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 2022

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

(in PLN million)

STATEMENT OF COMPREHENSIVE INCOME

	Note	Year ended 31 December 2022	Year ended 31 December 2021
Sales revenue	**11**	29 334	18 216
Cost of sales	**12**	(28 949)	(18 042)
Profit on sale		**385**	**174**
Selling and distribution expenses	**12**	(32)	(25)
Administrative expenses	**12**	(145)	(101)
Other operating income and expenses		(8)	(3)
Operating profit		**200**	**45**
Dividend income	**14**	1 797	1 852
Interest income on loans	**14**	544	247
Interest expense on debt	**14**	(654)	(330)
Revaluation of shares	**14**	(48)	(1 399)
Revaluation of loans	**14**	(1 462)	(298)
Other finance income and costs	**14**	(341)	119
Profit before tax		**36**	**236**
Income tax expense	**15**	31	24
Net profit		**67**	**260**
Measurement of hedging instruments	**27.4**	187	455
Income tax expense	**15**	(36)	(76)
Other comprehensive income subject to reclassification to profit or loss		**151**	**379**
Actuarial gains		1	1
Other comprehensive income not subject to reclassification to profit or loss		**1**	**1**
Other comprehensive income, net of tax		**152**	**380**
Total comprehensive income		**219**	**640**
Profit per share (in PLN):			
- basic and diluted, for net profit		0.04	0.15

(in PLN million)

STATEMENT OF FINANCIAL POSITION

	Note	As at 31 December 2022	As at 31 December 2021
ASSETS			
Non-current assets			
Investment property	**17**	19	24
Right-of-use assets	**18**	13	22
Shares	**19**	15 716	20 559
Loans granted	**20**	11 172	5 936
Derivative instruments	**21**	390	532
Other non-financial assets	**23**	19	14
		27 329	**27 087**
Current assets			
Inventories	**24**	72	51
Receivables from buyers	**25**	4 070	2 495
Income tax receivables	**15.3**	79	373
Loans granted	**20**	2 368	445
Derivative instruments	**21**	459	465
Other financial assets	**22**	35	70
Other non-financial assets	**23**	601	54
Cash and cash equivalents	**26**	1 039	440
		8 723	**4 393**
TOTAL ASSETS		**36 052**	**31 480**
EQUITY AND LIABILITIES			
Equity			
Issued capital	**27.1**	8 763	8 763
Reserve capital	**27.3**	3 009	2 749
Revaluation reserve from valuation of hedging instruments	**27.4**	450	299
Retained earnings / (Accumulated losses)	**27.5**	98	290
		12 320	**12 101**
Non-current liabilities			
Debt	**28**	14 754	9 801
Derivative instruments	**21**	10	116
Other financial liabilities	**29**	8	11
Other non-financial liabilities	**32**	4	113
Deferred tax liabilities	**33**	14	45
Provision for the onerous contract	**34**	28	154
Other provisions, accruals, deferred income and government grants	**35**	4	5
		14 822	**10 245**
Current liabilities			
Debt	**28**	3 316	4 669
Liabilities to suppliers	**30**	3 249	1 745
Liabilities due to acquisition of shares in the subsidiary	**31**	-	1 061
Derivative instruments	**21**	331	379
Other financial liabilities	**29**	146	493
Other non-financial liabilities	**32**	1 593	701
Provision for the onerous contract	**34**	253	68
Other provisions, accruals, deferred income and government grants	**35**	22	18
		8 910	**9 134**
Total liabilities		**23 732**	**19 379**
TOTAL EQUITY AND LIABILITIES		**36 052**	**31 480**

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

(in PLN million)

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 2021		**8 763**	**6 339**	**(80)**	**(3 561)**	**11 461**
Coverage of prior years loss		-	(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**
Prior year profits' distribution	**27.6**	-	260	-	(260)	**-**
Transactions with shareholders		**-**	**260**	**-**	**(260)**	**-**
Net profit		-	-	-	67	**67**
Other comprehensive income		-	-	151	1	**152**
Total comprehensive income		**-**	**-**	**151**	**68**	**219**
As at 31 December 2022		**8 763**	**3 009**	**450**	**98**	**12 320**

(in PLN million)

STATEMENT OF CASH FLOWS

	Note	Year ended 31 December 2022	Year ended 31 December 2021 *(restated figures)*
Cash flows from operating activities			
Profit before tax		36	236
Depreciation and amortization		15	13
Interest and dividends		(1 717)	(1 745)
Impairment losses on shares		48	1 399
Impairment losses on loans		1 462	298
Exchange differences		104	(10)
Other adjustments of profit before tax		199	(57)
Change in working capital	**36.1**	(255)	(396)
Income tax paid		(74)	(35)
Net cash from operating activities		**(182)**	**(297)**
Cash flows from investing activities			
Purchase of shares in the subsidiary	**36.2**	(1 061)	-
Loans granted	**36.2**	(6 659)	(1 567)
Purchase of other shares		(21)	(31)
Other		(1)	-
Total payments		**(7 742)**	**(1 598)**
Sale of shares		4 815	53
Dividends received		1 796	1 852
Interest received from loans granted		433	208
Repayment of loans granted		226	324
Total proceeds		**7 270**	**2 437**
Net cash from investing activities		**(472)**	**839**
Cash flows from financing activities			
Repayment of loans	**36.3**	(6 061)	(3 462)
Interest paid	**36.3**	(515)	(348)
Redemption of debt securities		(170)	(170)
Commission paid		(32)	(19)
Payment of lease liabilities		(10)	(10)
Total payments		**(6 788)**	**(4 009)**
Contracted loans	**36.3**	9 440	2 000
Total proceeds		**9 440**	**2 000**
Net cash from financing activities		**2 652**	**(2 009)**
Net increase / (decrease) in cash and cash equivalents		**1 998**	**(1 467)**
Net foreign exchange difference		(26)	(3)
Cash and cash equivalents at the beginning of the period	**26**	**(2 319)**	**(852)**
Cash and cash equivalents at the end of the period, *of which:*	**26**	**(321)**	**(2 319)**
restricted cash	**26**	81	3

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. ks. 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 was assigned the statistical number, REGON 240524697 and the tax identification number, NIP 9542583988.

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

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

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

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

The Company has prepared the financial statements covering the year ended 31 December 2022 and including comparative figures for the year ended 31 December 2021. These financial statements were approved for publication by the Management Board on 28 March 2023.

The Company has also prepared consolidated financial statements for the year ended 31 December 2022, which were approved for publication by the Management Board on 28 March 2023.

Composition of the Management Board

As at 1 January 2022, the composition of the Management Board was as follows:

- 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.

In the period from 1 January 2022 to the date of approval of these financial statements for publication, the Supervisory Board dismissed:

- Artur Michałowski from the position of Vice President of the Management Board for Trade with effect from 12 August 2022,
- Jerzy Topolski from the position of Vice President of the Management Board for Asset Management with effect from 12 August 2022.

In the period from 1 January 2022 to the date of approval of these financial statements for publication, the Supervisory Board appointed:

- Artur Warzocha to the position of Vice President of the Management Board for Corporate Affairs with effect from 21 January 2022,
- Paweł Szczeszek to the position of President of the Management Board with effect from 11 April 2022,
- Tomasz Szczegielniak to the position of Vice President of the Management Board for Trade with effect from 6 September 2022,
- Boguslaw Rybacki to the position of Vice President of the Management Board for Asset Management with effect from 9 September 2022.

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

- Paweł Szczeszek – President of the Management Board,

- Patryk Demski – Vice President of the Management Board,
- Bogusław Rybacki – Vice President of the Management Board,
- Krzysztof Surma – Vice President of the Management Board,
- Tomasz Szczegielniak – Vice President of the Management Board,
- Artur Warzocha – Vice President of the Management Board.

2. Shares in related parties

As at 31 December 2022, TAURON Polska Energia S.A. held, directly and indirectly, shares in the following key subsidiaries:

(in PLN million)

Item	Company name of subsidiary	Registered office	Interest in the share capital by TAURON Polska Energia S.A.	Company holding direct equity interests / General partner
GENERATION				
1	TAURON Wytwarzanie S.A.	Jaworzno	100,00%	TAURON Polska Energia S.A.
2	TAURON Ciepło Sp. z o.o.	Katowice	100,00%	TAURON Polska Energia S.A.
3	TAURON Serwis Sp. z o.o.	Jaworzno	95,61%	TAURON Wytwarzanie S.A.
4	Łagisza Grupa TAURON Sp. z o.o.	Katowice	100,00%	TAURON Wytwarzanie S.A.
5	TAURON Inwestycje Sp. z o.o.	Będzin	100,00%	TAURON Polska Energia S.A.
6	Energetyka Cieszyńska Sp. z o.o.	Cieszyn	100,00%	TAURON Ciepło Sp. z o.o.
RENEWABLE ENERGY SOURCES				
7	TAURON Ekoenergia Sp. z o.o.	Jelenia Góra	100,00%	TAURON Polska Energia S.A.
8	TEC1 Sp. z o.o.	Katowice	100,00%	TAURON Polska Energia S.A.
9	TAURON Zielona Energia Sp. z o.o.	Katowice	100,00%	TAURON Polska Energia S.A.
10	TEC1 spółka z ograniczoną odpowiedzialnością Mogilno I sp.k.	Katowice	100,00%	TEC1 Sp. z o.o.
11	TEC1 spółka z ograniczoną odpowiedzialnością Mogilno II sp.k.	Katowice	100,00%	TEC1 Sp. z o.o.
12	TEC1 spółka z ograniczoną odpowiedzialnością Mogilno III sp.k.	Katowice	100,00%	TEC1 Sp. z o.o.
13	TEC1 spółka z ograniczoną odpowiedzialnością Mogilno IV sp.k.	Katowice	100,00%	TEC1 Sp. z o.o.
14	TEC1 spółka z ograniczoną odpowiedzialnością Mogilno V sp.k.	Katowice	100,00%	TEC1 Sp. z o.o.
15	TEC1 spółka z ograniczoną odpowiedzialnością Mogilno VI sp.k.	Katowice	100,00%	TEC1 Sp. z o.o.
16	TEC1 spółka z ograniczoną odpowiedzialnością EW Śniatowo sp.k.	Katowice	100,00%	TEC1 Sp. z o.o.
17	TEC1 spółka z ograniczoną odpowiedzialnością EW Dobrzyń sp.k.	Katowice	100,00%	TEC1 Sp. z o.o.
18	TEC1 spółka z ograniczoną odpowiedzialnością EW Gołdap sp.k.	Katowice	100,00%	TEC1 Sp. z o.o.
19	TEC1 spółka z ograniczoną odpowiedzialnością Ino 1 sp.k.	Katowice	100,00%	TEC1 Sp. z o.o.
20	WIND T1 Sp. z o.o.	Jelenia Góra	100,00%	TAURON Ekoenergia Sp. z o.o.
21	AVAL-1 Sp. z o.o.	Jelenia Góra	100,00%	TAURON Ekoenergia Sp. z o.o.
22	Polpower Sp. z o.o.	Jelenia Góra	100,00%	TAURON Ekoenergia Sp. z o.o.
23	"MEGAWATT S.C." Sp. z o.o.	Katowice	100,00%	TAURON Zielona Energia Sp. z o.o.
24	TAURON Inwestycje Sp. z o.o.	Będzin	100,00%	TAURON Polska Energia S.A.
25	Wind T4 Sp. z o.o.	Pieńkowo	100,00%	TAURON Zielona Energia Sp. z o.o.
26	Wind T30MW Sp. z o.o.	Pieńkowo	100,00%	TAURON Zielona Energia Sp. z o.o.
27	FF Park PV 1 Sp. z o.o.	Katowice	100,00%	TAURON Zielona Energia Sp. z o.o.
28	Windpower Gamów Sp. z o.o.	Nowy Targ	100,00%	TAURON Zielona Energia Sp. z o.o.
DISTRIBUTION				
29	TAURON Dystrybucja S.A.	Kraków	99,77%	TAURON Polska Energia S.A.
30	TAURON Dystrybucja Pomiary Sp. z o.o.	Tarnów	99,77%	TAURON Dystrybucja S.A.
SALES				
31	TAURON Sprzedaż Sp. z o.o.	Kraków	100,00%	TAURON Polska Energia S.A.
32	TAURON Sprzedaż GZE Sp. z o.o.	Gliwice	100,00%	TAURON Polska Energia S.A.
33	TAURON Czech Energy s.r.o.	Ostrawa, Republika Czeska	100,00%	TAURON Polska Energia S.A.
34	TAURON Nowe Technologie S.A.	Wrocław	100,00%	TAURON Polska Energia S.A.
OTHER				
35	TAURON Obsługa Klienta Sp. z o.o.	Wrocław	100,00%	TAURON Polska Energia S.A.
36	Kopalnia Wapienia Czatkowice Sp. z o.o.	Krzeszowice	100,00%	TAURON Polska Energia S.A.
37	Polska Energia-Pierwsza Kompania Handlowa Sp. z o.o.	Warszawa	100,00%	TAURON Polska Energia S.A.
38	Finanse Grupa TAURON Sp. z o.o.	Katowice	100,00%	TAURON Polska Energia S.A.
39	Bioeko Grupa TAURON Sp. z o.o.	Stalowa Wola	100,00%	TAURON Wytwarzanie S.A.
40	Usługi Grupa TAURON Sp. z o.o. (formerly Marselwind Sp. z o.o.)	Tarnów	99,77%	TAURON Dystrybucja S.A.

Changes in the status and percentage share in the capital of subsidiaries of TAURON Polska Energia S.A. in the year ended 31 December 2022 include:

Sales of shares in TAURON Wydobycie S.A.

On 21 October 2022, a conditional agreement for the sales of shares in the subsidiary, TAURON Wydobycie S.A. was concluded between the Company and the State Treasury. The subject matter of the agreement was the sale of all the shares held by the Company in TAURON Wydobycie S.A., representing 100% of the company share capital, for the total price of PLN 1, under the condition of joint fulfilment of the following conditions precedent:

- non-exercise of the pre-emptive right by Krajowy Ośrodek Wsparcia Rolnictwa (National Centre for Agricultural Support) ("KOWR") to purchase shares of TAURON Wydobycie S.A. conferred under the provisions of the Act of 11

April 2003 *on the development of the agricultural system*. On 14 December 2022, the Company received a declaration from the KOWR that it had not exercised its pre-emptive right to purchase TAURON Wydobycie S.A. shares, as a result of which the condition precedent was fulfilled,

- increase in the share capital of TAURON Wydobycie S.A., performed in order to repay the debt of TAURON Wydobycie S.A. towards the Company. On 21 October 2022, the Extraordinary General Meeting of TAURON Wydobycie S.A. adopted the resolution on increasing the share capital by issuing new 3 977 601 registered shares with a par value of PLN 10 per share, which were offered to the Company under the closed subscription at an issue price of PLN 1 000 per share, i.e. for the total amount of PLN 3 978 million. On 25 October 2022, a set-off agreement was concluded between the Company and TAURON Wydobycie S.A., pursuant to which the parties set off the receivables of TAURON Wydobycie S.A. on account of capital increase against the receivables of the Company arising from the debt in the amount of PLN 3 978 million. On 4 November 2022, the capital increase was registered with the National Court Register, consequently, the condition precedent was fulfilled.

On 31 December 2022 an entry was made in the register of shareholders of TAURON Wydobycie S.A. indicating the State Treasury as the acquirer of shares in TAURON Wydobycie S.A. Pursuant to the agreement, following the aforementioned entry, the ownership of TAURON Wydobycie S.A. shares was transferred from the Company to the State Treasury as of 31 December 2022.

Establishment of TAURON Inwestycje Sp. z o.o. by way of the division of TAURON Wytwarzanie S.A.

On 18 May 2022, a resolution was adopted to divide the company TAURON Wytwarzanie S.A. by separating and transferring the separated assets to the newly established company, TAURON Inwestycje Sp. z o.o. in organisation. After the balance sheet date, on 1 July 2022, the demerger of TAURON Wytwarzanie S.A. and the establishment of the TAURON Inwestycje Sp. z o.o. company was registered.

Merger of TAURON Wytwarzanie S.A. and Nowe Jaworzno Grupa TAURON Sp. z o.o.

On 3 October 2022, the merger of TAURON Wytwarzanie S.A. and Nowe Jaworzno Grupa TAURON Sp. z o.o. companies was registered. The merger of the companies took place by way of takeover (merger by acquisition) of the company Nowe Jaworzno Grupa TAURON Sp. z o.o. (the Acquired Company) by TAURON Wytwarzanie S.A. (the Acquiring Company). The merger took place without any increase in the share capital of the Acquiring Company.

