial instruments.

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

The Company recognises an impairment loss upon initial recognition of a financial asset and then remeasures the loss amount as at each reporting day. The Company recognises the allowance for expected credit losses on financial assets measured at an amortized cost includes mostly receivables from customers and loans granted. The measurement methodology is presented in Notes 25 and 40.1.2. to these financial statements.

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

Categories and classes of financial assets	As at 31 December 2021		As at 31 December 2020 <i>(restated figures)</i>	
	Carrying amount	Fair value	Carrying amount	Fair value
1 Financial assets measured at amortized cost	8 802	8 889	6 632	6 632
Receivables from buyers	2 495	2 495	1 301	1 301
Loans granted to subsidiaries and jointly-controlled entities	6 277	6 364	5 029	5 029
Loans granted under cash pool agreement	30	30	279	279
Other financial assets	-	-	23	23
2 Financial assets measured at fair value through profit or loss (FVTPL)	1 261	1 261	1 028	1 028
Derivative instruments	626	626	159	159
Long-term shares	51	51	32	32
Shares classified as non-current assets held for sale	-	-	53	53
Loans granted jointly-controlled entities	74	74	73	73
Other financial assets	70	70	68	68
Cash and cash equivalents	440	440	643	643
3 Derivative hedging instruments	371	371	-	-
4 Financial assets excluded from the scope of IFRS 9				
<i>Financial Instruments</i>	20 508		20 824	
Shares in subsidiaries	20 092		20 408	
Shares in jointly-controlled entities	416		416	
Total financial assets, of which in the statement of financial position:	30 942		28 484	
Non-current assets	27 027		25 129	
Shares	20 559		20 856	
Loans granted	5 936		4 234	
Derivative instruments	532		36	
Other financial assets	-		3	
Current assets	3 915		3 355	
Receivables from buyers	2 495		1 301	
Loans granted	445		1 147	
Derivative instruments	465		123	
Other financial assets	70		88	
Cash and cash equivalents	440		643	
Non-current assets classified as held for sale	-		53	

Categories and classes of financial liabilities	As at 31 December 2021		As at 31 December 2020	
	Carrying amount	Fair value	Carrying amount	Fair value
1 Financial liabilities measured at amortized cost	17 755	17 880	15 869	16 312
Arm's length loans, of which:	7 895	7 910	8 108	8 244
Bank loans	4 495	4 446	5 952	5 984
Liability under the cash pool loan	2 632	2 632	1 386	1 386
Loans from the subsidiary	768	832	770	874
Bonds issued	6 550	6 660	6 750	7 057
Liabilities to suppliers	1 745	1 745	764	764
Liabilities due to acquisition of shares in the subsidiary	1 061	1 061	-	-
Other financial liabilities	503	503	246	246
Liabilities due to purchases of fixed and intangible assets	1	1	1	1
2 Financial liabilities measured at fair value through profit or loss (FVTPL)	495	495	86	86
Derivative instruments	495	495	86	86
3 Derivative hedging instruments	-	-	90	90
4 Financial liabilities excluded from the scope of IFRS 9 <i>Financial Instruments</i>	25		31	
Liabilities under leases	25		31	
Total financial liabilities, of which in the statement of financial position:	18 275		16 076	
Non-current liabilities	9 928		12 206	
Debt	9 801		12 118	
Derivative instruments	116		74	
Other financial liabilities	11		14	
Current liabilities	8 347		3 870	
Debt	4 669		2 771	
Liabilities to suppliers	1 745		764	
Liabilities due to acquisition of shares in the subsidiary	1 061		-	
Derivative instruments	379		102	
Other financial liabilities	493		233	

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

Financial asset/liabilities classes	Fair value measurement level	Fair value measurement methodology
Financial assets/liabilities measured at fair value		
Derivatives, including:		
IRS and CCIRS	2	Derivatives have been measured in line with the methodology presented in Note 21 hereto.
Currency forwards	2	
Commodity forwards and futures	1	
Non-current shares	3	The Company estimated the fair value of shares held in other entities using the adjusted net assets method, considering its share in the net assets and adjusting the value by relevant factors affecting the measurement, such as the non-controlling interest discount and the discount for the limited liquidity of the above instruments. In justify cases, the Company assumes that the historical cost is an acceptable approximation of the fair value.
Loans granted	3	Fair value measurement of the loan had the form of the current value of future cash flows, including borrower's credit risk.
Financial liabilities whose fair value is disclosed		
Loans, borrowings and bonds issued	2	Liabilities arising from fixed interest debt are measured at fair value. The fair value measurement was carried out based on the present value of future cash flows discounted using an interest rate applicable to given bonds or loans, i.e. applying market interest rates.
Loans granted to subsidiaries	2	Loans granted to subsidiaries 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.

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

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

Shares in subsidiaries and jointly-controlled entities excluded from the scope of IFRS 9 *Financial Instruments* are measured at cost less any impairment allowances.

In the year ended 31 December 2021 no changes occurred in the measurement methodology applied to the above financial instruments.

The Company classifies a loan granted to Elektrociepłownia Stalowa Wola S.A. under the agreement of 28 February 2018 to assets measured at fair value though profit or loss.

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

	Year ended 31 December 2021		Year ended 31 December 2020	
	Not quoted shares	Loans granted	Not quoted shares	Loans granted
Opening balance	85	73	48	216
Gains (losses) for the period recognized in financial revenue/costs	(1)	1	-	(143)
Purchased	20	-	47	-
Sold	(53)	-	-	-
Other changes	-	-	(10)	-
Closing balance	51	74	85	73

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

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

Year ended 31 December 2021

	Assets / liabilities measured at fair value through profit or loss	Financial liabilities measured at amortized cost	Financial liabilities measured at amortized cost	Hedging instruments	Financial assets / liabilities excluded from the scope of IFRS 9	Total
Dividends	8	-	-	-	1 844	1 852
Interest income/(expense)	(1)	248	(303)	(25)	(1)	(82)
Commissions	-	-	(25)	-	-	(25)
Exchange differences	(5)	-	19	-	-	14
Impairment / revaluation	70	(298)	12	-	(1 399)	(1 615)
Gain/loss on disposal of investments	(1)	-	-	-	-	(1)
Gain/(loss) on realized derivative instruments*	47	-	-	-	-	47
Net financial income/(costs)	118	(50)	(297)	(25)	444	190
Revaluation	(11)	3	-	-	-	(8)
Gain/(loss) on realized derivative instruments*	114	-	-	-	-	114
Net operating income/(costs)	103	3	-	-	-	106
Remeasurement of IRS	-	-	-	455	-	455
Other comprehensive income	-	-	-	455	-	455

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

Year ended 31 December 2020 (restated data)