Acquisition of control over Energetyka Cieszyńska Sp. z o.o.

On 10 October 2022, as a result of an amendment to the articles of association of Energetyka Cieszyńska Sp. z o.o., liquidating the voting preference hitherto enjoyed by part of the shares belonging to the City of Cieszyn, the TAURON Ciepło Sp. z o.o. company acquired the control over Energetyka Cieszyńska Sp. z o.o.

On 7 December 2022, the redemption of all shares belonging to the City of Cieszyn and a simultaneous increase in the share capital of Energetyka Cieszyńska Sp. z o.o. was registered. Shares in the increased capital of the company were taken up by TAURON Ciepło Sp. z o.o. As a result of the above transaction, TAURON Ciepło Sp. z o.o. holds 100% of shares in the share capital of Energetyka Cieszyńska Sp. z o.o.

Demerger of Wsparcie Grupa TAURON Sp. z o.o. company and transfer of a part of the business to Usługi Grupa TAURON sp. z o.o. company (formerly: Marselwind Sp. z o.o.)

On 10 October 2022, TAURON Dystrybucja S.A. acquired 100% of shares in the share capital of Marselwind Sp z o.o. from TAURON Polska Energia S.A. On 1 November 2022, the demerger of Wsparcie Grupa TAURON Sp. z o.o. company and the transfer of the real estate management and fleet administration business to Marselwind Sp. z o.o. was registered. On 23 December 2022, the change of the company name from Marselwind Sp. z o.o. to Usługi Grupa TAURON Sp. z o.o. was registered.

Loss of control over Wsparcie Grupa TAURON Sp. z o.o. company

On 30 December 2022, the subsidiary, TAURON Dystrybucja S.A. acquired shares in the increased share capital of Polski Holding Obronny Sp. z o.o., taking up for this purpose newly created shares in the increased capital of Polski Holding Obronny Sp. z o.o., constituting 4.2% in the increased capital of the company and covered them with an non-cash contribution (in-kind contribution) in the form of 100% of the shares in the Wsparcie Grupa TAURON Sp. z o.o. company. As a result of the transaction, TAURON Dystrybucja S.A. lost control over the Wsparcie Grupa TAURON Sp. z o.o. company.

Acquisition of control over companies in the Renewable Energy Area

In the year ended 31 December 2022, the subsidiary, TAURON Zielona Energia Sp. z o.o. acquired 100% shares in the following companies within which conducting of investment projects in the area of Renewable Energy Sources is planned:

- “MEGAWATT S.C.” Sp. z o.o.,

- Windpower Gamów Sp. z o.o.,
- Wind T30MW Sp. z o.o.,
- FF Park PV 1 Sp. z o.o.,
- Wind T4 Sp. z o.o.

As at 31 December 2022, the share of TAURON Polska Energia S.A. in the capital and in the governing body of the remaining key subsidiaries and jointly-controlled companies has not changed since 31 December 2021.

As at 31 December 2022, TAURON Polska Energia S.A. held direct and indirect share in the following material jointly-controlled companies in the Generation segment:

Item	Company name	Registered office	Interest in the share capital and in the decision-making body held by TAURON Polska Energia S.A.	Company holding direct equity interests
1	Elektrociepłownia Stalowa Wola S.A.	Stalowa Wola	50.00%	TAURON Inwestycje Sp. z o.o.
2	TAMEH HOLDING Sp. z o.o.	Dąbrowa Górnicza	50.00%	TAURON Polska Energia S.A.
3	TAMEH POLSKA Sp. z o.o.	Dąbrowa Górnicza	50.00%	TAMEH HOLDING Sp. z o.o.
4	TAMEH Czech s.r.o.	Ostrawa, Czech Republic	50.00%	TAMEH HOLDING Sp. z o.o.

3. Statement of compliance

These financial statements have been prepared in compliance with the requirements of the International Financial Reporting Standards ("IFRS") 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 date, the Company has an access to financing available under financing arrangements, which is described in more detail in Note 38.2 of these financial statements.

In the area of liquidity, financing and securing the continuity of operating activities, the Management Board, having analysed the financial position of the Company does not identify any risk to the continuity of operations as a going concern in the foreseeable future, i.e. within a period of not shorter than 1 year from the balance sheet day, taking into account 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 Note 48 to these financial statements.

5. Functional currency 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 ("PLN M"), 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, along with 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 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.

(in PLN million)

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 relate to the measurement of financial instruments, mainly the write-downs on shares in subsidiaries and intragroup loans and the fair value measurements of loans and derivatives, as discussed further in Notes 10, 19 and 20 of 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 40).

7. Standards published and amendments to standards which are not effective until the balance sheet day

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 2022.

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

As at the date of approval of these financial statements for publication, the Management Board has not yet completed work on assessing the impact of the introduction of standards and amendments to standards on the accounting policy applied by the Company. The analyzes carried out so far indicate that the following standards and amendments to standards will not have a significant impact on the accounting policy applied so far:

Standard	Amendments	Effective in the EU as of *(annual periods beginning on or after the date provided)*
Amendments to IAS 1 *Presentation of Financial Statements* and IFRS Practice Statement 2: *Disclosure of Accounting Policies*	The amendments are intended to enhance the relevance of the accounting policy disclosures presented by replacing the requirement for entities to disclose significant accounting policies with a requirement to disclose material accounting policies and adding guidance on how entities apply materiality in making accounting policy disclosure decisions.	1 January 2023
Amendments to IAS 8 *Accounting policies, Changes in Accounting Estimates and Errors: Definition of Accounting Estimates*	The amendments clarify the distinction between changes in estimates and changes in accounting policies and corrections of errors, and clarify how entities apply valuation techniques and use inputs to determine estimated values.	1 January 2023
IFRS 17 *Insurance Contracts*	The standard applies to all types of insurance contracts (i.e. direct insurance, life insurance, non-life insurance and reinsurance contracts), irrespective of the nature of the business of the entity that concludes them, as well as to certain guarantees and financial instruments with discretionary profit-sharing.	1 January 2023
Amendments to IFRS 17 *Insurance contracts: Initial Application of IFRS 17 Insurance Contracts and IFRS 9 Financial Instruments - Comparative Information*	The amendment is intended to help entities avoid transitional accounting mismatches between financial assets and insurance contract liabilities, thereby improving the usefulness of comparative information for users of financial statements.	1 January 2023
Amendments to IAS 12 *Income Taxes: Deferred Tax related to Assets and Liabilities arising from a Single Transaction*	The amendments reduced the scope of the exception for initial recognition of assets and liabilities in paragraphs 15 and 24 of IAS 12 *Income Taxes* , so that it no longer applies to transactions that give rise to equal taxable and deductible temporary differences.	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**

As at the date of approval of these financial statements for publication, the Management Board has not yet completed work on assessing the impact of the introduction of standards and amendments to standards on the accounting policy applied by the Company. The analyzes carried out so far indicate that the following standards and amendments to standards will not have a significant impact on the accounting policy applied so far:

(in PLN million)

Standard	Effective date specified in the Standard, not endorsed by the EU *(annual periods beginning on or after the date provided)*
Amendments to IAS 1 *Presentation of Financial Statements: Classification of liabilities as current or non-current and long-term liabilities with covenants*	1 January 2024
IFRS 14 *Regulatory Deferral Accounts*	1 January 2016*
Amendments IFRS 10 *Consolidated Financial Statements and* IAS 28 *Investments in Associates and Joint Ventures: Sale or Contribution of Assets between Investor and its Associate or Joint Venture* with subsequent amendments	the effective date has been postponed
Amendments to IFRS 16 *Leases: Lease Liability in a Sale and Leaseback*	1 January 2024

** The European Commission decided to refrain from launching 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 the accounting principles applied and change in presentation

Changes in the accounting principles applied

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 2021, except for the application of amendments to standards as discussed below.

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

(in PLN million)

Standard	Amendments	Effective date in the EU *(annual periods beginning on or after the date provided)*
Amendments to IFRS 3 *Business Combinations: Changes to references to the Conceptual Framework*	The amendments have, among others, replaced the reference to the previous version of the Conceptual Framework issued by the IASB (the 1989 Conceptual Framework) with a reference to the current version published in March 2018, without significantly changing the requirements contained therein.	1 January 2022
Amendments to IAS 16 *Property, Plant and Equipment: Revenues earned before putting into use*	The amendments prohibit the reduction of the purchase price or manufacturing cost of an item of property, plant and equipment by the revenue from the sale of goods manufactured in bringing the asset to the desired location and condition necessary for it to be operational. Instead, an entity recognises the revenue from the sale of such goods and the cost of their manufacture in the statement of comprehensive income.	1 January 2022
Amendments *to IAS 37 Provisions, Contingent Liabilities and Contingent Assets: Cost of fulfilling a contractual obligations*	As part of the amendments, it has been clarified that, in the case of onerous contracts, the costs of fulfilling a contract include both the incremental costs of fulfilling the contract, e.g. labour and materials, as well as the allocation of other costs that relate directly to the fulfilment of the contracts (for example, the allocation of depreciation charges to an item of property, plant and equipment used, inter alia, to fulfil that contract).	1 January 2022
Changes to various standards: *Improvements to IFRS (Cycle 2018-2020):*		
IFRS 1 *First-time Adoption of International Financial Reporting Standards*	The amendment allows the subsidiary that decides to apply paragraph D16(a) of IFRS 1 *First-time Adoption of International Financial Reporting Standards* to measure the cumulative translation differences using the amounts reported in the parent company's consolidated financial statements, based on the parent company's date of transition to IFRS. This change also applies to an associate or joint venture.	1 January 2022
IFRS 9 *Financial Instruments*	The amendment clarifies the fees that an entity considers when assessing whether the terms of a new or modified financial liability differ significantly from the terms of the original financial liability.	1 January 2022
IFRS 16 *Leases*	The amendment to Illustrative Example 13 regarding payments from the lessor related to investments in the subject of the lease. This will resolve to avoid confusion in the approach to leasing incentives when applying IFRS 16 *Leases* .	1 January 2022
IAS 41 *Agriculture*	The amendment repeals the requirement for entities to exclude tax payments when determining the fair value of assets within the scope of IAS 41 *Agriculture* .	1 January 2022

Change in presentation

In the year ended 31 December 2022, the Company changed the presentation of collateral transferred on transaction and security deposits as part of settlements with Izba Rozliczeniowa Giełd Towarowych S.A. ("IRGiT") in the statement of cash flows. These collaterals were up to this moment presented as cash. After the change of presentation, the change of collaterals is presented as cash flows from the Company's operating activities. Comparable data have been appropriately transformed.

	Year ended 31 December 2021	Change of the presentation of collateral transferred to IRGiT	Year ended 31 December 2021 *(restated figures)*
Cash flows from operating activities			
Change in working capital	(349)	(47)	(396)
Net cash from operating activities	**(250)**	**(47)**	**(297)**
Net increase / (decrease) in cash and cash equivalents	**(1 420)**	**(47)**	**(1 467)**
Cash and cash equivalents at the beginning of the period	**(743)**	**(109)**	**(852)**
Cash and cash equivalents at the end of the period, *of which:*	**(2 163)**	**(156)**	**(2 319)**
restricted cash	159	(156)	3

9. Information on operating segments

9.1. Operating segments

In accordance with IFRS 8 *Operating Segments*, taking into account the fact that the Company also prepares consolidated financial statements for the year ended 31 December 2022, the Company presents information on operating segments in relation to the Group's operations in the consolidated financial statements.

As part of the adopted classification of the Group's operations into operating segments, the activities of the Company are classified in the Sales segment, excluding the administrative costs of the Company incurred for the Group as a whole, which cannot be directly attributed to a single operating segment and are classified under unallocated expenses, as further described in Note 13 of the consolidated financial statements of the Group for the year ended 31 December 2022.

9.2. Geographical areas of operations

The activity of the Company is mostly carried out on the territory of Poland. Revenues on sales from foreign entities in the years ended 31 December 2022 and 31 December 2021 amounted to PLN 1 239 million and PLN 616 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 38.1.2 to these financial statements and updates 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 2022 impairment tests of shares and interests in subsidiaries and joint ventures and the analyses in the scope of valuation of intragroup loans were conducted, taking into account the following premises:

- the Company capitalization remaining below the net asset carrying amount for a long period;
- significant increase in the scope of global prices of energy resources, electricity and CO_2 emission allowances, resulting from the energy crisis caused, inter alia, by the outbreak of war in Ukraine;
- increases in coal fuel prices resulting from a short-term excess of demand over supply in connection with the introduction of an embargo on the import and transport of coal and coke from Russia and Belarus;
- high volatility of energy prices on the forward market (including low liquidity) and persistently high prices on the spot market;
- the introduction, as of 28 October 2022, of a mechanism for limiting bids on the electricity balancing market in accordance with the Regulation of the Minister of Climate and Environment of 27 September 2022 *amending the regulation on detailed conditions for the operation of the power system*;
- publication of the “RePowerEU” package to accelerate Europe's independence from Russian fossil fuels by 2030, temporarily reduce energy consumption and diversify raw material supply sources;
- work on reforming the EU ETS market to adapt the Scheme to the new higher CO_2 emission reduction targets;
- dynamic development of RES, in particular the prosumer and micro-photovoltaic subsectors;
- price and wage pressure resulting from the increase in inflation;
- an increase in the risk-free rate by 4.12% compared to the tests carried out as at 31 December 2021.

(in PLN million)

Shares and interests and intra-group loans account for approx. 80% of the balance sheet total as at the balance sheet day.

The recoverable amount of shares in subsidiaries and joint ventures is the value in use. The calculation method has been presented below.

Tests were conducted based on the current value of estimated cash flows from operations of the key entities, based on detailed projections up till 2032 and the estimated residual value, excluding power generating units for which detailed projections cover the entire period of their operation.

The assumptions concerning the life of the generation units adopted for the impairment tests carried out as at 31 December 2022, including in particular:

- the operation of TAURON Wytwarzanie S.A. generation units was assumed no later than 2060, including four units in Jaworzno III Branch until 2025; two units in Jaworzno III Branch until 2028; two units in Jaworzno II Branch until 2030; a biomass unit in Jaworzno II Branch until 2027; a unit in Łagisza Branch until 2035, units in Łaziska and Siersza Branch until 2025; a unit in Nowe Jaworzno Branch until 2060;
- the operation of hydroelectric power plants was assumed in TAURON Ekoenergia Sp. z o.o. up to 2072, while for wind farms - up to 2040;
- the operation of the generating units in TAURON Ciepło Sp. z o.o. and Energetyka Cieszyńska Sp. z o.o. was assumed until 2049;
- the operation of generation unit of Elektrociepłowni Stalowa Wola S.A. was assumed until the end of June 2050.

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 2022

Category	Description
Coal	The projected price of hard coal for 2023 has been raised by 111% compared to the result for 2022. This is due to the observed upward trends in the domestic cost of mining and the current situation on global coal markets, in particular the European market at ARA ports. It was assumed that, in the long term, coal prices were expected to fall as a result of the acceleration of the decarbonisation policy driven by the European Union, aimed at achieving climate neutrality for Europe by 2050. After 2026, coal prices in Poland assume a constant value, due to the falling demand and supply of coal, which will be caused by the decreasing generation of electricity from conventional sources and the need to take into account global trends in the national paths of hard coal prices (it was assumed that hard coal mines would be phased out in accordance with a social contract setting deadlines for closing mines).
Electricity	During the calculation of price paths, various scenarios were analyzed in terms of predicting commodity prices and the power balance in the National Power System ("NPS"). The adopted forecast of wholesale electricity prices for the period 2023-2040 has been updated and adjusted in the first three years (2023-2025) to levels recorded in the market, taking into consideration the contracting level. In 2023, a significant increase in energy prices of approximately 62.2% as compared to 2022 has been assumed, which results, among others, a significant increase in coal and gas prices and the structure of electricity generation in Poland. In 2024, the price will fall by approximately 9.4% compared to 2023. The forecast of wholesale electricity prices is affected by the current and expected balancing situation in the NPS, forecasts of fuel prices and the costs of purchasing CO_2 emission allowances. No significant impact on the demand for electricity due to climate warming was assumed, and an average increase in demand was assumed, taking into account the forecast indicators of economic development. The observed change in the structure of electricity generation and the increase in the share of renewable energy sources reduces the level of electricity prices and margins achieved when selling electricity from coal-fired sources - this effect is partially compensated by assuming the impact of the Scarcity Pricing mechanism on wholesale electricity prices after 2025. The projected difficult balance situation in Europe is caused by the progressive shutdown of conventional sources. 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 based on historical values. Regulations on electricity prices were adopted based on the Act of 27 October 2022 *on emergency measures aimed at limiting electricity prices and support for certain consumers in 2023* and the Regulation of the Council of Ministers of 8 November 2022 *on the method of calculating the price limit*. The regulations had a negative impact on the estimates of cash flows in 2023 for the Generation segment and the Renewable energy sources segment. In the case of the Sales segment, the above regulations had a neutral impact due to the assumed compensations.
CO_2	CO_2 emission limits for heat generation have been adopted in line with the regulation of the Council of Ministers and adjusted by the level of operations, i.e. generation of heat. The CO_2 emission allowance price growth path has been adopted throughout the forecasting horizon. In the

(in PLN million)

Category	Description
	contracting for 2023, a 29.9% higher price of CO_2 emission allowances was assumed compared to the average price in contracting for 2022. In 2024, compared to 2023, the price of CO_2 emission allowances is higher by 4.1%. This is the effect of the combined impact of the uncertain economic situation and the additional supply of allowances on the market from the sale of additional allowances to finance the REPowerEU package. Up till 2030, a price increase to the level of approx. EUR 105/Mg in fixed prices (approx. EUR 120/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%). A further increase in the price of CO_2 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 CO_2 projected for 2040 amounts to approx. 100 EUR/Mg (approx. 140 EUR/Mg in current prices).
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	It is assumed that payments for capacity will be 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 units which concluded 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	With regard to the RES Area, existing support systems (certificate of origin scheme, auction scheme, FIT/FIP feed-in tariff system, guarantee of origin scheme) are taken into account, of which the certificate of origin scheme is the most significant. Within this scheme, limited support periods for green energy have been taken into account in accordance with the assumptions of the Act on RES defining new mechanisms of granting the support for electricity generated in sources of this type. The support period has been limited to 15 years from the date of the first injection of electricity to the grid eligible to receive the energy origin certificate.
Natural gas	The projected price of natural gas for 2023 has been raised by 81.1% compared to the result for 2022. The main reason for the projected increase is the likely emergence of an unstable supply-side situation during the period of filling gas storage facilities in Europe, as a result of a significant decline in volumes of natural gas supplied from Russia. The forecast also takes into account the risk of rising demand for natural gas in Asian countries and consequently LNG prices, which have a significant impact on the pricing of futures contracts in Western European gas hubs. In addition, the growing uncertainty associated with increasing weather risks and a significant increase in the prices of other related products (oil, coal and CO_2 emission allowances) add an element of uncertainty associated with gas prices. The factors provided are already reflected in prices of the futures contracts listed for 2023-2024. In the subsequent years, it was assumed that new gas supply directions for the world's gas hubs would gradually become structured, resulting in successively lower prices of this commodity in Europe.
WACC	The weighted average cost of capital (WACC) during the projection period for individual companies has been adopted in the range 6.67%-12.24% 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 5.9%) 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. The WACC level as at 31 December 2022 as compared to the level as at 31 December 2021 increased in individual segments, mainly due to an increase in the risk-free rate and the debt cost.
Salaries	An increase in salaries was assumed based on salary agreements signed with the social side and an increase in the minimum wage with an effect for the next years of the financial forecast.
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 2023-2032, an average increase in electricity supply by 1% year-on-year has been assumed. WACC adopted for the calculation of regulated revenue in 2023 is 8.478% (gross), in the period 2024-2032 and in the residual period 7.478% (gross). The growth rate used to extrapolate cash flow forecasts beyond the detailed planning period was assumed at 2.5% and corresponds to the assumed long-term inflation rate.
910 MW unit Nowe Jaworzno	In Tauron Wytwarzanie S.A. assumed the most likely operating scenario for the 910 MW unit at the Nowe Jaworzno Branch. In 2023, the unit is assumed to operate at a lower net capacity of 650 MW due to ongoing testing by Polskie Sieci Elektroenergetyczne. Full availability and optimum parameter values were assumed to be achieved from 2024. The target net capacity of 820 MW was assumed. The planned production level assumes a unit failure rate of 6%, which is a standard for this class of generating units. The electricity repurchase taken into account, on the one hand, relates to the emergency shutdown periods of the unit and, on the other hand, results from the adopted shutdown periods planned in connection with maintenance works. The plans also comprise a reduction volume associated with a lower Polskie Sieci Elektroenergetyczne electricity demand during off peak hours. Component overhauls comprising medium and major overhauls are foreseen for the 910 MW unit, alternating in two-year cycles. The aim of component overhauls is to ensure safe and technically and economically compliant operation. In addition, a number of modernisation tasks are planned to improve the current availability rates with the planned lifetime of the unit.

(in PLN million)

Category	Description
	As part of the ongoing maintenance of the 910 MW unit assets, the Group has maintenance agreements in place to cover the key technological systems of the generating unit, and funds for this work have been secured within the overhaul costs.
Changes in working capital in TAURON Wytwarzanie S.A.	The projected working capital in Tauron Wytwarzanie S.A. is derived from the assumed level of production, the price assumptions adopted and the distribution of revenue and cost payments. A significant component of working capital comprises assets and liabilities associated with the CO_2 settlement obligation. In the first years of the plan, the effects of concluded CO_2 supply contracts in terms of volume, price and payment term were taken into account. For the subsequent non-contracting years, assumptions compliant with the CO_2 purchasing strategy were used, whereby the settlement and purchase of CO_2 allowances takes place in the year following the year of emission. This results in the absence of a recognised CO_2 allowance asset at the end of each year from 2026 onwards, which has reduced the level of projected working capital in subsequent years. The tests assume the simultaneous settlement of CO_2 advances in the years 2023-2025.
Sales volume and production capacity	The volume of sales to end customers was assumed taking into account the GDP growth, the competitive situation in the market, the significant increase in financial costs (trade credit costs) incurred by sales companies. This has caused a decrease in the volume in 2023. From 2024, a gradual recovery of the lost volume is planned. The economic useful lives of fixed assets and the maintenance of production capacity as a result of replacement investments were taken into account.

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.

Results of conducted tests and analysis of the valuation of loans granted

The result of the impairment tests of shares in subsidiaries and joint ventures carried out as at 31 December 2022, in accordance with IAS 36 *Impairment of Assets*, indicated an impairment of shares in TAURON Inwestycje Sp. z o. o.

Company	WACC* assumed in tests as at		Recoverable amount of shares	The amount of the recognized impairment losses on shares
	31 December 2022	31 December 2021	As at 31 December 2022	Year ended 31 December 2022
TAURON Inwestycje Sp. z o.o.	10.92%	n.a.	(59)	(36)
Total				**(36)**

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

The emergence of an impairment loss on the shares held in TAURON Inwestycje Sp. z o.o. results, in particular, from the nature of the business pursued. It is a company that aims to implement projects ensuring new generation capacity on assets separated from TAURON Wytwarzanie S.A.

The analyses carried out with regard to the financing granted to the subsidiaries, based on the subsidiaries' future cash flows, also demonstrated the rationality of reducing the carrying amount of the loans granted by the Company to TAURON Wytwarzanie S.A. and TAURON Inwestycje Sp. z o.o. in the total amount of PLN 960 million, as discussed in more detail in Note 20.1 of these financial statements.

Company	Recoverable amount of intra-group loans	The amount of the recognized impairment losses on intra-group loans
	As at 31 December 2022	Year ended 31 December 2022
TAURON Wytwarzanie S.A.	5 986	(882)
TAURON Inwestycje Sp. z o.o.	(59)	(78)
Total		**(960)**

(in PLN million)

EXPLANATORY NOTES 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 (i.e. an asset) 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 measured in the amount the Company expects to receive for the goods and services sold, following the reduction by value added tax (VAT), excise duty and other sales taxes or 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.

In case of goods, revenues are recognised when the Company ceases to be permanently involved in the management and effective control of goods sold to the extent such function is usually implemented in relation to goods, to which the proprietary right applies.

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

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

	Year ended 31 December 2022	Year ended 31 December 2021
Revenue from sales of goods for resale	**28 934**	**17 537**
Electricity	24 845	14 816
CO_2 emission allowances	2 775	2 107
Gas	1 287	600
Other	27	14
Rendering of services	**400**	**375**
Capacity market	194	206
Trade services	167	138
Other	39	31
Total revenue from contracts with customers	**29 334**	**17 912**
Restructuration in the portfolio of CO_2 emission allowances	-	304
Total sales revenue	**29 334**	**18 216**

In the year ended 31 December 2022, sales revenues increased in relation to the comparable period, and the main changes referred to sales revenues of the following goods and services:

- Electricity – an increase in revenue by the amount of PLN 10 029 million is mainly associated with electricity sales contracted in the forward market and sales in the SPOT market at a price higher, on average, by 82% at a simultaneously lower volume by 8%. Higher selling prices stem from market conditions and a sharp increase in prices continuing at the end of 2021 and in 2022. The decline in volume is a result of reaching the lower volume of electricity sales to the Sales companies, including TAURON Sprzedaż Sp. z o.o. due to the lower demand in 2022 and the lower volume for the generation companies of the Group in order to secure the performance of contracts they have concluded.
- CO_2 emission allowances – the increase in the revenue from contracts with customers in the scope of CO_2 emission allowances in the current period in relation to the comparable period by the amount of PLN 668 million results mainly from the following events:
  - sales to subsidiaries in the Generation segment of CO_2 emission allowances for redemption purposes in the total amount of PLN 2 141 million. In the comparable period, revenue from sales of CO_2 emission allowances amounted to PLN 1 903 million;
  - in connection with the failure of the 910 MW unit at Jaworzno continuing from mid-2021 till April 2022 and the resulting surplus of allowances acquired over the redemption needs for 2021, a part of the resulting surplus in the amount of 1 717 000 EUAs was allocated for redemption purposes of another Group installation for 2022. Considering the rationality of matching the maturity of the delivery of allowances and the cash expenditure, in the first quarter of 2022, the Company took the decision and sold the aforementioned volume of allowances held and simultaneously bought back this volume in the EUA MAR'23 forward product for the purpose of redemption of 2022 allowances. Revenue from contracts with customers on account of sales of the aforementioned allowances

amounted to PLN 604 million while the result on the transaction amounted to PLN 121 million. The transaction is one-off and incidental in nature and it is a direct result of an unplanned, one-off event such as the failure of the 910 MW unit. According to the Company's judgement, the transaction is subject to exclusion from the scope of IFRS 9 *Financial Instruments* and does not affect the classification of other contracts for the purchase of CO_2 emission allowances for redemption purposes;

- in the comparative period, as part of its efforts to manage the surplus allowances for 2020, due to the delayed commissioning of the 910 MW unit and the consequent lower production, the Company sold a volume of 691 000 CO_2 emission allowances to the market, resulting in the recognition of the revenue from customer contracts in the amount of PLN 135 million.

  Under the restructuring of the portfolio of CO_2 emission allowances in the first quarter of 2021, with respect to the volume of 3 258 000 CO_2 emission allowances with the delivery date in March 2021, their rolling was performed by concluding new contracts with the delivery dates in March 2022, 2023 and 2024. The Company recognised the result from the settlement of instruments in accordance with IFRS 9 *Financial Instruments*, thereby increasing revenue on sales and the operating result in the amount of PLN 304 million.

- Gas – an increase in revenue by the amount of PLN 687 million is mainly associated with a significant increase in prices by an average of 140% and the simultaneous achievement of a lower volume of sales by an average of 11%. Higher sales prices result from market conditions and the sharp price increase at the end of 2021, continuing into 2022, while the lower sales volume is due to lower gas demand, mainly in TAURON Sprzedaż Sp. z o.o.

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 2022, the value of fuel purchased and subsequently resold as a result of the aforementioned transactions amounted to PLN 3 205 million million. The Company recognised revenue of PLN 65 million on account of the agency service.

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

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

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

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

(in PLN million)

	Year ended 31 December 2022	Year ended 31 December 2021
Depreciation of property, plant and equipment, right-of-use assets and amortization of intangible assets	(15)	(13)
Capacity Market	(193)	(205)
Other external services	(50)	(41)
Employee benefits expense	(110)	(95)
Allowance for expected credit losses on receivables from buyers	(25)	3
Advertising expenses	(21)	(15)
Other costs by type	(13)	(6)
Total costs by type	**(427)**	**(372)**
Selling and distribution expenses	32	25
Administrative expenses	145	101
Value of energy sold	(24 725)	(14 879)
Value of other goods sold	(3 974)	(2 917)
Cost of sales	**(28 949)**	**(18 042)**

The increase in the cost of purchased electricity by PLN 9 846 million results mainly from purchases made at 68% higher average electricity prices than in the previous year, while at the same time the volume of electricity purchased was 8% lower. In order to secure the Group's needs and to fulfil the contracts concluded by Nowe Jaworzno Grupa TAURON Sp. z o.o., the purchase of electricity was carried out from counterparties outside the Group, on the forward and SPOT markets, at higher prices due to market conditions and rapid price changes continuing since the end of 2021. Moreover, the decrease in the volume of electricity purchased by the Company results from the lower demand for the sales of electricity for contracts executed by the Company.

The increase in the value of other goods sold is mainly related to the higher value of gas sold and CO_2 emission allowances. The increase in the value of gas sold by PLN 703 million is primarily related to a significant increase in gas purchase prices by an average of 144%, with a simultaneous lower purchase volume by an average of 11%. In 2022, the Company recognised a higher value of CO_2 emission allowances sold in the amount of PLN 2 666 million, including the recognition of costs of creating net provisions for onerous contracts in the amount of PLN 133 million, which is mainly a result of restructuring of CO_2 emission allowances in the portfolio of the subsidiary, Nowe Jaworzno Grupa TAURON Sp. z o.o., as further described in Note 34 of these financial statements. In the comparable period, the value of CO_2 emission allowances sold amounted to PLN 2 316 million, including the cost of creating a provision for onerous contracts of PLN 220 million.

13. Employee benefit expenses

	Year ended 31 December 2022	Year ended 31 December 2021
Wages and salaries	(89)	(77)
Social security costs	(14)	(12)
Costs of employee retirement plans and post-employment benefits expenses	(3)	(4)
Other employee benefits expenses	(4)	(2)
Total	**(110)**	**(95)**
Items included in cost of sales	(20)	(17)
Items included in selling and distribution expenses	(8)	(8)
Items included in administrative expenses	(82)	(70)

(in PLN million)

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;
- disposal/liquidation of financial assets;
- 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 2022	31 December 2021
EUR	4.6899	4.5994
USD	4.4018	4.0600
CZK	0.1942	0.1850

	Year ended 31 December 2022	Year ended 31 December 2021
Dividend income	1 797	1 852
Interest income on loans	544	247
Interest expense	(654)	(330)
Realuation of shares	(48)	(1 399)
Revaluation of loans	(1 462)	(298)
Other finance income and costs, *of which:*	**(341)**	**119**
Gain/(loss) on derivative instruments	(219)	116
The earnings on the transfer ownership of shares in subsidiaries	56	-
Commissions due to external financing	(24)	(25)
Exchange differences	(126)	14
Other finance income	47	21
Other finance costs	(75)	(7)
Total, *of which:*	**(164)**	**191**
Income and costs from financial instruments	(156)	190
Other finance income and costs	(8)	1

The increase in the cost of revaluating loans is mainly related to the recognition of impairment losses on loans granted to TAURON Wytwarzanie S.A., which was significantly affected by the increase in the value of loans granted to this company as a result of a loan granted by the Company in the amount of PLN 4 863 million. The loan granted was recognized as a financial asset impaired due to credit risk, and the total amount of the write-down in relation to this loan amounted to PLN 1 242 million, which was described in more detail in Note 20 to these financial statements.

The increase in interest income on loans is mainly due to an increase in the amount of loans granted, as discussed further in Note 20 of these financial statements.

The increase in interest expenses in the year ended 31 December 2022 in relation to the comparable period results from the level of external borrowing and the increase in base rates. The change of the base rates is partially offset by the concluded IRS hedging instruments. The interest expenses shown in the table take into account the above hedging effect.

(in PLN million)

The loss in the result on derivatives is mainly related to the decline in the measurement of FX derivatives at the end of 2022.