	Assets / liabilities measured at fair value through profit or loss	Financial liabilities measured at amortized cost	Financial liabilities measured at amortized cost	Hedging instruments	Financial assets / liabilities excluded from the scope of IFRS 9	Total
Dividends	4	-	-	-	1 078	1 082
Interest income/(expense)	3	325	(378)	(29)	(1)	(80)
Commissions	-	-	(18)	-	-	(18)
Exchange differences	(5)	6	(304)	-	-	(303)
Impairment / revaluation	111	(1 453)	(14)	-	(1 644)	(3 000)
Gain/loss on disposal of investments	2	-	-	-	-	2
Gain/(loss) on realized derivative instruments*	12	-	-	-	-	12
Net financial income/(costs)	127	(1 122)	(714)	(29)	(567)	(2 305)
Revaluation	(2)	(6)	-	-	-	(8)
Gain/(loss) on realized derivative instruments*	(136)	-	-	-	-	(136)
Net operating income/(costs)	(138)	(6)	-	-	-	(145)
Remeasurement of IRS	-	-	-	(103)	-	(103)
Other comprehensive income	-	-	-	(103)	-	(103)

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

40. Objectives and principles of financial risk management

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

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

- credit risk;
- liquidity risk;
- market risk, including:
 - interest rate risk;
 - exchange rate risk;
 - raw material and commodity price risk related to commodity derivative instruments.

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

Risk exposure	Risk management	Regulation
Credit risk		
<p>Possible loss resulting from the counterparty default on contractual obligations. The credit exposure involves a default risk (the amount that may be lost if a counterparty defaults on its obligations) and a replacement risk (the amount that may be lost if a delivery is not made or a service is not provided).</p>	<p>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.</p> <p>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.</p> <p>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.</p> <p>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.</p>	<p>Credit risk management policy for TAURON Group</p>
Liquidity risk		
<p>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.</p>	<p>The liquidity situation of the Company and TAURON Group is monitored on an ongoing basis in terms of potential deviations against the assumed plans while the availability of external sources of financing whose amount significantly exceeds the expected demand in a short term mitigates the risk of losing liquidity.</p> <p>To this end, the Company applies the rules of determining the liquidity position both of individual companies and the entire TAURON Group which helps ensure funds that would cover any potential liquidity gaps by allocating funds between companies cash-pooling) as well as using external financing, including overdraft facilities.</p> <p>The Company also manages the financing risk, understood as no capability to obtain new funding, an increase in funding costs and the risk of terminating the existing funding agreements. To mitigate the financing risk, the Company's policy assumes obtaining funding for the TAURON Group in advance of the planned time of use, i.e. up to 12 months prior to the planned demand. The key objective of the policy is to ensure flexible selection of funding source, use favourable market conditions and reduce the risk related to the necessity to contract new debt on adverse terms.</p>	<p>Liquidity management policy for TAURON Group</p>
Market risk - interest rate and currency risks		
<p>The possibility of an adverse effect on the Group's performance through fluctuations in the fair value of financial instruments or the related future cash flows, driven by changes in interest rates or foreign exchange rates.</p>	<p>TAURON Group manages currency and interest rate risks on the basis of the TAURON Group Financial Risk Management Policy developed and adopted for use, as well as the Risk Tolerance, the Global Limit for Financial Risk and its decomposition into individual types of financial risk approved by the Management Board. The key objective of management of such risks is to minimise the cash flow sensitivity of the Company and TAURON Group to financial risk factors and to minimise financial cost and costs of hedging under transactions with the use of derivative instruments. For interest rate hedging transactions and wherever possible and commercially viable, the Company uses derivative instruments whose characteristics allows for the application of hedge accounting.</p> <p>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.</p>	<p>Financial risk management policy for the TAURON Group</p>
Market risk - price risk		
<p>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.</p>	<p>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.</p>	<p>Commercial risk management policy for the TAURON Group</p>

40.1. Credit risk

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

Financial asset classes	As at 31 December 2021	As at 31 December 2020
Receivables from buyers	2 495	1 301
Loans granted	6 381	5 381
Derivative instruments	997	159
Cash and cash equivalents	440	643
Other financial assets	70	91

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

40.1.1 Credit risk related to receivables from customers

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

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

The exposure of the Company to credit risk related to receivables from customers, including the ageing of receivables from customers and information regarding impairment and risk concentration are presented in Note 25 to these financial statements.

40.1.2 Credit risk related to loans granted

Loans measured at amortized cost

As far as granted loans measured at amortized cost are concerned, the Company assesses the risk of insolvency on the part of the borrowers based on the ratings assigned to the counterparties using an internal scoring model, appropriately restated to account for the probability of default. The expected credit loss is calculated based on the time value of money.

For the purposes of determining the calculation horizon for expected credit losses, material credit risk increases related to certain financial assets are analysed beginning from the initial recognition of a given asset.

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

- 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 Company as at 31 December 2021 and 31 December 2020 were not overdue.

Loans measured at a fair value

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

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

Loans measured at amortised cost by ratings used in the Company

As at 31 December 2021

	Level 1: allowance equal to 12 monthly expected credit losses -no impairment	Level 2: allowance for expected credit losses over the life period -no impairment	Level 3: allowance for expected credit losses over the life period - with impairment	Total
AAA do A	-	-	-	-
A- do BBB-	5 443	-	-	5 443
BB+ do BB	17	-	-	17
BB- do B	-	905	28	933
B- do D	-	-	-	-
Gross value	5 460	905	28	6 393
impairment loss	(18)	(65)	(3)	(86)
Net value	5 442	840	25	6 307

As at 31 December 2020

	Level 1: allowance equal to 12 monthly expected credit losses -no impairment	Level 2: allowance for expected credit losses over the life period -no impairment	Level 3: allowance for expected credit losses over the life period - with impairment	Total
AAA do A	-	-	-	-
A- do BBB-	4 458	-	-	4 458
BB+ do BB	-	-	-	-
BB- do B	103	825	28	956
B- do D	-	-	-	-
Gross value	4 561	825	28	5 414
impairment loss	(15)	(90)	(1)	(106)
Net value	4 546	735	27	5 308

In addition to the loans presented in the table, as at 31 December 2021 and as at 31 December 2020, the Company had loans granted to TAURON Wydobycie S.A. with a carrying amount of zero, constituting an instrument purchased with an impairment, classified in a rating of B- to D.

40.1.3 Credit risk related to other financial assets

Cash and equivalents

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

The share of three banks where the Company holds its largest cash balances was 98% as at 31 December 2021, of which the largest proportion of cash was held in accounts with leading bank - 43%.

Derivatives

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

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

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

40.2. Liquidity risk

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

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. Available as at the balance sheet day, financing agreements and used amounts, there are presented in table below.

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

Available financing agreements 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 2021, the Company demonstrated full capacity to settle its liabilities on their maturity date.

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

Financial liabilities as at 31 December 2021

	Carrying amount	Contractual undiscounted payments	Including contractual undiscounted payments maturing during the period (from the reporting date)					
			less than 3 months	3 -12 months	1 - 2 years	2 - 3 years	3 - 5 years	over 5 years
Financial liabilities other than derivative instruments								
Interest-bearing loans, borrowings and bonds issued	14 445	(16 379)	(4 385)	(613)	(679)	(2 377)	(3 846)	(4 479)
Liabilities to suppliers	1 745	(1 745)	(1 745)	-	-	-	-	-
Liabilities due to acquisition of shares in the subsidiary	1 061	(1 061)	(1 061)	-	-	-	-	-
Other financial liabilities	503	(503)	(492)	-	(3)	(3)	(4)	(1)
Lease liabilities	25	(29)	(3)	(8)	(9)	(4)	-	(5)
Liabilities due to purchases of fixed and intangible assets	1	(1)	(1)	-	-	-	-	-
Derivative financial liabilities								
Derivative instruments-commodity	494	(185)	(84)	(26)	(75)	-	-	-
Derivate instruments-CCIRS	1	(13)	-	(2)	(2)	(2)	(4)	(3)
Total	18 275	(19 916)	(7 771)	(649)	(768)	(2 386)	(3 854)	(4 488)

Financial liabilities as at 31 December 2020

	Carrying amount	Contractual undiscounted payments	Including contractual undiscounted payments maturing during the period (from the reporting date)					
			less than 3 months	3 -12 months	1 - 2 years	2 - 3 years	3 - 5 years	over 5 years
Financial liabilities other than derivative instruments								
Interest-bearing loans, borrowings and bonds issued	14 858	(16 914)	(2 438)	(584)	(2 561)	(613)	(5 377)	(5 341)
Liabilities to suppliers	764	(764)	(764)	-	-	-	-	-
Other financial liabilities	246	(246)	(232)	-	(3)	(2)	(5)	(4)
Lease liabilities	31	(36)	(3)	(7)	(8)	(9)	(4)	(5)
Liabilities due to purchases of fixed and intangible assets	1	(1)	(1)	-	-	-	-	-
Derivative financial liabilities								
Derivative instruments-commodity	84	(18)	-	(13)	(5)	-	-	-
Derivative instruments-IRS	90	(90)	(2)	(31)	(31)	(22)	(3)	(1)
Derivate instruments-CCIRS	2	(14)	-	(2)	(2)	(2)	(4)	(4)
Total	16 076	(18 083)	(3 440)	(637)	(2 610)	(648)	(5 393)	(5 355)

As at 31 December 2021, the Company had guarantees, sureties and collaterals granted to related companies for the total amount of PLN 1 419 million (excluding registered and financial pledges on shares), as at 31 December 2020 - PLN 1 438 million. As at 31 December 2021, the most significant item was a corporate guarantee granted to the subsidiary up to the amount of EUR 168 million (PLN 773 million) and the bank guarantee in the amount of PLN 518 million issued to Bank Gospodarstwa Krajowego, as further discussed in Note 42 to these financial statements.

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

40.3. Market risk

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

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

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

40.3.1 Interest rate risk

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

The purpose of interest rate risk management is to limit negative effects of market interest rate fluctuations on the Company's cash flows to an acceptable level and to minimize finance costs. In order to hedge interest rate risk related to floating-rate debt, the Company entered into interest rate swap (IRS) contracts, described in detail in Note 21 hereto. IRS transactions concluded in order to hedge interest rate risk are subject to hedge accounting.

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

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

Financial instruments by interest rate type

Financial instruments	Year ended 31 December 2021			Year ended 31 December 2020		
	Fixed interest rate	Floating interest rate	Total	Fixed interest rate	Floating interest rate	Total
Financial assets						
Loans granted	6 351	30	6 381	5 100	281	5 381
Derivative instruments-IRS	371	-	371	-	-	-
Derivative instruments-CCIRS	26	-	26	5	-	5
Cash and cash equivalents	-	440	440	-	632	632
Financial liabilities						
Arm's length loans	3 401	4 494	7 895	3 559	4 549	8 108
Bonds issued	5 980	570	6 550	6 010	740	6 750
Derivative instruments-IRS	-	-	-	90	-	90
Derivative instruments-CCIRS	1	-	1	2	-	2
Leases liabilities	25	-	25	31	-	31

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

Analysis of sensitivity to interest rate risk

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

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

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

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 financial instruments	31 December 2021		Sensitivity analysis for interest rate risk as at 31 December 2021		31 December 2020		Sensitivity analysis for interest rate risk as at 31 December 2020 (restated figures)	
	Carrying amount	Value at risk	WIBOR +64 pb	WIBOR -64 pb	Carrying amount	Value at risk	WIBOR +69 pb	WIBOR -69 pb
			Profit/(Loss) / Other comprehensive income*				Profit/(Loss) / Other comprehensive income*	
Financial assets								
Loans granted	6 381	104	(4)	4	5 381	354	(3)	3
Derivatives	997	397	82	(82)	159	5	9	(9)
Cash and cash equivalents	440	440	2	(2)	643	632	4	(2)
Financial liabilities								
Arm's length loans	7 895	6 246	(40)	40	8 108	6 299	(44)	34
Bonds issued	6 550	2 663	(17)	17	6 750	2 830	(20)	20
Derivatives	495	1	-	-	176	92	128	(128)
Total			23	(23)			74	(82)

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

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

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

40.3.2 Currency risk

The tables below present the Company's exposure to currency risk by particular classes of financial instruments as at 31 December 2021 and 31 December 2020. The Company's significant exposure relates to changes in the EUR/PLN exchange rate, mainly due to external financing incurred in EUR. The Company's exposure to other currencies is immaterial.

	As at 31 December 2021			As at 31 December 2020		
	Total carrying amount in PLN	EUR		Total carrying amount in PLN	EUR	
		in currency	in PLN		in currency	in PLN
Financial assets						
Derivatives	997	100	460	159	18	81
Other financial assets	70	7	32	91	11	51
Cash and cash equivalents	440	20	92	643	26	118
Total	1 507	127	584	893	55	250
Financial liabilities						
Arm's length loans	7 895	167	768	8 108	167	770
Bonds issued	6 550	688	3 164	6 750	690	3 186
Liabilities to supplier	1 745	-	-	764	7	34
Derivatives	495	102	469	176	17	79
Other financial liabilities	503	22	102	246	16	73
Total	17 188	979	4 503	16 044	897	4 142
Net currency position	-	(852)	(3 919)	-	(842)	(3 892)

As part of its currency risk management, the Company uses forward contracts. The purpose of these transactions was to hedge the Company against currency risk arising in the course of its trading activities, mainly due to the purchase of CO₂ 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.

Currency risk sensitivity analysis

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

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

The Company identifies its exposure to foreign currency risk related to EUR/PLN, USD/PLN, GBP/PLN, CZK/PLN. Significant risk exposure occurs for EUR; other currencies do not generate material risk for the Company.