The earnings on the transfer of shares in the subsidiaries results from the datio in solutum agreement concluded on 31 May 2022 between TAURON Polska Energia S.A. and the subsidiary, TAURON Wytwarzanie S.A., which is described in more detail in Note 19 of these financial statements.

15. Income Tax

SELECTED ACCOUNTING PRINCIPLES

Current Tax

Income tax recognised in the result of the period comprises real tax burden for a given reporting period determined by the Company in accordance with the binding provisions of the Act on corporate income tax and potential adjustments of tax settlements for previous years.

Deferred Tax

The accounting policy related to deferred tax is described in Note 33 to these financial statements.

15.1. Tax burden in the statement of comprehensive income

	Year ended 31 December 2022	Year ended 31 December 2021
Current income tax	(36)	(7)
Deferred tax	67	31
Income tax expense in profit or loss	**31**	**24**
Income tax expense in other comprehensive income	**(36)**	**(76)**

15.2. Reconciliation of the effective tax rate

	Year ended 31 December 2022	Year ended 31 December 2021
Profit before tax	**36**	**236**
Tax at Poland's statutory tax rate of 19%	**(7)**	**(45)**
Dividends	341	352
Impairment loss on shares and loans in subsidiaries	(303)	(319)
(Recognition)/Reversal of non-tax provisions	13	198
Other non-tax incomes and costs	(11)	(8)
Tax effects of reorganization transactions	(3)	-
Changes in write-down for deferred income tax	-	40
Utilisation of tax loss in the Tax Capital Group	-	(194)
Other	1	-
Tax at the effective tax rate of -86.1% (2021: -10.2%)	**31**	**24**
Income tax expense in profit/(loss)	31	24

15.3. Receivables due to income tax

As at 31 December 2022, the Company had income tax receivables in the amount of PLN 79 million, which mainly comprise the surplus of advances paid by the Company in the amount of PLN 115 million over the tax due for the year 2022 in the amount of PLN 36 million.

Until 31 December 2021, the Company accounted for income tax within the Tax Capital Group (“PGK”) whose agreement was registered by the Head of the First Silesian Tax Office in Sosnowiec for the years 2021-2023. On 24 May 2022, the Head of the First Mazovian Tax Office in Warsaw issued a decision on the expiry of the agreement on the establishment of the PGK for 2021-2023 on 31 December 2021. The reason for the above decision was the PGK's failure to meet the legally required condition of maintaining a minimum profitability of 2% for PGK for 2021. As a result of the above decision, the Company accounts for the income tax for 2022 individually.

(in PLN million)

On 28 December 2022, an agreement of the Tax Capital Group which consists of the Company and selected subsidiaries was registered by the Head of the First Mazovian Tax Office in Warsaw for the years 2023-2025.

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

16. Earnings/(loss) per share

SELECTED ACCOUNTING PRINCIPLES

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 2022	Year ended 31 December 2021
Basic and diluted net profit (loss) per share (in PLN)	0.04	0.15

The figures for calculating the earnings (loss) per share presented in the statement of comprehensive income are presented below.

	Year ended 31 December 2022	Year ended 31 December 2021
Net profit (loss) attributable to ordinary shareholders	67	260
Number of ordinary shares	1 752 549 394	1 752 549 394

EXPLANATORY NOTES TO THE STATEMENT OF FINANCIAL POSITION

17. Investment real estate

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 properties are measured at acquisition costs or manufacturing costs including transaction costs. Following the initial recognition, the Company measures all investment real estate 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 real estate throughout the period of its useful life.

PROFESSIONAL JUDGEMENT AND ESTIMATES

The fair value measurement of the investment real estate as at 31 December 2022 amounted to PLN 37 million.

	Year ended 31 December 2022	Year ended 31 December 2021
COST		
Opening balance	**54**	**54**
Direct purchase	-	-
Closing balance	**54**	**54**
ACCUMULATED DEPRECIATION		
Opening balance	**(30)**	**(26)**
Depreciation for the period	(5)	(4)
Closing balance	**(35)**	**(30)**
NET CARRYING AMOUNT AT THE BEGINNING OF THE PERIOD	**24**	**28**
NET CARRYING AMOUNT AT THE END OF THE PERIOD, *of which:*	**19**	**24**
Buildings and other tangible assets	12	17
Perpetual usufruct of land	7	7

The investment real estate is composed of the perpetual usufruct right to land and buildings located in Katowice Szopienice, at ul. Lwowska 23. The lease revenue in the year ended 31 December 2022 amounted to PLN 7 million.

(in PLN million)

18. Right-of-use assets

SELECTED ACCOUNTING PRINCIPLES

An agreement for rental, lease or a part thereof, or other agreement or a part of an agreement of a similar nature under which the right to control the use of an asset for a given period is transferred in exchange for remuneration is classified as a lease. Lease classification is performed 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.

The Company applies the portfolio approach to similar leases regarding unified assets with similar use. When accounting for leases under the portfolio approach, the Company applies estimates and assumptions corresponding to the size and composition of the portfolio, including estimates of the weighted average lease term.
In order to determine the lease period, e.g. for contracts for an indefinite period, the Company makes an estimate.

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

	Year ended 31 December 2022			Year ended 31 December 2021		
	Buildings and premises	Motor vehicles	Total right-of-use assets	Buildings and premises	Motor vehicles	Total right-of-use assets
COST						
Opening balance	**44**	**2**	**46**	**43**	**2**	**45**
Increase/(decrease) due to lease changes	-	-	**-**	1	-	**1**
Other	-	(1)	**(1)**	-	-	**-**
Closing balance	**44**	**1**	**45**	**44**	**2**	**46**
ACCUMULATED DEPRECIATION						
Opening balance	**(22)**	**(2)**	**(24)**	**(15)**	**(2)**	**(17)**
Depreciation for the period	(9)	-	**(9)**	(7)	(1)	**(8)**
Other	-	1	**1**	-	1	**1**
Closing balance	**(31)**	**(1)**	**(32)**	**(22)**	**(2)**	**(24)**
NET CARRYING AMOUNT AT THE BEGINNING OF THE PERIOD	**22**	**-**	**22**	**28**	**-**	**28**
NET CARRYING AMOUNT AT THE END OF THE PERIOD	**13**	**-**	**13**	**22**	**-**	**22**

(in PLN million)

19. Shares and interests

SELECTED ACCOUNTING PRINCIPLES

Shares in subsidiaries and jointly controlled entities

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

Shares in other entities

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

PROFESSIONAL JUDGEMENT AND ESTIMATES

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

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

Change in shares for the year ended 31 December 2022

No.	Company	Gross value			Impairment losses			Net value	
		Opening balance	(Decreases) Increases	Closing balance	Opening balance	Decreases (Increases)	Closing balance	Opening balance	Closing balance
Consolidated subsidiaries									
1	TAURON Wydobycie S.A.	1 342	(1 342)	-	(1 342)	1 342	-	-	**-**
2	TAURON Wytwarzanie S.A.	7 866	(36)	7 830	(7 830)	-	(7 830)	36	**-**
3	Nowe Jaworzno Grupa TAURON Sp. z o.o.	6 578	(6 578)	-	(1 764)	1 764	-	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	-	-	-	1 940	**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.	90	-	90	(90)	-	(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	Bioeko Grupa TAURON Sp. z o.o.	1	(1)	-	-	-	-	1	**-**
16	TAURON Serwis Sp. z o.o.	1	(1)	-	-	-	-	1	**-**
17	TAURON Inwestycje Sp. z o.o.	-	36	36	-	(36)	(36)	-	**-**
18	Other	5	-	5	-	-	-	5	**5**
Joint ventures									
19	TAMEH HOLDING Sp. z o.o.	416	-	416	-	-	-	416	**416**
Entities measured at fair value									
20	EEC Magenta Sp. z o.o. ASI spółka komandytowo–akcyjna	4	-	4	-	-	-	4	**4**
21	EEC Magenta Sp. z o.o. 2 ASI spółka komandytowo–akcyjna	37	9	46	-	-	-	37	**46**
22	Other	10	-	10	-	-	-	10	**10**
	Total	**32 833**	**(7 913)**	**24 920**	**(12 274)**	**3 070**	**(9 204)**	**20 559**	**15 716**

The most significant changes in shareholding in the year ended 31 December 2022 resulted from the following transactions:

- the demerger of TAURON Wytwarzanie S.A. and the incorporation of TAURON Inwestycje Sp. z o.o. registered on 1 July 2022, which were performed as part of the ongoing work to prepare for the spin-off of the TAURON Group's generation coal assets under the governmental programme of Polish power sector transformation (the “NABE Programme”);
- the sale of 100% of the stocks in Nowe Jaworzno Grupa TAURON sp. z o.o. held by TAURON Polska Energia S.A. to TAURON Wytwarzanie S.A. on 29 July 2022. The selling price amounted to PLN 4 815 million and was close to the carrying amount of the stocks sold. On the same day, the loan agreement was concluded between the Company as a lender and TAURON Wytwarzanie S.A. as a borrower, for the amount of PLN 4 863 million, to be used for the purchase of stocks in the company Nowe Jaworzno Grupa TAURON Sp. z o.o. by TAURON Wytwarzanie S.A., as described in more detail in Note 20.1 of these financial statements;

(in PLN million)

- the sale of 100% of the shares held in TAURON Wydobycie S.A. to the State Treasury on 31 December 2022 for a price of PLN 1, as described in more detail in Note 2 of these financial statements. The shares sold were subject to a 100% impairment write-down;
- increase of the share capital in EEC Magenta Sp. z o.o. 2 ASI spółka komandytowo-akcyjna where TAURON Polska Energia S.A. took up a total of 201 062 shares for the total amount of PLN 20 million. As at the balance sheet date, the Company updated the valuation of the fair value of EEC Magenta Sp. z o.o. 2 ASI spółka komandytowo-akcyjna, as a result of which the carrying amount decreased by PLN 11 million;
- transfer of the ownership of shares in the companies TAURON Serwis Sp. z o.o. and Bioeko Grupa TAURON Sp. z o.o. with a carrying amount of PLN 2 million. On 31 May 2022, a datio in solutum agreement was concluded between the Company as debtor and the subsidiary, TAURON Wytwarzanie S.A. as the creditor, pursuant to which the Company, in order to discharge its liability to TAURON Wytwarzanie S.A. in the amount of PLN 58 million, transferred to TAURON Wytwarzanie S.A. its ownership of 100% of shares in the share capital of Bioeko Grupa TAURON Sp. z o.o. and 95.61% of shares in the share capital of TAURON Serwis Sp. z o.o. with the total market value of PLN 58 million. The Company earned a profit of PLN 56 million on the transaction.

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	Other	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	Other	11	(1)	10	-	-	-	11	**10**
	Total	**31 731**	**1 102**	**32 833**	**(10 875)**	**(1 399)**	**(12 274)**	**20 856**	**20 559**

20. Originated loans

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 a maturity date exceeding 12 months from the balance sheet date are classified as fixed assets and loans with a maturity date not exceeding 12 months from the balance sheet date as current assets, taking into account the expectations as regards the loan repayment as at the balance sheet day (intentions regarding the maturity period extension or its refinancing).

PROFESSIONAL JUDGEMENT AND ESTIMATES

The Company makes appropriate classification and valuation of the loans granted. Loans granted with a maturity period of less than one year, for which an extension of the repayment period or roll-over is planned, are classified as long-term instruments. As at 31 December 2022, the nominal value of the aforementioned loans amounted to PLN 1 292 million.

In accordance with the requirements of *IFRS 9 Financial Instruments*, in case of loans measured at amortised cost, the Company estimates the amount of impairment losses on loans, as described in detail below and in Note 38.1.2 of these financial statements. The Company estimates the fair value of loans classified as measured at a fair value. The measurement methodology is described in Note 37.1 to these financial statements.

In the case of loans granted to special purpose entities, which are the only source of financing the purchase of a non-financial fixed asset (the borrower's equity is intangible at the time of granting the loan) by these entities, the Company believes that the characteristics of the contractual cash flows do not only correspond to the repayment of the principal amount and interest on the principal amount outstanding and measures such loans at fair value through profit or loss.

(in PLN million)

Balances of loans granted by the Company as at 31 December 2022 and 31 December 2021 are presented in the table below.

	As at 31 December 2022			As at 31 December 2021		
	Gross value	Impairment loss	Carrying amount	Gross value	Impairment loss	Carrying amount
Loans measured at amortized cost	**13 290**	**(373)**	**12 917**	**6 238**	**(86)**	**6 152**
Loans granted to subsidiaries	11 093	(151)	**10 942**	6 180	(83)	**6 097**
Loans granted to EC Stalowa Wola S.A.	30	(5)	**25**	28	(3)	**25**
Loans granted under cash pool agreement	2 167	(217)	**1 950**	30	-	**30**
Loans measured at fair value	**623**	**n.a.**	**623**	**229**	**n.a.**	**229**
Loans granted to subsidiaries	442	n.a.	**442**	155	n.a.	**155**
Loans granted to EC Stalowa Wola S.A.	181	n.a.	**181**	74	n.a.	**74**
Total	**13 913**	**(373)**	**13 540**	**6 467**	**(86)**	**6 381**
Non-current	11 326	(154)	**11 172**	6 015	(79)	**5 936**
Current	2 587	(219)	**2 368**	452	(7)	**445**

20.1. Loans granted to subsidiaries

Company	As at 31 December 2022				As at 31 December 2021			
	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 amortized cost	**12 360**	**11 093**	**(151)**	**10 942**	**9 868**	**6 180**	**(83)**	**6 097**
TAURON Wytwarzanie S.A.	5 564	4 317	(96)	**4 221**	905	905	(66)	**839**
TAURON Dystrybucja S.A.	5 460	5 444	(27)	**5 417**	4 125	4 105	(10)	**4 095**
TAURON Ciepło Sp. z o.o.	981	980	(17)	**963**	981	981	(6)	**975**
TAURON Ekoenergia Sp. z o.o.	160	157	(1)	**156**	160	155	(1)	**154**
TAURON Obsługa Klienta Sp. z o.o.	96	96	(2)	**94**	-	-	-	**-**
TAURON Nowe Technologie S.A.	51	51	(1)	**50**	-	-	-	**-**
TAURON Wydobycie S.A.	-	-	-	**-**	3 663	-	-	**-**
Other	48	48	(7)	**41**	34	34	-	**34**
Loans measured at fair value	**452**	**442**	**n.a.**	**442**	**155**	**155**	**n.a.**	**155**
WIND T1 Sp. z o.o.	197	185	n.a.	**185**	131	131	n.a.	**131**
"MEGAWATT S.C." Sp. z o.o.	129	139	n.a.	**139**	-	-	-	**-**
WIND T4 Sp. z o.o.	40	40	n.a.	**40**	-	-	-	**-**
Polpower Sp. z o.o.	36	30	n.a.	**30**	8	8	n.a.	**8**
Energetyka Cieszyńska Sp. z o.o.	22	22	n.a.	**22**	-	-	-	**-**
FF Park PV1 Sp. z o.o.	12	12	n.a.	**12**	-	-	-	**-**
Aval-1 Sp. z o.o.	16	14	n.a.	**14**	16	16	n.a.	**16**
Total	**12 812**	**11 535**	**(151)**	**11 384**	**10 023**	**6 335**	**(83)**	**6 252**
Non-current		11 115	(149)	**10 966**		5 913	(76)	**5 837**
Current		420	(2)	**418**		422	(7)	**415**

On 29 July 2022, the Company and TAURON Wytwarzanie S.A. concluded a loan agreement in the amount of PLN 4 863 million for the purchase by TAURON Wytwarzanie S.A. of shares in Nowe Jaworzno Grupa TAURON Sp. z o.o., as further described in Note 19 of these financial statements. The above loan was recognized as an impaired financial asset due to credit risk. The carrying amount of the loan as at the balance sheet date in the amount of PLN 3 635 million was estimated based on the repayment scenarios assumed by the Company for the loan granted to TAURON Wytwarzanie S.A., taking into account the results of the last impairment test of assets as at 31 December 2022, taking into account the company's forecast of future cash flows. As a result of the above analysis, the total amount of credit loss recognized in the period since the loan was granted amounted to PLN 1 242 million, of which PLN 882 million was updated as at the balance sheet date, which is described in more detail in Note 10 to these financial statements.