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

Classes of financial instruments	31 December 2021		Sensitivity analysis for currency risk as at 31 December 2021		31 December 2020		Sensitivity analysis for currency risk as at 31 December 2020	
	Carrying amount	Value at risk	EUR/PLN		Carrying amount	Value at risk	EUR/PLN	
			exchange rate EUR/PLN +5.88%	exchange rate EUR/PLN -5.88%			exchange rate EUR/PLN +5.78%	exchange rate EUR/PLN -5.78%
Financial assets								
Derivatives	997	601	285	(285)	159	154	161	(161)
Other financial assets	70	32	2	(2)	91	51	3	(3)
Cash and cash equivalents	440	92	5	(5)	643	118	7	(7)
Financial liabilities								
Arm's length loans	7 895	768	(45)	45	8 108	770	(45)	45
Bonds issued	6 550	3 164	(186)	186	6 750	3 186	(184)	184
Liabilities to suppliers	1 745	-	-	-	764	34	(2)	2
Derivatives	495	470	(24)	24	176	81	(1)	1
Other financial liabilities	503	102	(6)	6	246	73	(4)	4
Total			31	(31)			(65)	65

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

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

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

At 31 December 2021, the portfolio of concluded contracts is fully balanced. This minimises market risk in the commodity derivatives portfolio. This is confirmed by results of the sensitivity analysis conducted, which indicated insignificant effects of potential changes in the prices of CO₂ emission allowances on the gross profit/loss of the Company.

41. Operational risk

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

Commercial operational risk is managed at the level of TAURON Group, which is discussed in more detail in Note 53 to the consolidated financial statements of TAURON Polska Energia S.A. Capital Group for the year ended 31 December 2021. The Company manages its commercial risk following the *Commercial risk management policy developed and adopted in the TAURON Group*.

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

Fuel type	Unit	2021		2020	
		Volume	Purchase cost	Volume	Purchase cost
Electricity	MWh	49 602 739	15 987	40 781 732	10 184
Gas	MWh	4 816 878	595	4 123 571	338
Total			16 582		10 522

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

OTHER INFORMATION

42. Contingent liabilities

As at 31 December 2021 and 31 December 2020, the Company's contingent liabilities were mainly the effect of securities and guarantees granted to related parties and were as follows:

Type of contingent liability	Company in respect of which contingent liability has been granted	Beneficiary	Validity	As at 31 December 2021	As at 31 December 2020
corporate guarantees	Finanse Grupa TAURON Sp. z o.o.	Private placement investors	3.12.2029	773	775
	Elektrociepłownia Stalowa Wola S.A.	Economic operators and customers who concluded agreements with ECSW S.A. under the license for electricity trading granted by the ERO President	15.02.2022	7	-
liability towards MUFG Bank, Ltd. under guarantees issued by the bank for jointly-controlled entity	Elektrociepłownia Stalowa Wola S.A.	Bank Gospodarstwa Krajowego	11.04.2022	518	518
registered pledges and financial pledge of shares in TAMEH HOLDING Sp. z o.o.	TAMEH Czech s.r.o. TAMEH POLSKA Sp. z o.o.	RAIFFEISEN BANK INTERNATIONAL AG	31.12.2028*	416	416
blank promissory notes with a promissory note declarations	subsidiaries TAURON Wytwarzanie S.A. i TAURON Ciepło Sp. z o.o.	Regional Fund for Environmental Protection and Water Management in Katowice	15.12.2022	40	70
surety contracts	various subsidiaries and Elektrociepłownia Stalowa Wola S.A.	various entities	24.04.2022- indefinite	43	42
liability towards CaixaBank S.A. being result of guarantees issued by the bank for subsidiaries	various subsidiaries	various entities	31.12.2021- 28.07.2029	38	33

*The registered pledges apply in the collateral period, i.e. until the full repayment of hedged receivables or until the release of the pledge by the pledgor. The financial pledge is valid in the entire collateral period or until release by the pledgor, not later than on 31 December 2028.

The most significant items of contingent liabilities include:

- The corporate guarantee granted in 2014 to secure the bonds of Finanse Grupa TAURON Sp. z o.o. (the so-called NSV). The guarantee shall be effective until 3 December 2029, i.e. the redemption date of the bonds and amounts to EUR 168 million (PLN 773 million), while the beneficiaries of the guarantee are the private placement investors who purchased the bonds issued.
- The liability to MUFG Bank, Ltd. arising from the issuance of a bank guarantee at the request of the Company by MUFG Bank, Ltd. as a collateral for the receivables of Bank Gospodarstwa Krajowego (BGK) arising from the loan agreement concluded on 8 March 2018 between the borrower, Elektrociepłownia Stalowa Wola S.A. and BGK and PGNiG S.A. The bank guarantee up to the amount of PLN 518 million shall remain in force until 11 April 2022, whereas the receivables of MUFG Bank, Ltd. against the Company are secured by a statement of submission to enforcement up to the amount of PLN 621 million with the effective date until 31 October 2022. In connection with the guarantee issued, the Company recognised a liability in the amount of expected credit losses, which amounted to PLN 16 million as at 31 December 2021 (PLN 28 million as at 31 December 2020).
- The registered pledge and the financial pledge established under an agreement concluded in 2015 on the shares held, representing 50% of the shares in the share capital of TAMEH HOLDING Sp. z o.o., in favour of RAIFFEISEN BANK INTERNATIONAL AG. The registered pledges are pledges with the highest priority of satisfaction on shares up to the highest amount of security in the amount of CZK 3 950 million and PLN 1 370 million, respectively. The agreement for the establishment of registered pledges and financial pledges was concluded in order to secure the transaction involving the agreement for term and working capital loans, which was concluded between TAMEH Czech s.r.o. and TAMEH POLSKA Sp. z o.o. as the original borrowers, TAMEH HOLDING Sp. z o.o. as the parent company and guarantor and RAIFFEISEN BANK INTERNATIONAL AG as the agent and collateral agent. The registered pledges are valid in the collateral period, i.e. until the total repayment or until release of the pledge by the pledgor. The financial pledge is valid in the entire collateral period or until release by the pledgor, not later than on 31 December 2028.

After the balance sheet day, on 24 March 2022, the Company granted to the subsidiary TAURON Czech Energy s.r.o. security in the form of a corporate guarantee in the amount of EUR 3 million, as security for commercial agreements

concluded by the company, valid until 31 January 2024 and in the form of a patronage declaration up to the amount of CZK 180 million, as security for a framework agreement for granting bank guarantees for the period of its validity.

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

Claims related to termination of long-term contracts

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

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

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

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

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

In the case filed by Pękanino Wind Invest Sp. z o.o. for the provision of security for claims for determining that the terminations of long-term contracts submitted by Polska Energia-Pierwsza Kompania Handlowa Sp. z o.o. are ineffective, the Court of Appeals 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 prejudice the merits of the action, which can only take place in a binding judgement, but only temporarily regulates the parties' relations for the duration of the proceedings. In view of the need to implement the security provision referred to above, Polska Energia-Pierwsza Kompania Handlowa Sp. z o.o. created a provision for onerous contracts. During the year ended 31 December 2021, the provision was fully released as a planned in subsequent years result of gaining profits due to the performance of framework agreements for the purchase of electricity and property rights with Pękanino Wind Invest Sp. z o.o.

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

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

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

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

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

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

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

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

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

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

On 26 March 2021, the Company and other entities holding shares in PGE EJ 1 Sp. z o.o. signed an agreement with the State Treasury for the sale of shares in PGE EJ 1 Sp. z o.o., which is described in more detail in Note 27 to these financial statements. Moreover, the Company and PGE Polska Grupa Energetyczna S.A., KGHM Polska Miedź S.A. and ENEA S.A. concluded an annex to the WorleyParsons agreement of 15 April 2015 with PGE EJ 1 Sp. z o.o., regulating the issues of the parties' potential liabilities and benefits resulting from the settlement of the dispute with the WorleyParsons consortium following the sale of the shares in PGE EJ 1 Sp. z o.o. In accordance with the annex signed, the shareholders in proportion to their previously held number of shares in PGE EJ 1 Sp. z o.o. are liable for liabilities or proportionally entitled to benefits potentially arising as a result of the settlement of the dispute with the WorleyParsons consortium up to the maximum level of claims with interest set as at 26 March 2021, amounting respectively to PLN 140 million for claims raised by the WorleyParsons consortium against PGE EJ 1 Sp. z o.o. and PLN 71 million for claims raised by PGE EJ 1 Sp. z o.o. against the WorleyParsons consortium.

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

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

Claims filed by Huta Łaziska S.A.

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

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

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

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

Case filed by ENEA S.A.

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

On 22 March 2021, the Regional Court in Katowice dismissed the claim of ENEA in its entirety and ruled on ENEA's obligation to reimburse the costs of the proceedings to the Company. The judgement is not legally binding. ENEA has filed an appeal against the above ruling. Until the date these financial statements were authorised for publication, the Company had not been served with a notice setting a date for an appeal hearing.

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

43. Collaterals for repayment of liabilities

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

Collateral	Collateral amount as at	
	31 December 2021	31 December 2020
Declarations of submission to enforcement*	19 185	18 692
Pledges on shares in a subsidiary	1 380	-
Bank account madates	600	1 408
Bank guarantees	90	192
Blank promissory notes	4	8

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

The most significant items of collaterals constitute:

- The declaration of submission to enforcement - as at 31 December 2021 and 31 December 2020, the most significant item is the security up to PLN 7 284 million established for the bank facility agreement with the Consortium of Banks I of 19 June 2019, described in more detail in Note 30.2 to these financial statements.
- Collaterals for the repayment of liabilities due to the acquisition of non-controlling interests in Nowe Jaworzno Grupa TAURON Sp. z o.o., as discussed in more detail in Note 33 to these financial statements.

As part of collaterals, pursuant to the agreement of 22 December 2021 concluded with Fundusz Inwestycji Infrastrukturalnych–Kapitałowy Fundusz Inwestycyjny Aktywów Niepublicznych (the "Fund") the Company established pledges in favour of the Fund on 176 000 shares in the share capital of the subsidiary, Nowe Jaworzno Grupa TAURON Sp. z o.o, i.e. a registered pledge with first priority of satisfaction on the shares up to the maximum amount of security of PLN 1 380 million and an ordinary pledge with first priority of satisfaction equal to the priority of the registered pledge. The Company assigned also the rights to receive dividends or other profit distributions in respect of the pledged shares and granted the Fund an unconditional and irrevocable power of attorney to exercise the voting rights of the pledged shares in the subsidiary. The pledges were valid until the secured receivables were fully satisfied. In addition, the Company signed a declaration of submission to enforcement for the benefit of the Fund up to the amount of PLN 1 380 million, with the deadline of 22 September 2023. After the balance sheet day, on 22 March 2022, the Company repaid its obligations under the agreement to acquire shares in the subsidiary Nowe Jaworzno Grupa TAURON Sp. z o.o.

- Powers of attorney for bank accounts - the collateral in the form of powers of attorney for bank accounts relates mainly to agreements concluded with banks for overdraft facilities and agreements for bank guarantees.

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

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

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

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

- bank guarantees were issued in favour of the IRGiT as the collateral securing the liabilities of the Company in the total amount of PLN 150 million with expiry dates from 14 February to 24 April 2022;
- on 4 January 2022, a declaration of submission to enforcement was signed up to the maximum amount of PLN 600 million with the expiry date of 15 December 2029, in connection with the conclusion of the facility agreement up to the amount of PLN 500 million by the Company on 15 December 2021, as further described in Note 30.2 to these financial statements;
- on 4 March 2022, the Company concluded the annex to the agreement with BGK for the provision of bank guarantees under the line, extending its term by one year, i.e. until 13 March 2023. The agreement is secured by a declaration on submission to enforcement up to the amount of PLN 300 million with a period of effectiveness until 14 March 2025;

- on 14 March 2022, the Company concluded the agreement with Intesa Sanpaolo S.p.A. for a guarantee line of up to PLN 518 million, with a period of effectiveness until 11 October 2022, under which, at the Company request, a bank guarantee was issued to secure BGK receivables under the loan agreement concluded on 8 March 2018 between the borrower, Elektrociepłownia Stalowa Wola S.A. and BGK and PGNiG S.A. The guarantee line is secured by a declaration on submission to enforcement up to the amount of PLN 621 million with a validity period until 14 March 2025.

44. Investment liabilities

As at 31 December 2021 and as at 31 December 2020 the Company did not have any material investment liabilities.

45. Related party disclosures

45.1. Transactions with related parties and State Treasury companies

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

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

Revenues and expenses

	Year ended 31 December 2021	Year ended 31 December 2020
Revenue from subsidiaries	17 943	12 727
Revenue from operating activities	15 523	11 220
Dividend income	1 807	1 078
Other finance income	613	429
Revenue from jointly-controlled entities	352	262
Revenue from State Treasury companies	488	196
Costs from subsidiaries	(8 278)	(3 191)
Costs of operating activities	(8 246)	(3 159)
Finance costs	(32)	(32)
Costs incurred with relation to transactions with jointly-controlled entities	(447)	(61)
Costs from State Treasury companies	(621)	(687)

Receivables and liabilities

	As at 31 December 2021	As at 31 December 2020
Loans granted to subsidiaries and receivables from subsidiaries	12 447	9 753
Receivables from buyers	2 338	1 284
Loans granted to subsidiaries	9 998	8 131
Loans granted under cash pool agreement	109	313
Receivables arising from the TCG	-	21
Other non-financial assets	2	4
Loans granted to jointly-controlled entities and receivables from jointly-controlled entities	606	495
Receivables from State Treasury companies	87	19
Liabilities to subsidiaries	5 980	3 152
Liabilities to suppliers	1 547	545
Loans received under cash pool services	2 608	1 366
Loans from the subsidiary	768	770
Liabilities arising from the TCG	330	91
Other financial liabilities	23	24
Other non-financial liabilities	704	356
Liabilities to jointly-controlled entities	74	41
Liabilities to State Treasury companies	64	85

The receivables and loans presented in the table above represent values before allowances for expected credit losses or the measurement to the fair value.