On 25 October 2022, the Company and TAURON Wydobycie S.A. concluded the set-off agreement, under which the parties set off the receivables of TAURON Wydobycie S.A. from the capital increase in the amount of PLN 3 978 million against the Company's debt receivable in the same amount. The increase in the share capital of TAURON Wydobycie S.A., carried out by the Company in order to repay the debt of TAURON Wydobycie S.A., was one of the conditions precedent for the entry into force of the agreement for the sale of 100% of the shares in TAURON Wydobycie S.A. to the State Treasury, as described in more detail in Note 2 of these financial statements.

(in PLN million)

Change in loans measured at amortised cost and impairment losses

	Year ended 31 December 2022					Year ended 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	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	**5 275**	**905**	**-**	**-**	**6 180**	**4 559**	**515**	**-**	**5 074**
Loan repayment	-	(226)	-	-	**(226)**	(113)	(211)	-	**(324)**
Loan granting	1 452	-	7	3 621	**5 080**	793	600	-	**1 393**
Interest accrued	227	42	-	201	**470**	198	47	-	**245**
Interest received	(194)	(43)	-	(174)	**(411)**	(162)	(46)	-	**(208)**
Closing balance	**6 760**	**678**	**7**	**3 648**	**11 093**	**5 275**	**905**	**-**	**6 180**
Impairment loss									
Opening balance	**(18)**	**(65)**	**-**	**-**	**(83)**	**(15)**	**(56)**	**-**	**(71)**
Recognition	(31)	(36)	(7)	-	**(74)**	(6)	(12)	-	**(18)**
Reversal	-	6	-	-	**6**	3	3	-	**6**
Utilized	-	-	-	-	**-**	-	-	-	**-**
Closing balance	**(49)**	**(95)**	**(7)**	**-**	**(151)**	**(18)**	**(65)**	**-**	**(83)**
Net carrying amount at the beginning of the period	**5 257**	**840**	**-**	**-**	**6 097**	**4 544**	**459**	**-**	**5 003**
Net carrying amount at the end of the period	**6 711**	**583**	**-**	**3 648**	**10 942**	**5 257**	**840**	**-**	**6 097**

20.2. Loans to joint ventures

Loans granted to the Elektrociepłownia Stalowa Wola S.A. joint venture as at 31 December 2022 and as at 31 December 2021 are presented in the table below.

	As at 31 December 2022				As at 31 December 2021				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	562	181	n.a.	**181**	409	74	n.a.	**74**	30.06.2033	fixed
Loans measured at amortized cost	123	30	(5)	**25**	116	28	(3)	**25**		
Total, *of which:*	**685**	**211**	**(5)**	**206**	**525**	**102**	**(3)**	**99**		
Non-current		211	(5)	**206**		102	(3)	**99**		

On 2 March 2022, the Company concluded a loan agreement with Elektrociepłownia Stalowa Wola S.A. up to the amount of PLN 120 million, for the purpose of settlement by Elektrociepłownia Stalowa Wola S.A. of the liability resulting from the settlement agreement with Abener Energia S.A. concluded on 31 December 2021. On 8 March 2022, the Company paid the full amount of the loan to the borrower. The loan was classified as an asset measured at fair value, and its fair value on the balance sheet date amounts to PLN 107 million.

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 the bank for the operation of a cash management system for a group of accounts, with the effective term until 6 December 2024. 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 2022 and 31 December 2021 is presented in the table below.

	As at 31 December 2022			As at 31 December 2021	
	Gross value	Impairment loss	Carrying amount	Gross value	Carrying amount
Receivables from cash pool transactions	2 150	(217)	**1 933**	30	**30**
Interest receivable from cash pool transactions	17	-	**17**	-	**-**
Total, *of which:*	**2 167**	**(217)**	**1 950**	**30**	**30**
Current	2 167	(217)	**1 950**	30	**30**

Information concerning cash pool liabilities is presented in Note 28.5 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. Agreements for the purchase or sale of non-financial items that can be settled net, concluded and held in order to receive or deliver non-financial items in accordance with the needs expected by the entity as excluded from the scope of IFRS 9 *Financial Instruments* are not measured at the balance sheet date.

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 date. Changes in the fair value of these instruments are recognised in the result of the period (commodity derivatives in operating income/expenses, other derivatives in financial income/expenses). Derivatives are disclosed as assets if their value is positive or as liabilities if their value if negative.

As at the end of the reporting period, Interest Rate Swaps (IRS) acquired and held to hedge the interest rate risk relating to debt are subject to hedge accounting. Other derivative instruments held by the Company as at the balance sheet date 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.

The gains/losses on the revaluation of a hedging instrument recognised in other comprehensive income are recognised directly in the profit or loss of the current period when the hedged item affects profit or loss of the current period or is included in the initial cost of purchasing the asset (capitalisation of external financing 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 date.

(in PLN million)

Instrument	Methodology of determining fair value	As at 31 December 2022
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.	IRS (Interest Rate Swap) instruments are used to hedge a portion of the interest rate risk on the cash flows associated with the exposure to WIBOR 6M designated under the dynamic risk management strategy, i.e: • interest on a loan with a nominal value of PLN 750 million, for periods commencing respectively from July 2020 and expiring in December 2024; • interest on bonds and a loan with a total nominal value of PLN 3 090 million, for periods commencing in December 2019 and expiring successively from 2023 to 2029. 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.
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 measurement of derivatives as at the respective balance sheet dates is presented in the table below:

	As at 31 December 2022				As at 31 December 2021			
	Total		Charged to profit or loss	Charged to other comprehensive income	Total		Charged to profit or loss	Charged to other comprehensive income
	Assets	Liabilities			Assets	Liabilities		
Derivative instruments subject to hedge accounting								
IRS	**592**	**-**	34	558	**371**	**-**	-	371
Derivative instruments measured at fair value through profit or loss								
CCIRS	**21**	**-**	21	-	**26**	**(1)**	25	-
Commodity future/forward	**236**	**(232)**	4	-	**485**	**(494)**	(9)	-
Currency forward	**-**	**(109)**	(109)	-	**115**	**-**	115	-
Total	**849**	**(341)**			**997**	**(495)**		
Non-current	390	(10)			532	(116)		
Current	459	(331)			465	(379)		

The derivatives shown in the table above include futures contracts covered within the scope of IFRS 9 *Financial Instruments.* The derivatives acquired and held to hedge own needs as excluded from the scope of IFRS 9 *Financial Instruments* are not subject to measurement as at the balance sheet date.

22. Other financial assets

SELECTED ACCOUNTING PRINCIPLES

Other financial assets include, inter alia, bid bonds, deposits, security provided, stock exchange settlement deposits and receivables from the disposal of property, plant and equipment and intangible assets.

(in PLN million)

	As at 31 December 2022	As at 31 December 2021
Initial and variation margin deposits arising from stock exchange transactions	-	32
Bid bonds, deposits, collateral transferred	35	38
Total, *of which:*	**35**	**70**
Current	35	70

23. Other non-financial assets

SELECTED ACCOUNTING PRINCIPLES

The Company recognises mainly advances for deliveries, tax and fee settlements as other non-financial assets, with the exception of income tax which is presented as a separate item of accruals and prepaid settlements 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 2022	As at 31 December 2021
Advances for deliveries, *including:*	598	2
Prepaid fee on debt	14	13
VAT receivables	-	43
Other	8	10
Total	**620**	**68**
Non-current	19	14
Current	601	54

The increase in advances for deliveries relates to the acquisitions of coal by the Company for the needs of generation companies of the Group. As a result of the impact of the war in Ukraine caused by the aggression of the Russian Federation on the restriction of coal supply in the market in the fourth quarter of 2022, as further described in Note 48 of these financial statements, in order to mitigate the risks arising from the above restrictions, the Company contracted coal deliveries on the domestic and foreign markets, which will be implemented in the subsequent months. Some of the contracted deliveries required advance payments, whose value as at the balance sheet date amounted to PLN 598 million.

24. Inventories

SELECTED ACCOUNTING PRINCIPLES

Within inventories, the Company primarily recognises acquired CO_2 emission rights that are held for trading purposes, including sale to Group companies for redemption purposes.

CO_2 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 date.

Inventories of CO_2 emission allowances purchased for redemption purposes of the Group 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 CO_2 emission rights is measured using the FIFO method.

	As at 31 December 2022			As at 31 December 2021	
	Gross Value	Measurement to net realisable value	Carrying amount	Gross Value	Carrying amount
CO_2 emission allowances	74	(2)	**72**	51	**51**

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

Financial statements for the year ended 31 December 2022 compliant with the IFRS approved by the European Union (in PLN million)

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 quotings of annual Credit Default Swap (CDS) instruments for each rating.

	As at 31 December 2022	As at 31 December 2021
Gross Value		
Receivables from buyers	4 101	2 501
Receivables claimed at court	-	1
Total	**4 101**	**2 502**
Allowance/write-down		
Receivables from buyers	(31)	(6)
Receivables claimed at court	-	(1)
Total	**(31)**	**(7)**
Net Value		
Receivables from buyers	4 070	2 495
Total	**4 070**	**2 495**

As at 31 December 2022 and 31 December 2021, receivables from the subsidiary, TAURON Sprzedaż Sp. z o.o. constituted the highest balance of receivables from customers amounting to PLN 2 891 million and PLN 1 513 million, respectively.

The ageing of receivables from customers is shown in the table below.

	As at 31 December 2022		As at 31 December 2021			
	Not past due	Total	*Not past due*	*Past due*		Total
				<30 days	*>360 days*	
Value of item before allowance/write-down	4 101	**4 101**	2 448	53	1	**2 502**
Allowance/write-down	(31)	**(31)**	(6)	-	(1)	**(7)**
Net Value	**4 070**	**4 070**	**2 442**	**53**	**-**	**2 495**

Transactions with related parties and balances of settlements with these entities are presented in note 43.1 of these financial statements.

(in PLN million)

26. Cash and cash 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 2022	As at 31 December 2021 *(restated figures)*
Cash at bank and in hand	1 039	440
Total cash and cash equivalents presented in the statement of financial position, *including*:	**1 039**	**440**
restricted cash, *including:*	752	159
collateral of settlements with Izba Rozliczeniowa Giełd Towarowych S.A.	*671*	*156*
cash on VAT bank accounts (split payment)	*81*	*3*
Collateral of settlements with Izba Rozliczeniowa Giełd Towarowych S.A.	(671)	(156)
Cash pool	(715)	(2 603)
Foreign exchange	26	-
Total cash and cash equivalents presented in the statement of cash flows	**(321)**	**(2 319)**

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.

Collateral of settlements with Izba Rozliczeniowa Giełd Towarowych S.A. constitute funds transferred under transaction and security deposits in connection with transactions concluded by the Company on Towarowa Giełda Energii, which in the Group's opinion do not constitute cash and cash equivalents in the statement of cash flows.

Information on balances arising from the cash pool agreement is presented in Notes 20.3 and 28.5 of these financial statements.

27. Equity

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 Company, which is 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 on debt. Its amount is determined as the fair value of the effective portion of cash flow hedging instruments, including deferred tax.

27.1. Issued capital

Issued capital as at 31 December 2022

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**	

(in PLN million)

As at 31 December 2022, the value of issued capital, the number of shares and the nominal value of the shares has not changed since 31 December 2021.

27.2. Major Shareholders

Shareholding structure as at 31 December 2022 *(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 Otwarty 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's knowledge, the shareholding structure as at 31 December 2022 has not changed compared to the structure as at 31 December 2021.

27.3. Reserve capital

	As at 31 December 2022	As at 31 December 2021
Amounts from distribution of prior years profits	3 009	2 749
Total reserve capital	**3 009**	**2 749**

The reserve capital of the Company up to the level of one-third of the Company issued capital, i.e. PLN 2 921 million, may be used only to cover losses.

27.4. Revaluation reserve from valuation of hedging instruments

	Year ended 31 December 2022	Year ended 31 December 2021
Opening balance	**299**	**(80)**
Remeasurement of hedging instruments	187	455
Deferred income tax	(36)	(87)
Write-off of deferred tax assets	-	11
Closing balance	**450**	**299**

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

As at 31 December 2022, the Company recognised the amount of PLN 450 million of the revaluation reserve from valuation 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 592 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 Revaluation reserve from valuation of hedging instruments during the year ended 31 December 2022 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.

(in PLN million)

27.5. Retained earnings/ (Accumulated losses)

	As at 31 December 2022	As at 31 December 2021
Financial result for the year ended 31 December 2022	67	-
Financial result for the year ended 31 December 2021	-	260
Restated profit/(loss) for the year ended 31 December 2020	338	338
Effects of implementing IFRS 9 *Finanical Instruments*	(388)	(388)
Settlement of mergers with subsidiaries	81	81
Actuarial gains and losses on provisions for post-employment benefits	-	(1)
Total retained earnings/ (accumulated losses)	**98**	**290**

27.6. Dividends paid and proposed for disbursement

In the year ended 31 December 2022 and the comparative period, the Company did not propose to pay or paid any dividends to the shareholders of the Company.

On 29 March 2022, the Management Board of the Company decided to recommend that no dividend should be paid from the net profit for 2021 to the Company shareholders and that the entire net profit in the amount of PLN 260 million should be allocated to the reserve capital of the Company. On 24 May 2022 the Ordinary General Meeting of the Company adopted the resolution in compliance with the recommendation of the Management Board.

28. 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 credits, loans and bonds issued are measured at fair value less the cost incurred to obtain borrowings or loan 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 where the drawing period of the loan tranches may be under or over 12 months or with a repayment date at the end of the interest period, where the financing available under the agreement is revolving and the availability period exceeds 1 year, the Company classifies the tranches according to the intention and ability to maintain the financing under the agreement, i.e. as a long-term or short-term liability.

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.

(in PLN million)

	As at 31 December 2022			As at 31 December 2021		
	Long-term	Short-term	Total	Long-term	Short-term	Total
Unsubordinated bonds	4 253	216	**4 469**	4 377	201	**4 578**
Subordinated bonds	1 961	5	**1 966**	1 967	5	**1 972**
Bank loans	7 753	201	**7 954**	2 676	1 819	**4 495**
Loan from the subsidiary	781	2	**783**	766	2	**768**
Cash pool loans received	-	2 882	**2 882**	-	2 632	**2 632**
Lease	6	10	**16**	15	10	**25**
Total	**14 754**	**3 316**	**18 070**	**9 801**	**4 669**	**14 470**

28.1. Bonds issued

Investor	Interest rate	Currency	Bonds issued at nominal value in currency	Maturity date	Carrying amount As at 31 December 2022	Carrying amount As at 31 December 2021
Bank Gospodarstwa Krajowego	floating, based on WIBOR 6M	PLN	600	2023-2028	602	700
			490	2023-2029	491	560
A series bonds (TPE 1025)	floating, based on WIBOR 6M	PLN	1 000	2025	1 014	1 002
Eurobonds	fixed	EUR	500	2027	2 362	2 316
Unsubordinated bonds					**4 469**	**4 578**
Bank Gospodarstwa Krajowego	floating, based on WIBOR 6M	PLN	400	2031[2]	401	401
European Investment Bank	fixed[1]	EUR	190	2034[2]	851	847
		PLN	400	2030[2]	381	386
		PLN	350	2030[2]	333	338
Subordinated bonds					**1 966**	**1 972**
Total bonds					**6 435**	**6 550**

[1] In the case of hybrid (subordinated) bonds subscribed for by the European Investment Bank, two financing 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. The maturity dates presented in the table above are the final terms of redemption according to agreement, after two period of financing. The valuation of the bonds at the balance sheet day takes into account early redemption, due to the intention to redeem the bonds after the end of the first financing period (bonds subscribed by the EIB: EUR issue on 16 December 2024, PLN issue on 17 and 19 December 2025, bonds subscribed by BGK on 29 March 2026).

Unsubordinated bonds

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 level of net debt / EBITDA ratio, since the bonds are excluded from this ratio calculation, a covenant in some of the financing agreements concluded by the Company. Additionally, 50% of the subordinated bond amount has been classified by the rating agency as equity in the rating model, which has had a beneficial effect on the rating of the TAURON Group.

(in PLN million)

28.2. Bank loans

Lender	Interest rate	Currency	Maturity date	As at 31 December 2022	As at 31 December 2021
Consortiums of banks	floating	PLN	2022	-	1 700
			2023 *	3 271	161
Bank Gospodarstwa Krajowego	floating	PLN	2033	1 001	999
European Investment Bank	fixed	PLN	2024	141	222
			2027	133	162
			2040	405	-
	floating		2040	1 222	-
Intesa Sanpaolo S.p.A.	floating	PLN	2024	775	752
SMBC BANK EU AG	fixed	PLN	2025	499	499
Erste Group Bank AG	floating	PLN	2026	507	-
Total				**7 954**	**4 495**

** A tranche classified as non-current liability.*

As at the balance sheet date, the Company has loan agreements concluded in 2020 and 2022 with consortiums of banks. The period of drawing individual loan tranches may be below or above 12 months, the financing is renewable and the availability period exceeds 12 months from the balance sheet date. Due to the intention and ability to maintain financing under the aforementioned agreements for a period exceeding 12 months from the balance sheet date, the drawdowns used as at 31 December 2022 in the total amount of PLN 3 271 million are classified as long-term liabilities.