Revenues from subsidiaries presented in the table include revenues from the sales of coal to TAURON Wytwarzanie S.A., TAURON Ciepło Sp. z o.o. and Nowe Jaworzno Grupa TAURON Sp. z o.o., which are presented in the statement of comprehensive income, net of acquisition costs, at the surplus value representing agency fees, as described in Note 11 to these financial statements.

In the year ended 31 December 2021, the revenues from the State Treasury companies result from transactions executed by the Company with Polskie Sieci Elektroenergetyczne S.A.

In the scope of costs incurred in connection with the transactions with the State Treasury companies in the year ended 31 December 2021, the largest counterparties of TAURON Polska Energia S.A. included Polska Grupa Górnicza S.A., Jastrzębska Spółka Węglowa S.A. and Polskie Sieci Elektroenergetyczne S.A. Costs in transactions with these counterparties accounted for 91% of the total costs incurred in purchase transactions with the State Treasury companies.

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

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

Transactions with the State Treasury

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

On 26 March 2021, the Company signed the agreement with the State Treasury concerning the sale of the shares in PGE EJ 1 Sp. z o.o. (currently: Polskie Elektrownie Jądrowe Sp. z o.o.), as further described in Note 27 to these financial statements.

45.2. Remuneration of the executives

The amount of compensation and other benefits paid or payable to the Management Board, Supervisory Board and other key executives of the Company in the year ended 31 December 2021 and in the comparative period has been presented in the table below.

	Year ended 31 December 2021	Year ended 31 December 2020
Management Board	4	5
Short-term benefits (with surcharges)	4	4
Termination benefits	-	1
Supervisory Board	1	1
Short-term employee benefits (salaries and surcharges)	1	1
Other members of key management personnel	16	17
Short-term employee benefits (salaries and surcharges)	14	15
Termination benefits	1	1
Other	1	1
Total	21	23

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

There are no transactions in the Company in respect of loans from the Company Social Benefits Fund (ZFSS) granted to members of the Management Board, members of the Supervisory Board and other members of the key management staff.

46. Finance and capital management

Finance and capital management is carried out at the level of TAURON Polska Energia S.A. Capital Group. During the period covered by these financial statements, there were no significant changes in the objectives, principles and procedures of capital and financial management. Capital and finance management at the Group level is discussed in more detail in Note 57 of Additional Explanatory Notes to the Consolidated Financial Statements for the year ended 31 December 2021.

47. Structure of employment

The following note presents the average headcount for the annual periods ended 31 December 2021 and 31 December 2020.

	Year ended 31 December 2021	Year ended 31 December 2020
Administration	337	380
Sales department	97	95
Total	434	475

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

48. 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 of the Report of the Management Board on the operations of TAURON Polska Energia S.A. and TAURON Capital Group for the financial year 2021.

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

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

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

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

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

The Company directly distinguished revenues from sales and own cost of goods, materials and services sold related to particular types of business.

Costs of sales related to the entire sales process carried out by the Company have been divided on a pro rata basis against the revenue on sales generated by the Company.

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

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

Statement of comprehensive income by type of activity for the financial year 2021

	Gas	Other activity	Unallocated items	Total
Sales revenue	608	17 608	-	18 216
Cost of sales	(601)	(17 441)	-	(18 042)
Profit on sale	7	167	-	174
Selling and distribution expenses	(1)	(24)	-	(25)
Administrative expenses	-	-	(101)	(101)
Other operating income and expenses	-	(3)	-	(3)
Operating profit (loss)	6	140	(101)	45
Dividend income	-	1 852	-	1 852
Interest income on loans	-	247	-	247
Interest expense on debt	-	(330)	-	(330)
Revaluation of shares	-	(1 399)	-	(1 399)
Revaluation of loans	-	(298)	-	(298)
Other finance income and costs	-	119	-	119
Profit (loss) before tax	6	331	(101)	236
Income tax expense	-	-	24	24
Net profit (loss)	6	331	(77)	260

Statement of comprehensive income by type of activity for the financial year 2020 (restated data)

	Gas	Other activity	Unallocated items	Total
Sales revenue	342	10 998	-	11 340
Cost of sales	(337)	(11 764)	-	(12 101)
Profit on sale (loss)	5	(766)	-	(761)
Selling and distribution expenses	(1)	(20)	-	(21)
Administrative expenses	-	-	(118)	(118)
Other operating income and expenses	-	(10)	-	(10)
Operating profit (loss)	4	(796)	(118)	(910)
Dividend income	-	1 082	-	1 082
Interest income on loans	-	325	-	325
Interest expense on debt	-	(410)	-	(410)
Revaluation of shares	-	(1 644)	-	(1 644)
Revaluation of loans	-	(1 453)	-	(1 453)
Other finance income and costs	-	(180)	-	(180)
Profit (loss) before tax	4	(3 076)	(118)	(3 190)
Income tax expense	-	-	(62)	(62)
Net profit (loss)	4	(3 076)	(180)	(3 252)

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

The Company directly separated receivables from customers and liabilities to suppliers, other receivables and liabilities as well as derivatives related to individual types of business activities carried out by the Company.

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

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

Statement of financial position as at 31 December 2021 by type of activity

	Gas	Other activity	Unallocated items	Total
ASSETS				
Non-current assets, of which:	1	27 086	-	27 087
Shares	-	20 559	-	20 559
Loans granted	-	5 936	-	5 936
Derivative instruments	1	531	-	532
Current assets, of which:	29	3 508	856	4 393
Receivables from buyers	14	2 481	-	2 495
Income tax receivables	-	-	373	373
Loans granted	-	445	-	445
Derivative instruments	12	453	-	465
Other financial assets	3	67	-	70
Other non-financial assets	-	11	43	54
Cash and cash equivalents	-	-	440	440
TOTAL ASSETS	30	30 594	856	31 480
EQUITY AND LIABILITIES				
Equity	-	-	12 101	12 101
Non-current liabilities, of which:	1	10 244	-	10 245
Debt	-	9 801	-	9 801
Derivative instruments	1	115	-	116
Other financial liabilities	-	11	-	11
Other non-financial liabilities	-	113	-	113
Deferred tax liabilities	-	-	45	45
Other provisions, accruals, deferred income and government grants	-	1	4	5
Current liabilities, of which:	36	8 988	110	9 134
Debt	-	4 669	-	4 669
Liabilities to suppliers	24	1 721	-	1 745
Derivative instruments	12	367	-	379
Other financial liabilities	-	493	-	493
Other non-financial liabilities	-	591	110	701
Other provisions, accruals, deferred income and government grants	-	18	-	18
TOTAL EQUITY AND LIABILITIES	37	19 232	12 211	31 480