In the year ended 31 December 2022, the Company carried out the following transactions relating to bank loans (at a nominal value), excluding overdraft facilities:

Lender	Description	Year ended 31 December 2022	
		Drawdown	Repayment
Erste Group Bank AG	Drawdowns under the loan agreement	500	-
European Investment Bank	Drawdowns under the loan agreement	1 600	-
	Repayment of capital instalments according to schedule	-	(111)
Consortiums of banks	Drawdown of new tranches and repayment of tranches according to maturity date	17 300	(15 910)
Total, *including:*		**19 400**	**(16 021)**
Cash flows		9 440	(6 061)
Net settlement (without cash flow)		9 960	(9 960)

After the balance sheet date, the Company performed drawdowns under the available loans in the total amount of PLN 3 410 million and repaid tranches in the total amount of PLN 1 850 million, including disbursement of the loan in the amount of PLN 750 million under the credit agreement concluded after the balance sheet date with Bank Gospodarstwa Krajowego, which is discussed in more detail in the Note 49 of these financial statements.

Signing the syndicated loan agreement

On 15 July 2022, a syndicated loan agreement was signed between the Company as the borrower and Powszechna Kasa Oszczędności Bank Polski S.A., Bank Polska Kasa Opieki S.A., CaixaBank S.A. (Spółka Akcyjna) Oddział w Polsce, Bank Handlowy w Warszawie S.A., Erste Group Bank AG, Industrial and Commercial Bank of China (Europe) S.A. Oddział w Polsce, Santander Bank Polska S.A. and China Construction Bank (Europe) S.A. Oddział w Polsce, as lenders for the amount of PLN 4 000 million to refinance the existing exposure, including the syndicated loan of 19 June 2019, to finance the TAURON Group's capital expenditure (excluding the financing of any projects related to coal assets) and to finance the TAURON Group's corporate-wide expenditure (excluding expenditure related to coal assets). Under the agreement, the Company may perform multiple drawdowns of tranches of the loan over the 5-year availability period of the financing, which can be extended to a maximum of 7 years. The interest rate is calculated on the basis of a floating interest rate, adequate to the interest period in question, increased by a margin which depends on the fulfilment of substantial development indicators, i.e. reduction of emissions and increasing the share of renewable energy sources in the generation structure of TAURON Group.

As at 31 December 2022, the liability incurred under the above agreement amounted to PLN 2 766 million.

The syndicated loan agreement of 19 June 2019 has been terminated. Full repayment took place in the fourth quarter of 2022.

28.3. 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 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.

(in PLN million)

As at 31 December 2022, the net debt/EBITDA ratio amounted to 2.93, therefore the covenant was respected.

28.4. Loan from subsidiary

The liability of the Company amounting to PLN 783 million (EUR 167 million) as at 31 December 2022 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, until the full repayment of the loan. The repayment deadline of the loan falls on 29 November 2029.

28.5. Loans received under the cash pool service

As at 31 December 2022 and as at 31 December 2021, the Company had current liabilities on account of cash pool transactions amounting to PLN 2 882 million and PLN 2 632 million, respectively.

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

28.6. 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 *(after the balance sheet date)*	As at 31 December 2022	As at 31 December 2021
Within 1 year	11	10
Within 1 to 5 years	4	14
More than 5 years	5	5
Gross lease liabilities	**20**	**29**
Discount	(4)	(4)
Present value of lease payments	**16**	**25**

29. Other financial liabilities

SELECTED ACCOUNTING PRINCIPLES

Other financial liabilities include, but are not limited to, amounts to companies on account of Tax Capital Group settlements, payroll liabilities, deposits, bid bonds, collateral 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 2022	As at 31 December 2021
Valuation of guarantees and financial sureties	74	16
Variation margin deposits arising from stock exchange transactions	41	102
Security margin deposits arising from bank settlements	8	-
Bid bonds, deposits and collateral received	9	24
Wages and salaries as well as other employee related liabilities	8	7
Liabilities arising from income tax settlements of the PGK companies	-	331
Other	14	24
Total	**154**	**504**
Non-current	8	11
Current	146	493

In accordance with IFRS 9 *Financial Instruments*, the Company measures guarantees and sureties issued at the amount of expected credit losses.

The value of initial and variation margins due to exchange settlements is related mostly to futures transactions in CO_2 emission allowances concluded on foreign regulated markets. The variation margins represented funds received by the Company in connection with the change in the valuation of the concluded futures contracts open as at the balance sheet date.

(in PLN million)

Margin deposits due to bank settlements represented funds received by the Company in connection with a significant increase in the positive measurement of the derivative instruments concluded with the bank, mainly IRS transactions.

30. Liabilities to suppliers

SELECTED ACCOUNTING PRINCIPLES

Current liabilities to suppliers are recognised at the amount due.

	As at 31 December 2022	As at 31 December 2021
Liabilities to subsidiaries, *including:*	2 587	1 547
TAURON Sprzedaż Sp. z o.o.	1 793	638
TAURON Wytwarzanie S.A.*	520	737
TAURON Sprzedaż GZE Sp. z o.o.	110	9
TAURON Ciepło Sp. z o.o.	117	47
Other subsidiaries	47	116
Liabilities to other suppliers	662	198
Total	**3 249**	**1 745**

* *On 3 October 2022, the merger of TAURON Wytwarzanie S.A. and Nowe Jaworzno Grupa TAURON Sp. z o.o. companies was registered, as further described in Note 2 of these financial statements. As at 31 December 2021, the total amount of liabilities of PLN 737 million represents liabilities to TAURON Wytwarzanie S.A. and Nowe Jaworzno Grupa TAURON Sp. z o.o., amounting to PLN 135 million and PLN 602 million, respectively.*

31. Liabilities due to acquisition of shares in the subsidiary

On 22 March 2022, the Company performed a timely repayment of the entire liability to Fundusz Inwestycji Infrastrukturalnych – Kapitałowy FIZAN ("PFR Fund") for the acquisition of shares in the subsidiary, Nowe Jaworzno Grupa TAURON Sp. z o.o., in the amount of PLN 1 061 million.

The liability stemmed from the agreement concluded on 22 December 2021 between the Company and the PFR Fund, pursuant to 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. Following the transaction, the Company holds 100% of the votes at the general meeting of shareholders of Nowe Jaworzno Grupa TAURON Sp. z o.o.

Upon payment of the 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., was terminated.

32. 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 2022	As at 31 December 2021
Advances received for deliveries	1 536	704
VAT	51	89
Tax on civil law transactions	-	11
Other	10	10
Total	**1 597**	**814**
Non-current	4	113
Current	1 593	701

(in PLN million)

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

33. 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 date. 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 date 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 date.

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 date. As at the balance sheet day, the Company recognised a partial write-down for deferred tax assets in the amount of PLN 49 million due to the projected inability to fully achieve the asset.

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 9 204 million, the conditions indicated above for the recognition of deferred tax assets are not fulfilled.

The Company also did not recognise a tax loss asset for 2022 from the capital gains source due to the lack of projected tax revenue to allow for its achievement.

	As at 31 December 2022	As at 31 December 2021
Deferred tax liabilities		
measurement of derivative instruments	49	119
valuation of hedging instruments	113	71
accrued interest and the valuation of loans granted	48	12
due to a different tax moment for recognizing revenues and costs of selling goods and services	26	2
other	12	4
Total	**248**	**208**
Deferred tax assets		
measurement of derivative instruments	65	94
accrued interest and the valuation of debt	89	52
provisions, accruals and deferred income	57	32
different timing of recognition of revenue and cost of sales for tax purposes	35	19
difference between tax base and carrying amount of other financial liabilities	18	9
other	19	5
Total	**283**	**211**
Unrecognized deferred tax assets	(49)	(48)
Recognized deferred tax assets/(liabilities), net	**(14)**	**(45)**

(in PLN million)

34. Provision for onerous contract

SELECTED ACCOUNTING PRINCIPLES

Provision for onerous contracts

The Company creates the provision for the onerous contract 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.

As of 1 January 2022, the amendments to IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*: Onerous Contracts - Cost of Fulfilling a Contract entered into force, which clarify that in the case of onerous contracts, the costs of fulfilling the contract comprise both the incremental costs of fulfilling the contract, e.g. labour and materials, as well as the allocation of other costs that relate directly to fulfilling the contracts (for example, the allocation of depreciation charges to an item of property, plant and equipment used, inter alia, to fulfil this contract). At the same time, in accordance with the transitional provisions, the aforementioned amendments to the standard apply to contracts for which the entity has not yet fulfilled all the obligations, at the beginning of the annual reporting period in which it applies the amendments for the first time. The entity does not restate comparative figures - the cumulative effect of the first application of the amendments is recognised as an adjustment to the opening balance of retained earnings at the date of first application.

As at the balance sheet date of 31 December 2022, the Company calculated the provisions for onerous contracts in accordance with the revised wording of the standard. At the same time, the Company assessed that the above amendment to IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* has no impact on the figures as at 1 January 2022 and does not require the impact to be recognised in Company equity.

	Year ended 31 December 2022		Year ended 31 December 2021		
	Provision for onerous contracts		Provision for onerous contracts		
	Agreements for the sale of CO_2 emission allowances	Total	Multi-annual agreement for electricity purchase	Agreements for the sale of CO_2 emission allowances	Total
Opening balance	**222**	**222**	**1 110**	**-**	**1 110**
Unwinding of discount	13	**13**	2	2	**4**
Recognision/(Reversal) net	133	**133**	(588)	220	**(368)**
Utilisation	(87)	**(87)**	(524)	-	**(524)**
Closing balance	**281**	**281**	**-**	**222**	**222**
Non-current	28	**28**	-	154	**154**
Current	253	**253**	-	68	**68**

Provision for agreements for the sale of CO_2 emission allowances

As at 31 December 2022, the Company recognised the provision for onerous contracts in the amount of PLN 281 million since, based on the transaction agreements concluded with the subsidiaries, the unavoidable costs of fulfilment of the obligation to deliver CO_2 emission allowances to subsidiaries outweigh the benefits to be received under these agreements. The provision was calculated as a difference between concluded transaction agreements for sales to subsidiaries and concluded contracts for the purchase of CO_2 emission allowances from the market measured at the current exchange rate.

The provision is mainly a consequence of performed transactions involving the surplus of CO_2 emission allowances of the subsidiary, Nowe Jaworzno Grupa TAURON Sp. z o.o. resulting from the failure and shutdown of the 910 MW unit:

- in the first quarter of 2022, the Company sold its surplus of CO_2 emission allowances in excess of the redemption needs of Nowe Jaworzno Grupa TAURON Sp. z o.o. in the amount of 1 717 000 EUAs with a simultaneous repurchase of this volume in the EUA MAR'23 forward product for the purpose of redeeming the allowances for 2022. The repurchase of the volume in the EUA MAR'23 forward product took place at prices higher than the average price of the allowances sold, consequently, the cost of purchasing these CO_2 allowances exceeds the expected revenue of the Company from their sale to the subsidiary. As a result of the foregoing, as at the balance sheet date, the Company created the provision for the onerous contracts in the amount of PLN 78 million charging the operating costs in the amount of PLN 75 million;
- in the first quarter of 2021, the Company rolled over contracts with delivery dates in March 2021 while concluding new contracts with delivery dates in March 2022, 2023 and 2024. New transactions with delivery dates in 2022-2024 were performed at prices higher than the purchase originally contracted, consequently, the costs of purchasing these CO_2 emission allowances exceed the expected revenue of the Company on account of their sales to the subsidiary. As a result of the foregoing, the Company recognised the provision for the onerous contracts which amounted to PLN 222 million as at 31 December 2021 and PLN 169 million as at 31 December 2022. In the year ended 31 December 2022, the Company partially used the provision of PLN 74 million in connection with the settlement of contracts with the

(in PLN million)

delivery date in March 2022 and the materialisation of a loss on the resale of allowances to the subsidiary and performed the revaluation of the provision to operating expenses in the amount of PLN 15 million.

35. Other provisions, accruals and governmental subsidies

SELECTED ACCOUNTING PRINCIPLES

Accruals and governmental subsidies

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

Provisions for employee benefits

In accordance with the remuneration system adopted, employees of the Company are entitled to post-employment benefits: retirement and disability severance pay and benefits from the Company Social Benefits Fund. The provision for death compensation to which the family of the deceased employee is entitled is created in accordance with the terms and in the amount included in the Labour Code.

The current value of such liabilities as at the 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 2022	As at 31 December 2021
Accruals and governmental subsidies, *including:*	19	15
Accruals due to premium	*9*	*8*
Provision for post-employment employee benefits	4	4
Other provisions	3	4
Total	**26**	**23**
Non-current	4	5
Current	22	18

EXPLANATORY NOTES TO THE STATEMENT OF CASH FLOWS

SELECTED ACCOUNTING PRINCIPLES

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

36. Significant items of the statement of cash flows

36.1. Cash flows from operating activities

Changes in working capital

	Year ended 31 December 2022	Year ended 31 December 2021 *(restated figures)*
Change in receivables	(1 539)	(1 197)
Change in inventories	(21)	343
Change in payables excluding loans	2 309	1 436
Change in other non-current and current assets	(554)	(38)
Change in deferred income, government grants and accruals	4	(4)
Change in provisions	61	(889)
Change in collateral transferred to IRGiT	(515)	(47)
Change in working capital	**(255)**	**(396)**

(in PLN million)

36.2. Cash flows from investment activities

Acquisition of shares in subsidiary

Expenses for the acquisition of shares in the subsidiary in the amount of PLN 1 061 million result from the timely repayment on 22 March 2022 of the total liability to Fundusz Inwestycji Infrastrukturalnych – Kapitałowy FIZAN on account of the acquisition of shares in the subsidiary, Nowe Jaworzno Grupa TAURON Sp. z o.o., as further described in Note 31 to these financial statements.

Loans granted

	Year ended 31 December 2022	Year ended 31 December 2021
Loans granted to companies:		
TAURON Wytwarzanie S.A.	(4 863)	(600)
TAURON Dystrybucja S.A.	(1 300)	(800)
"MEGAWATT S.C." Sp. z o.o.	(133)	-
Elekrociepłownia Stalowa Wola S.A.	(120)	-
Wind T1 Sp. z o.o.	(106)	(131)
TAURON Obsługa Klienta Sp. z o.o.	(95)	-
TAURON Nowe Technologie S.A.	(50)	-
Polpower Sp. z o.o.	(31)	(8)
TAURON Wydobycie S.A.	-	(250)
Other companies	(39)	(9)
Change in the balance of loans granted to subsidiaries under the long-term exposure cash pool agreement	78	231
Total	**(6 659)**	**(1 567)**

36.3. Cash flows from financial activities

Loans and borrowings repaid

	Year ended 31 December 2022	Year ended 31 December 2021
Repayment tranches of loans to the Consortium of banks	(5 950)	(3 300)
Repayment of the loan installments to the European Investment Bank	(111)	(162)
Total	**(6 061)**	**(3 462)**

Interest paid

	Year ended 31 December 2022	Year ended 31 December 2021
Interest paid in relation to loans and borrowings	(268)	(127)
Interest paid in relation to debt securities	(247)	(221)
Total	**(515)**	**(348)**

Borrowings

	Year ended 31 December 2022	Year ended 31 December 2021
The launch of financing under loan agreements:		
Consortium of banks	7 340	2 000
European Investment Bank	1 600	-
Erste Group Bank AG	500	-
Total	**9 440**	**2 000**

(in PLN million)

FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT

37. Financial instruments

SELECTED ACCOUNTING PRINCIPLES

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

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

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

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 date.

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 38.1.2. to these financial statements.