Statement of financial position as at 31 December 2020 by type of activity (restated data)

	Gas	Other activity	Unallocated items	Total
ASSETS				
Non-current assets, of which:	1	25 201	-	25 202
Shares	-	20 856	-	20 856
Loans granted	-	4 234	-	4 234
Derivative instruments	1	35	-	36
Other financial assets	-	3	-	3
Current assets, of which:	38	3 076	730	3 844
Receivables from buyers	36	1 265	-	1 301
Income tax receivables	-	-	82	82
Loans granted	-	1 147	-	1 147
Derivative instruments	-	123	-	123
Other financial assets	2	86	-	88
Other non-financial assets	-	8	5	13
Cash and cash equivalents	-	-	643	643
TOTAL ASSETS	39	28 277	730	29 046
EQUITY AND LIABILITIES				
Equity	-	-	11 461	11 461
Non-current liabilities, of which:	1	13 070	4	13 075
Debt	-	12 118	-	12 118
Derivative instruments	-	74	-	74
Other financial liabilities	-	14	-	14
Other provisions, accruals, deferred income and government grants	-	1	4	5
Current liabilities, of which:	4	4 159	347	4 510
Debt	-	2 771	-	2 771
Liabilities to suppliers	4	760	-	764
Derivative instruments	-	102	-	102
Other financial liabilities	-	233	-	233
Other non-financial liabilities	-	-	347	347
Other provisions, accruals, deferred income and government grants	-	23	-	23
TOTAL EQUITY AND LIABILITIES	5	17 229	11 812	29 046

50. Other material information***Judgement of the Court of Arbitration at the Polish Chamber of Commerce concerning the claims of Abener Energia S.A. against Elektrociepłownia Stalowa Wola S.A. and the proceedings between Abener Energia S.A. And Elektrociepłownia Stalowa Wola S.A.***

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

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

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

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

The contract concluded between ECSW and Abener does not contain any provisions obliging the Company to pay any form of the remuneration to Abener for ECSW. On 30 September 2020, Elektrociepłownia Stalowa Wola was commissioned.

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

After the balance sheet day, on 28 February 2022, ECSW and Abener signed an annex to the settlement agreement extending the deadline for the fulfilment of Abener's obligations, the failure to perform which would constitute a termination condition of the settlement agreement, to 7 March 2022. As at the date these financial statements were authorised for publication, the terms of the settlement agreement have been fulfilled and the Parties commenced its implementation.

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

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

On 23 July 2021, the Company, PGE Polska Grupa Energetyczna S.A., ENEA S.A., Energa S.A. (collectively, the "Energy Companies") and the State Treasury concluded the agreement on cooperation in the scope of unbundling of coal assets

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

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

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

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

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

Shutdown of the 910 MW unit in Jaworzno

In the year ended 31 December 2021, a shutdown of the 910 MW unit in Jaworzno occurred operating as part of the subsidiary Nowe Jaworzno Grupa TAURON Sp. z o.o. (the "Unit"). The re-synchronisation date with the Unit network is scheduled on 29 April 2022.

The key events that occurred in terms of the Unit shutdown are described below:

- On 2 August 2021, TAURON Polska Energia S.A. received a letter from its subsidiary, Nowe Jaworzno Grupa TAURON Sp. z o.o. indicating that E003B7 Sp. z o.o. (a subsidiary of RAFAKO S.A.) submitted to Nowe Jaworzno Grupa TAURON Sp. z o.o. the schedule of works to be conducted on the Unit. The schedule comprising the date indicated by E003B7 Sp. z o.o. for the re-synchronisation of the Unit with the grid, i.e. 25 February 2022, resulted from the need to carry out work on certain elements of the Unit that were identified by internal equipment inspections during the Block downtime.
- On 8 September 2021, RAFAKO S.A., which is one of the members of the consortium RAFAKO S.A. - MOSTOSTAL WARSZAWA S.A. (the "Consortium") which performs the execution works related to the Unit, provided the Company with a statement that the condition to ensure efficient continuation of works on the Unit is the capital engagement by the Company in RAFAKO S.A. The Company did not take any decisions or actions aimed at acquiring a block of RAFAKO S.A. shares, including no negotiations with RAFAKO S.A. on this matter.
- On the same day, Nowe Jaworzno Grupa TAURON Sp. z o.o. received a call from RAFAKO S.A. to immediately clarify the causes of the fire incidents that occurred at the Unit under the pain of withdrawal from the agreement concluded on 17 April 2014 for the construction of the Unit. In the opinion of the Company, any activities undertaken by Nowe Jaworzno Grupa TAURON Sp. z o.o., including in the framework of the execution of the investment and the operation of the Unit, including those related to the fire incidents mentioned above, were and are compliant with the highest standards and legal regulations, including fire protection regulations as well as with the operating documentation prepared by RAFAKO S.A. under the agreement for the construction of the Unit.
- On 3 November 2021, the Company was notified by its subsidiary, Nowe Jaworzno Grupa TAURON Sp. z o.o. of a new date declared by RAFAKO S.A. for re-synchronisation of the Unit with the grid, scheduled for 29 April 2022. A new date for re-synchronisation of the Unit with the grid was indicated in the minutes of the mediation of 3 November 2021, conducted with the participation of the Mediators of the Court of Arbitration at the General Counsel to the Republic of Poland.

- On 2 December 2021, Nowe Jaworzno Grupa TAURON Sp. z o.o., E003B7 Sp. z o.o. and the Consortium signed a settlement before the Court of Arbitration at the State Treasury General Prosecutor's Office. As part of the settlement, the date of the synchronisation of the Unit with the grid, scheduled for 29 April 2022, was confirmed. Moreover, the settlement regulates issues related to, among others, the performance by the Consortium of additional services and works reducing the costs of the future operation of the Unit, the principles and conditions regarding the waiver of contractual penalties accrued by the Parties and the pursuit of claims, the principles of calculating additional contractual penalties and withdrawal from the agreement in the event of a delay in the synchronisation of the Unit with the grid.
- In connection with the conclusion of the settlement, on 2 December 2021, Nowe Jaworzno Group TAURON Sp. z o.o. and the Consortium concluded annexes to the agreement for the construction of the Unit, which regulate in detail the mediation arrangements of the Parties. The total remuneration of PLN 91 million was agreed for the performance of additional services and works, the acquisition of the licence to the boiler workshop documentation, and the repair of the Unit. Furthermore, Nowe Jaworzno Grupa TAURON Sp. z o.o. conditionally undertook to entrust the Consortium with other works increasing the efficiency of the Unit if the Consortium performs the synchronisation of the Unit on time and presents a statement of the financial institutions securing the execution of the agreement, containing a consent to release additional financing for RAFAKO S.A. The value of the works referred to above was determined at a level of PLN 23 million. The settlement and the annexes referred to above shall enter into force upon the fulfilment of conditions precedent. The parties also agreed that the settlement concluded before the mediator would be referred to the competent common court with a request for its approval by the court. Upon final approval of the settlement concluded before the mediator by the court, the settlement shall acquire legal force of a court settlement. On 9 March 2022 Nowe Jaworzno Grupa TAURON Sp. z o.o. received a court decision of 1 March 2022 approving the settlement. On 24 March 2022, the deadline for lodging an appeal against the decision approving the settlement expired. Nowe Jaworzno Grupa TAURON Sp. z o.o. did not contest the settlement and, to the best of its knowledge, the settlement was also not contested by the Consortium.

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

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

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

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

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

- Despite the applicable restrictions, an increase in demand for electricity of TAURON Group customers was observed in the period of 2021.
- No significant changes or permanent trends in the level of overdue receivables and volatility of electricity and related products prices resulting from the COVID-19 pandemic were observed in the reporting period.

- The persistent state of the COVID-19 pandemic in 2021 triggered some difficulties in the implementation of certain TAURON Capital Group's strategic investment projects, affected, among others, by disruptions in the supply of materials and equipment and by the occurring problems related to the functioning of public administration, which had an impact on the extension of the duration of administrative proceedings.
- The situation related to the COVID-19 pandemic continued to affect the operations of individual business areas through increased employee absenteeism and the growth of operating costs resulting from the requirement to ensure the epidemiological safety.

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

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

51. Events after the balance sheet day

Release of credit tranches

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

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

The facility agreements mentioned above are further described in Note 30.2 to these financial statements.

Sale of 1 717 000 CO₂ emission allowances held by the Group for redemption purposes for 2022

Due to the failure of the 910 MW unit in Jaworzno in the middle of 2021, CO₂ emissions in 2021 at the subsidiary Nowe Jaworzno Grupa TAURON Sp. z o.o. were significantly lower than the volume of contracted and accepted CO₂ emission allowances secured by the Group for the planned energy production. Part of the resulting surplus of 1 717 000 EUAs from the settlement of contracts in December 2021 was allocated for redemption purposes of another Group installation for 2022. This emission allowances were repurchased by the Company from Nowe Jaworzno Grupa TAURON Sp. z o.o. in January 2022.

With a view to aligning the delivery of allowances and the cash outlay, after the balance sheet day, the Company decided to sell its surplus of CO₂ emission allowances (1 717 000 Mg CO₂) and simultaneously buy back this volume in the EUA MAR'23 forward product for the redemption purposes of emission allowance for 2022.

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

The activities described above were carried out in the first quarter of 2022. The Company estimates, that the Company's result on account of resale will amount to approximately PLN 120 million. At the same time, the repurchase of the volume in the EUA MAR'23 forward product at prices higher than the average price of resold allowances to the subsidiary, that would require an analysis of recognition onerous contract reserve.

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

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

The Company is the parent company of the Group, which coordinates selected aspects of the activities of the subsidiaries, the areas of influence of the aggression of the Russian Federation against Ukraine on the Group presented below are significant from the point of view of the Company, as they may indirectly affect its financial situation.

The Company identifies a surge in volatility and price levels of commodities listed in commodity markets (including oil, gas and coal), as well as electricity prices and CO₂ emission allowances. Major changes have been also recorded in foreign exchange quotations, including a significant depreciation of the PLN exchange rate against the EUR as well as an increase in market interest rates and an intervention increase in the NBP reference rate by 75 bps. Moreover, the third alert level CHARLIE-CRP was introduced on the territory of Poland, indicating an increased risk related to the possibility of terrorist events. It should also be noted that there are difficulties in accessing agro biomass, which is mainly imported from the territory of Ukraine.

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

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

- increased cybersecurity risk (potential attacks on IT and OT systems and consequent disruption of its critical infrastructure),
- potential turbulences on the fuel market in the European Union and consequently high volatility of gas, hard coal and biomass prices, which may translate into the level and volatility of electricity prices, as well as the risk of ensuring sufficient supply of energy fuels in the Group,
- increased volatility of electricity prices, prices of CO₂ emission allowances and other related products, which may affect the market risk related to the Group's trading activities and may also influence the level of trading deposits resulting from transactions concluded on the TGE commodity exchange market,
- changes in the energy balance of the European Union and, as a consequence, the potential of increased operation of units located in the territory of Poland, which may cause disruptions in the operation of the power grid as well as increased load on the generating units in TAURON Group and escalation of the risk of energy fuel supply and the risk of maintaining strategic reserves,
- volatility of prices of raw materials and electricity and related products, which may affect the profitability of ongoing and planned investment processes,
- potential impact on the interference/disruption of supply chains of goods and services, which may affect, inter alia, potential delays in ongoing investment and restructuring processes,
- potential disruptions in the availability of liquid fuels may cause difficulties in road transport, which may translate into the lack of UPS and UPW receiving capacity and, consequently, into limitations in the operation of the TAURON Group generating units,
- increase in prices of raw materials and goods and services, which may have a negative impact on the condition of the economy, triggering further increase in inflation in Poland and other European Union countries,
- as a result of the potential deterioration of the economic situation, further increases in the level of interest rates (impact on the costs of financing based on a floating interest rate and impact on the future level of return on capital employed in the Distribution segment) and fluctuations in the exchange rate of the national currency against key foreign currencies can be expected,
- if the economic situation in the country deteriorates, it can be expected a decrease in the level of domestic demand for electricity, which may have an impact on the profitability of the Distribution segment and the Sales segment,
- as a result of the increased immigration of Ukrainian citizens to Poland, an increased demand for electricity in the household segment can be expected, which may translate into an increase in the cost of purchasing electricity in the Sales segment,

- possible disruptions in the operation of enterprises and possible reallocation of production plants capacity may affect the level of domestic electricity demand in the business customer segment, which may translate into profitability of the Distribution segment and the Sales segment,
- due to the potential reduction in trade exchange between Poland and the Russian Federation, as well as the potential economic slowdown, financial difficulties may be expected at some of the TAURON Capital Group's customers and counterparties, which may translate into an increase in credit risk at the Group,
- unfavourable perception of TAURON Group by financial institutions in the context of Poland's geographic location as a neighbouring country to Ukraine,
- potential restrictions in the access to IT infrastructure, internet and GSM networks, which may cause disruptions to operational processes and business continuity.

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

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

Management Board of the Company

Katowice, 29 March 2022

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

Patryk Demski - Vice-President of the Management Board

Krzysztof Surma - Vice-President of the Management Board

Jerzy Topolski – Vice-President of the Management Board

Artur Warzocha - Vice-President of the Management Board

Oliwia Tokarczyk - Executive Director for Accounting and Taxes