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

Categories and classes of financial assets	As at 31 December 2022		As at 31 December 2021	
	Carrying amount	Fair value	Carrying amount	Fair value
1 Financial assets measured at amortized cost	**16 987**	**16 736**	**8 647**	**8 734**
Receivables from buyers	4 070	4 070	2 495	2 495
Loans granted to subsidiaries and jointly-controlled entities	10 967	10 716	6 122	6 209
Loans granted under cash pool agreement	1 950	1 950	30	30
2 Financial assets measured at fair value through profit or loss (FVTPL)	**2 014**	**2 014**	**1 416**	**1 416**
Derivative instruments	257	257	626	626
Long-term shares	60	60	51	51
Loans granted to subsidiaries and jointly-controlled entities	623	623	229	229
Other financial assets	35	35	70	70
Cash and cash equivalents	1 039	1 039	440	440
3 Derivative hedging instruments	**592**	**592**	**371**	**371**
4 Financial assets excluded from the scope of IFRS 9 *Finanical Instruments*	**15 656**		**20 508**	
Shares in subsidiaries	15 240		20 092	
Shares in jointly-controlled entities	416		416	
Total financial assets, *of which in the statement of financial position:*	**35 249**		**30 942**	
Non-current assets	**27 278**		**27 027**	
Shares	15 716		20 559	
Loans granted	11 172		5 936	
Derivative instruments	390		532	
Current assets	**7 971**		**3 915**	
Receivables from buyers	4 070		2 495	
Loans granted	2 368		445	
Derivative instruments	459		465	
Other financial assets	35		70	
Cash and cash equivalents	1 039		440	

(in PLN million)

Categories and classes of financial liabilities	As at 31 December 2022		As at 31 December 2021	
	Carrying amount	Fair value	Carrying amount	Fair value
1 Financial liabilities measured at amortized cost	**21 457**	**20 987**	**17 755**	**17 880**
Arm's length loans, *of which:*	11 619	11 465	7 895	7 910
Bank loans	7 954	7 881	4 495	4 446
Liability under the cash pool loan	2 882	2 882	2 632	2 632
Loans from the subsidiary	783	702	768	832
Bonds issued	6 435	6 119	6 550	6 660
Liabilities to suppliers	3 249	3 249	1 745	1 745
Liabilities due to acquisition of shares in the subsidiary	-	-	1 061	1 061
Other financial liabilities	154	154	504	504
2 Financial liabilities measured at fair value through profit or loss (FVTPL)	**341**	**341**	**495**	**495**
Derivative instruments	341	341	495	495
3 Financial liabilities excluded from the scope of IFRS 9 *Finanical Instruments*	**16**		**25**	
Liabilities under leases	16		25	
Total financial liabilities, *of which in the statement of financial position:*	**21 814**		**18 275**	
Non-current liabilities	**14 772**		**9 928**	
Debt	14 754		9 801	
Derivative instruments	10		116	
Other financial liabilities	8		11	
Current liabilities	**7 042**		**8 347**	
Debt	3 316		4 669	
Liabilities to suppliers	3 249		1 745	
Liabilities due to acquisition of shares in the subsidiary	-		1 061	
Derivative instruments	331		379	
Other financial liabilities	146		493	

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

Financial assets/liabilities classes	Fair value measurement level	Fair value measurement methodology
	Financial assets/liabilities measured at fair value	
Derivatives, *including:*		Derivatives have been measured in line with the methodology presented in Note 21 hereto.
IRS and CCIRS	2	
Currency forwards	2	
Commodity forwards and futures	1	
Non-current shares	3	The Company estimated the fair value of shares held in other entities using the adjusted net assets method, considering its share in the net assets and adjusting the value by relevant factors affecting the measurement, such as the non-controlling interest discount and the discount for the limited liquidity of the above instruments. In justify cases, the Company assumes that the historical cost is an acceptable approximation of the fair value.
Loans granted to subsidiaries and jointly controlled entities	2	The fair value measurement of loans granted to subsidiaries and jointly controlled entities classified as measured at a fair value was performed as the present value of future cash flows discounted at the current interest rate.
Loan granted to a joint venture	3	The measurement of the fair value of the loan was performed as the present value of future cash flows taking into account the credit risk of the borrower.
	Financial assets/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 and jointly controlled entities	2	The fair value measurement of loans granted to subsidiaries and jointly controlled entities classified as measured at an amortised cost was performed as the present value of future cash flows discounted at the current interest rate in force.

(in PLN million)

The fair value of other financial instruments as at 31 December 2022 and 31 December 2021 (except from those excluded from the scope of IFRS 9 *Financial instruments*) did not differ considerably from the figures presented in the financial statements for particular periods 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 2022 no changes occurred in the measurement methodology applied to the above financial instruments.

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

	Year ended 31 December 2022		Year ended 31 December 2021	
	Not quoted shares	Loans granted	Not quoted shares	Loans granted
Opening balance	**51**	**74**	**85**	**73**
Gains (losses) for the period recognized in financial revenue/costs	(11)	-	(1)	1
Purchased	20	-	20	-
Sold	-	-	(53)	-
Closing balance	**60**	**74**	**51**	**74**

In the year ended 31 December 2022 and in the year ended 31 December 2021, there were no transfers between the levels of the fair value hierarchy.

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

Year ended 31 December 2022

	Assets / liabilities measured at fair value through profit or loss	Financial assets measured at amortized cost	Financial liabilities measured at amortized cost	Hedging instruments	Financial assets / liabilities excluded from the scope of IFRS 9	Total
Dividends	11	-	-	-	1 786	**1 797**
Interest income/(expense)	29	554	(798)	145	(1)	**(71)**
Commissions	-	-	(24)	-	-	**(24)**
Exchange differences	(21)	2	(107)	-	-	**(126)**
Impairment / revaluation	(253)	(1 450)	(59)	-	(36)	**(1 798)**
Gain/loss on disposal of investments	-	-	-	-	56	**56**
Gain/(loss) on realized derivative instruments*	10	-	-	-	-	**10**
Net financial income/(costs)	**(224)**	**(894)**	**(988)**	**145**	**1 805**	**(156)**
Revaluation	13	(25)	-	-	-	**(12)**
Gain/(loss) on realized derivative instruments*	(18)	-	-	-	-	**(18)**
Net operating income/(costs)	**(5)**	**(25)**	**-**	**-**	**-**	**(30)**
Remeasurement of IRS	-	-	-	187	-	**187**
Other comprehensive income	**-**	**-**	**-**	**187**	**-**	**187**

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

(in PLN million)

Year ended 31 December 2021

	Assets / liabilities measured at fair value through profit or loss	Financial assets 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.*

38. Objectives and principles of financial risk management

The financial risk is managed on the TAURON Polska Energia S.A. 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	
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 of payment for goods or services) and a replacement risk (the amount that may be lost if a delivery is not made or a service is not provided).	Credit risk management is aimed at limiting losses resulting from the deterioration of the financial situation of the TAURON Group's counterparties and mitigating the risk of credit exposures at risk of impairment. Commercial transactions of significant value are preceded by an assessment of the counterparty's creditworthiness, including an economic and financial analysis of the entity. Based on the assessment, the counterparty is granted a credit limit, which is a limit on the maximum credit exposure understood as the amount that may be lost if the counterparty fails to meet its contractual obligations within a specified period of time (taking into account the value of the collateral provided). Credit exposure is calculated for the current day and divided into exposure due to payment and exposure of replacement. The TAURON Group has a decentralised credit risk management system, which means that each risk owner is actively responsible for managing the credit risks that arise within their business scope, but control, monitoring and reporting is performed at the Company-wide level. The TAURON Group's Credit Risk Management Policy sets out the credit risk management procedures with the view to reduce the impact of the risk on the Group's strategic objectives. Based on the value of exposure and assessment of financial standing of each client, the value of credit risk to which the TAURON Group is exposed is calculated using statistical methods to determine value at risk based on the total loss probability distribution.	Credit risk management policy for the TAURON Group
	Liquidity risk	
Possible loss or limitation of the ability to make payments on a day-to-day basis due to an inappropriate volume or structure of liquid assets as compared to current liabilities or an insufficient level of the actual net proceeds from operating activities.	The liquidity situation of the Company and TAURON Group is monitored on an on-going 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. To this end, the Company applies the rules of determining the liquidity position both of individual companies and the entire TAURON Group which helps ensure funds that would cover any potential liquidity gaps by allocating funds between companies (cash-pooling) as well as using external financing, including overdraft facilities. The Company 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 such policy is to ensure flexible selection of funding source, use favourable market conditions and reduce the risk related to the necessity to contract new liabilities on unfavourable financial terms.	Liquidity management policy of TAURON Group
	Market risk - interest rate and currency risks	
The possibility of an adverse effect on the Group's performance through fluctuations in the fair value of financial instruments or the related future cash flows, driven by changes in interest rates or foreign exchange rates.	TAURON Group manages 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 risk hedging transactions where possible and economically justified, the Company uses derivatives whose characteristics allows the application of hedge accounting. The financial risk management policy of the TAURON Group has also introduced hedge accounting principles which set out the terms and conditions and types of hedge accounting, along with the accounting treatment of hedging instruments and hedged items, to be applied as part of hedge accounting under IFRS.	Financial risk management policy for the TAURON Group
	Market risk - price risk	
Unplanned volatility of the TAURON Group's operating result resulting from fluctuations in commodity market prices in individual areas of the TAURON Group's trading activities.	Effective management is ensured by a commercial risk management system linked in terms of organisation and information with the TAURON Group's strategy of hedging trading positions. The policy has introduced an early-warning system and risk-exposure limiting system in various trading areas. The basic operational measure of the market risk in the TAURON Group is the Value at Risk measure which determines the maximum allowed change in the value of the position over a given time period and with a given probability.	Commercial risk management policy for the TAURON Group

(in PLN million)

38.1. Credit risk

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

Financial asset classes	As at 31 December 2022	As at 31 December 2021
Receivables from buyers	4 070	2 495
Loans granted	13 540	6 381
Derivative instruments	849	997
Cash and cash equivalents	1 039	440
Other financial assets	35	70

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

38.1.1 Credit risk related to receivables from customers

The Company monitors credit risk related to its operations on an ongoing basis, in line with the *TAURON Group's Credit Risk Management Policy*. 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.

38.1.2 Credit risk related to loans granted

Loans measured at amortised 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, the potential material credit risk increases related to certain financial assets are analysed beginning from the initial recognition of a given asset.

The factors determining the occurrence of a significant increase in credit risk related to such assets:

- the counterparty's internal or external rating as at the reporting day is more than two rating levels lower (worse) compared to the counterparty's 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 2022 and 31 December 2021 were not overdue.

(in PLN million)

Loans measured at a fair value

Valuation of loans classified as measured at fair value is carried out using the discounted cash flow method, taking into account credit risk. Loans granted by the Company to a joint venture of Elektrociepłownia Stalowa Wola S.A. are secured by a blank promissory note together with a promissory note declaration.

The Company's exposure to credit risk related to loans granted, including information on impairment losses as well as the classification to individual stages of creating the allowances for expected credit losses in line with the ratings used in the Company, is presented below and in Note 20 to these financial statements.

Loans measured at amortised cost by ratings used in the Company

Year ended 31 December 2022

	Level 1: allowance equal to 12 monthly expected credit losses - no impairment	Level 2: allowance for expected credit losses over the life period - no impairment	Level 3: allowance for expected credit losses over the life period - with impairment	Instruments purchased with an impairment	Total
A- do BBB-	5 911	-	-	-	**5 911**
BB+ do BB	1 114	-	-	-	**1 114**
BB- do B	1 912	681	37	3 635	**6 265**
B- do D	-	-	-	-	**-**
Gross value	**8 937**	**681**	**37**	**3 635**	**13 290**
impairment loss	(265)	(96)	(12)	-	**(373)**
Net value	**8 672**	**585**	**25**	**3 635**	**12 917**

Year ended 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	Instruments purchased with an impairment	Total
A- do BBB-	5 288	-	-	-	**5 288**
BB+ do BB	17	-	-	-	**17**
BB- do B	-	905	28	-	**933**
B- do D	-	-	-	-	**-**
Gross value	**5 305**	**905**	**28**	**-**	**6 238**
impairment loss	(18)	(65)	(3)	-	**(86)**
Net value	**5 287**	**840**	**25**	**-**	**6 152**

38.1.3 Credit risk related to other financial assets

Cash and cash 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 the three banks where the Company holds its largest cash balances was 99% as at 31 December 2022, of which the largest part of cash was held in accounts with the leading bank - 65%.

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*.

(in PLN million)

38.2. Liquidity risk

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

The Company carries out a centralized finance management policy, allowing effective management in this respect on the Group level. Among others, the Group has adopted *Liquidity management policy for TAURON Group*, which facilitates optimization of liquidity management of the Group, consequently reducing the risk of liquidity loss in the Group and in each of the companies included in TAURON Group. Having implemented appropriate projection standards, TAURON Group can precisely determine its liquidity position allowing to 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 has funding available under the concluded agreements. Agreements with funding available as at the balance sheet day and the use of funds are shown in the table below.

	Borrowing institution	Type of expenses financed	Funds availability termination year	As at 31 December 2022	
				Available limit according to agreement	Carrying amount
subordinated bond issuance scheme	Bank Gospodarstwa Krajowego	current and investment	2023	450	-
loan	Consortiums of banks	current and investment (excluding coal assets)	2027	4 000	2 750
			2026	500	500
	European Investment Bank	investment	2024	2 800	1 600
overdraft facility	Bank Gospodarstwa Krajowego	current	2023	250	-

After the balance sheet day:

- on the basis of an annex to the overdraft agreement, the amount of the limit was increased to PLN 500 million and the repayment date was extended to 30 September 2023;
- on 10 March 2022, the Company also concluded an annex to the documentation of the subordinated bond issue program up to PLN 450 million concluded in 2021 with Bank Gospodarstwa Krajowego. The annex extends the period enabling the issue of subordinated bonds to 36 months from the date of signing the documentation.

As indicated in the table above, available financing agreements can be used for investment and corporate-wide 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 2022, 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.

(in PLN million)

Financial liabilities as at 31 December 2022

	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	**18 054**	**(21 175)**	(3 007)	(1 015)	(2 718)	(3 157)	(7 806)	(3 472)
Liabilities to suppliers	**3 249**	**(3 249)**	(3 249)	-	-	-	-	-
Other financial liabilities	**154**	**(154)**	(144)	-	(3)	(3)	(3)	(1)
Lease liabilities	**16**	**(20)**	(3)	(7)	(4)	-	-	(6)
Derivative financial liabilities								
Derivative instruments-commodity	**232**	**(92)**	(69)	(23)	-	-	-	-
Derivative instruments-currency	**109**	**(109)**	(39)	(67)	(3)	-	-	-
Total	**21 814**	**(24 799)**	**(6 511)**	**(1 112)**	**(2 728)**	**(3 160)**	**(7 809)**	**(3 479)**

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	**504**	**(504)**	(493)	-	(3)	(3)	(4)	(1)
Lease liabilities	**25**	**(29)**	(3)	(8)	(9)	(4)	-	(5)
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)**

As at 31 December 2022 and 31 December 2021, the Company had guarantees, sureties and collaterals granted to related companies for a total amount of PLN 1 491 million and PLN 1 419 million, respectively (excluding registered and financial pledges on shares). The most significant items are described in Note 40 to these financial statements. Guarantees and collaterals granted by the Company are contingent liabilities and do not significantly affect the Company's liquidity risk.

38.3. Market risk

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

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

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

38.3.1 Interest rate risk

The Company is exposed to interest rate risk in connection with raising of floating interest rate capital and depositing floating interest rate cash and granting floating and fixed interest rate loans. The Company is also exposed to the materialisation of the risk of lost benefits on fixed-rate debt if interest rates fall.

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 interest rate debt, the Company concluded interest rate swap (IRS) transactions, as described in detail in note 21 of these financial statements. 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 table below under fixed-rate items, similarly to the valuation of IRS hedging instruments.

(in PLN million)

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 2022			Year ended 31 December 2021		
	Fixed interest rate	Floating interest rate	Total	Fixed interest rate	Floating interest rate	Total
Financial assets						
Loans granted	11 590	1 950	**13 540**	6 351	30	**6 381**
Derivative instruments-IRS	592	-	**592**	371	-	**371**
Derivative instruments-CCIRS	21	-	**21**	26	-	**26**
Cash and cash equivalents	-	1 039	**1 039**	-	440	**440**
Financial liabilities						
Arm's length loans	3 736	7 883	**11 619**	3 401	4 494	**7 895**
Bonds issued	6 034	401	**6 435**	5 980	570	**6 550**
Derivative instruments-CCIRS	-	-	**-**	1	-	**1**
Leases liabilities	16	-	**16**	25	-	**25**

Other financial instruments of the Company, which are not included in the above table, 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.

As at 31 December 2022, in its sensitivity analysis of derivatives, the Company measures and monitors interest rate risk using the BPV (Basis Point Value) measure, which shows the change in fair value of derivatives due to a parallel shift of the yield curve by 0.01% (one basis point). In the sensitivity analysis for interest rate risk of other financial instruments, the Company applies a parallel shift of the interest rate curve by the potential possible change in reference interest rates over the horizon to the date of the next financial statements, i.e. by the average levels of reference interest rates in a given year.

As at 31 December 2021, the Company used a parallel shift of the interest rate curve by the potential possible change in reference interest rates over the horizon to the date of the next financial statements in its analysis of sensitivity for interest rate risk of financial instruments. 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 2022 and 31 December 2021, its exposure to changes in EURIBOR, ESTRON and LIBOR USD rates was insignificant.

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

Classes of finacial instruments	31 December 2022		Sensitivity analysis for interest rate risk as at 31 December 2022		31 December 2021		Sensitivity analysis for interest rate risk as at 31 December 2021	
			WIBOR +630 bp	WIBOR -630 bp			WIBOR +64 bp	WIBOR -64 bp
	Carrying amount	Value at risk	*Profit/(Loss) / Other comprehensive income* [1]		Carrying amount	Value at risk	*Profit/(Loss) / Other comprehensive income* [1]	
Financial assets								
Loans granted	13 540	2 574	(25)	139	6 381	104	(4)	4
Cash and cash equivalents	1 039	1 039	62	(62)	440	440	2	(2)
Derivatives[2]	849	613	1	(1)	997	397	82	(82)
Financial liabilities								
Arm's length loans	11 619	9 659	(609)	609	7 895	6 246	(40)	40
Bonds issued	6 435	2 507	(158)	158	6 550	2 663	(17)	17
Derivates[2]	341	-	-	-	495	1	-	-
Total			**(729)**	**843**			**23**	**(23)**

[1] Refers to Interest Rate Swap financial derivatives subject to hedge accounting, as further discussed in Note 21 to these financial statements.
[2] As at 31 December 2022, the sensitivity analysis for derivatives applied the BPV (Basis Point Value) measure, presenting the change in fair value of derivatives due to a parallel shift of the yield curve by 0.01% (one basis point), as mentioned above.

The risk exposure as at 31 December 2022 and as at 31 December 2021 is representative of the Company's risk exposure during the preceding one-year period.

(in PLN million)

38.3.2 Currency risk

The tables below present the Company's exposure to currency risk by particular classes of financial instruments as at 31 December 2022 and 31 December 2021. 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 2022			As at 31 December 2021		
	Total carrying amount in PLN	EUR		Total carrying amount in PLN	EUR	
		in currency	in PLN		in currency	in PLN
Financial assets						
Receivables from buyers	4 070	1	4	2 495	-	-
Derivatives	849	50	236	997	100	460
Other financial assets	35	-	1	70	7	32
Cash and cash equivalents	1 039	13	59	440	20	92
Total	**5 993**	**64**	**300**	**4 002**	**127**	**584**
Financial liabilities						
Arm's length loans	11 619	167	783	7 895	167	768
Bonds issued	6 435	685	3 214	6 550	688	3 164
Derivatives	341	49	232	495	102	469
Other financial liabilities	154	9	43	504	22	102
Total	**18 549**	**910**	**4 272**	**15 444**	**979**	**4 503**
Net currency position		**(846)**	**(3 972)**		**(852)**	**(3 919)**

As part of its currency risk management, the Company uses forward contracts. The purpose of the transactions concluded was to hedge the Company against foreign exchange risk arising in the course of its commercial activities, primarily from the purchase of CO_2 emission allowances, and in the course of investment activities related to the implementation of projects in the area of renewable energy sources, as well as to hedge the foreign exchange 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 the Company 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 date.

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.

(in PLN million)

Classes of finacial instruments	31 December 2022		Sensitivity analysis for currency risk as at 31 December 2022		31 December 2021		Sensitivity analysis for currency risk as at 31 December 2021	
		EUR/PLN				EUR/PLN		
	Carrying amount	Value at risk	exchange rate EUR/PLN +8.45%	exchange rate EUR/PLN -8.45%	Carrying amount	Value at risk	exchange rate EUR/PLN +5.88%	exchange rate EUR/PLN -5.88%
Financial assets								
Derivatives	849	257	42	(42)	997	601	285	(285)
Other financial assets	35	1	-	-	70	32	2	(2)
Cash and cash equivalents	1 039	59	5	(5)	440	92	5	(5)
Financial liabilities								
Arm's length loans	11 619	783	(66)	66	7 895	768	(45)	45
Bonds issued	6 435	3 214	(272)	272	6 550	3 164	(186)	186
Derivatives	341	341	480	(480)	495	470	(24)	24
Other financial liabilities	154	43	(4)	4	504	102	(6)	6
Total			**185**	**(185)**			**31**	**(31)**

The risk exposure as at 31 December 2022 and as at 31 December 2021 is representative of the Company's risk exposure during the preceding one-year period.

38.3.3 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 2022, 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 CO_2 emission allowances on the gross profit/loss of the Company.

39. Operational risk

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

Commercial operational risk is managed at the level of TAURON Group, which is discussed in more detail in note 57 to the consolidated financial statements of TAURON Polska Energia S.A. Capital Group for the year ended 31 December 2022. 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	2022		2021	
		Volume	Purchase cost	Volume	Purchase cost
Electricity	MWh	45 640 428	24 725	49 602 739	15 987
Gas	MWh	4 311 642	1 306	4 816 878	595
Total			**26 031**		**16 582**

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.

(in PLN million)

OTHER INFORMATION

40. Contingent liabilities

As at 31 December 2022 and as at 31 December 2021, the contingent liabilities of the Company mainly resulted from the collaterals and guarantees granted to related parties and included:

Type of contingent liability	Company in respect of which contingent liability has been granted	Beneficiary	Validity	As at 31 December 2022	As at 31 December 2021
Corporate guarantees	Finanse Grupa TAURON Sp. z o.o.	Private placement investors	3.12.2029	788	773
	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	-	-	7
	TAURON Czech Energy s.r.o.	ČEZ a.s.	31.01.2024	14	-
Liability arising from a bank guarantee issued to a joint subsidiary	Elektrociepłownia Stalowa Wola S.A.	Bank Gospodarstwa Krajowego	11.03.2023	300	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[1]	416	416
Surety contracts	Elektrociepłownia Stalowa Wola S.A.	Bank Gospodarstwa Krajowego	11.03.2023	187	-
			30.12.2023	7	-
			-	-	5
	various subsidiaries	various entities	30.04.2023-indefinite	57	38
Liabilities arising from bank guarantees issued to subsidiaries	various subsidiaries	various entities	31.12.2022-28.07.2029	63	38
Blank promissory note with a promissory note declaration[2]	TAURON Wytwarzanie S.A.	Regional Fund for Environmental Protection and Water Management in Katowice	31.07.2023	40	40
Comfort letter	TAURON Czech Energy s.r.o.	PKO BP S.A., Czech Branch	31.01.2024	35	-

[1] 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 pledgee. The financial pledge is valid in the entire collateral period or until release by the pledgee, not later than on 31 December 2028.
[2] In 2010, the Company issued a blank promissory note together with a promissory note declaration in order to secure a loan agreement received by the subsidiary from the Wojewódzki Fundusz Ochrony Środowiska i Gospodarki Wodnej in Katowice. As at 31 December 2022, the outstanding part of the loan in the amount of PLN 2 million is subject to the conditional redemption procedure. The established collateral will expire after the conditional redemption of the loan is settled.

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 788 million), while the beneficiaries of the guarantee are the private placement investors who purchased the bonds issued. In connection with the guarantee issued, the Company recognised a liability in the amount of expected credit losses, which amounted to PLN 34 million as at 31 December 2022.
- The liability arising from the issuance of a bank guarantee at the request of the Company up to the amount of PLN 300 million and a surety up to the amount of PLN 187 million as a collateral for the receivables of Bank Gospodarstwa Krajowego ("BGK") resulting 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 and surety are effective from 12 October 2022 to 11 March 2023. The collateral of the guarantor's receivables against the Company is the declaration on submission to enforcement up to the amount of PLN 360 million. In connection with the guarantee and the surety issued, the Company recognised a liability in the amount of expected credit losses, the value of which amounted to PLN 40 million as at 31 December 2022.

  As at 31 December 2021, BGK's receivables were secured by a bank guarantee of up to the amount of PLN 518 million. 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. The bank guarantee expired on 11 April 2022.

BGK's receivables from 12 April 2022 to 11 October 2022 were secured by a new guarantee, also up to the amount of PLN 518 million.

- The registered pledges and the financial pledge established under the 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 pledge 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 pledgee. The financial pledge is valid in the entire collateral period or until release by the pledgee, not later than on 31 December 2028.

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

- on 2 January 2023, the Company granted a surety up to the amount of PLN 6 million for liabilities of Energetyka Cieszyńska Sp. z o.o. to Polska Grupa Górnicza S.A. with the effective term until 31 December 2023;
- on 1 February 2023, at the Company's request, a bank guarantee of PLN 9 million was issued in favour of the Regional Fund for Environmental Protection and Water Management in Katowice, for the liabilities of the subsidiary, TAURON Inwestycje Sp. z o.o., with the effective term from 14 March 2023 to 13 June 2023;
- on 27 February 2023, a bank guarantee was issued up to PLN 457 million to secure BGK's 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 is valid from 12 March 2023 to 11 March 2024. The collateral of the guarantor's receivables against the Company is the declaration on submission to enforcement up to the amount of PLN 548 million, signed on 7 March 2023.

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 or file separate lawsuits for payment of damages.

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 136 million (including Amon Sp. z o.o. – PLN 90 million, Talia Sp. z o.o. – PLN 46 million); Wind Invest group companies – PLN 493 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. z 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.

In the case brought by Talia Sp. z o.o., on 20 December 2021 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. 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. Polska Energia-Pierwsza Kompania Handlowa Sp. z o.o. has received a justification of the judgement of the Court of Appeals and filed a cassation appeal within the required deadline. After the balance sheet date, the Supreme Court accepted the cassation appeal on 28 February 2023. In the case brought by Amon Sp. z o.o., on 17 November 2022, 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 judgement and the supplementary judgement indicated above are final. These judgements do not award any damages from Polska Energia-Pierwsza Kompania Handlowa Sp. z o.o. to the claimant, i.e. Amon Sp. z o.o. Polska Energia-Pierwsza Kompania Handlowa Sp. z o.o. disagrees in its entirety with the decision of the Court of Appeals, as well as with the decision of the court of first instance. Polska Energia-Pierwsza Kompania Handlowa Sp. z o.o. requested the Court of Appeals to serve the judgement of the court of second instance with a written statement of reasons and will proceed to analyse it with a view to challenging it as soon as possible and taking all other legal measures to which it is entitled.

The above-mentioned final, partial and preliminary judgements in the Talia Sp. z o.o. and Amon Sp. z o.o. lawsuits 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. and Amon Sp. z o.o. 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 Appeasl in Warsaw on 6 November 2019 partially granted the application for security by ordering Polska Energia-Pierwsza Kompania Handlowa Sp. z o.o. to perform the provisions of the contracts in their entirety on the existing terms and conditions, in accordance with their content, until the proceedings from the suit of Pękanino Wind Invest Sp. z o.o. are legally concluded against Polska Energia-Pierwsza Kompania Handlowa Sp. z o.o., pending before the Regional Court in Warsaw. The decision regarding the security is final. This decision does not prejudge the merits of the action, which can only take place in a binding judgement, but only temporarily regulates the parties' relations for the duration of the proceedings.

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 towards Polskie Elektrownie Jądrowe Sp. z o.o. (formerly: PGE EJ 1 Sp. z o.o.)

TAURON Polska Energia S.A. as a former shareholder holding 10% of shares in the share capital of Polskie Elektrownie Jądrowe Sp. z o.o. until the date of sale, i.e. 26 March 2021, jointly with the other former shareholders of the company (PGE Polska Grupa Energetyczna S.A., KGHM Polska Miedź S.A. and ENEA S.A.), is a party to the agreement with Polskie Elektrownie Jądrowe Sp. z o.o. regulating the issues of potential liabilities and benefits of the parties resulting from the settlement of the dispute between Polskie Elektrownie Jądrowe Sp. z o.o. and the consortium composed of WorleyParsons Nuclear Services JSC, WorleyParsons International Inc, WorleyParsons Group Inc (hereinafter: “WorleyParsons consortium”).

In 2015, the WorleyParsons consortium, which is the research contractor for the investment process related to the construction of a nuclear power plant by Polskie Elektrownie Jądrowe Sp. z o.o., submitted claims against Polskie Elektrownie Jądrowe Sp. z o.o. for the total amount of PLN 92 million in a call for payment and then filed a lawsuit for approximately PLN 59 million, extended in 2017 and 2019 to the amount of approximately PLN 128 million.

In accordance with the agreement, the shareholders in proportion to their previously held number of shares in Polskie Elektrownie Jądrowe Sp. z o.o. are responsible 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 including interest set as at 26 March 2021, amounting respectively to PLN 140 million for claims asserted by the WorleyParsons consortium against Polskie Elektrownie Jądrowe Sp. z o.o. and PLN 71 million for claims asserted by Polskie Elektrownie Jądrowe Sp. z o.o. against the WorleyParsons consortium.

To the best of the Company's knowledge, Polskie Elektrownie Jądrowe Sp. z o.o. has not acknowledged the claims filed against it and considers potential adjudication by the court to be unlikely. The Company does not create a provision in relation to the above-mentioned events.

Claims filed by Huta Łaziska S.A.

In connection with the merger of the Company with Górnośląski Zakład Elektroenergetyczny S.A. (“GZE”), TAURON Polska Energia S.A. became the party to the court dispute with Huta Łaziska S.A. (“Huta”) against GZE and the State Treasury represented by the President of the ERO.

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 by GZE 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. Huta appealed (dated 25 July 2019), challenging the above judgement in its entirety and requesting that it be amended by upholding the claim in its entirety and ordering the defendants to pay the costs of the proceedings in favour of Huta, or, in the alternative, that the contested judgement be set aside in its entirety and the case be referred back to the court of first instance. In response to the appeal of 9 August 2019, the Company requested that the appeal be dismissed in its entirety as manifestly unfounded and that the costs of the appeal proceedings be awarded against Huta in favour of the Company. By the 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. On 13 October 2022, Huta filed a cassation appeal with the Supreme Court. Both the Company and the State Treasury lodged replies to this action emphasising, in the first instance, the lack of grounds for its acceptance for examination by the Supreme Court. Until the date of approval of these financial statements, the Company has not been served with an order of the Supreme Court accepting or refusing to accept the cassation appeal of Huta for examination.

Based on the conducted legal analysis of the claims as well as taking into account the aforementioned judgement, the Company believes that they are unjustified and the risk that they must be satisfied is remote. Consequently, the Company did not create a provision for costs associated with those claims.

(in PLN million)

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 and currently before the Court of Appeal in Katowice 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. In 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.

41. 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 main types of collateral, in addition to the collateral for the Group's transactions concluded on the Polish Power Exchange, described due to their materiality later in this note, are presented below.

Collateral	Collateral amount as at	
	31 December 2022	31 December 2021
Declarations of submission to enforcement*	16 050	19 185
Pledges on shares in a subsidiary	-	1 380
Bank account mandates	600	600
Bank guarantees	109	20
Blank promissory notes	4	4

**As at 31 December 2022, the item comprises collaterals relating to agreements for which, as at the balance sheet day, the liabilities were repaid in the total amount of PLN 240 million.*

As at 31 December 2022 and 31 December 2021, the declarations of submission to enforcement constitute the main item of the collaterals. Significant changes in the scope of the collaterals are described below.

- In connection with the timely repayment on 22 March 2022 of the liabilities for the acquisition of non-controlling interests in the subsidiary, Nowe Jaworzno Grupa TAURON Sp. z o.o. to Fundusz Inwestycji Infrastrukturalnych-Kapitałowy FIZAN (the "PFR Fund"), as discussed in more detail in Note 31 of these financial statements, the declaration of submission to enforcement up to PLN 1 380 million, with the enforcement date of 22 September 2023, expired. The Company received a declaration from the PFR Fund of 4 April 2022 that the collateral had expired and that the declaration of submission to enforcement had not been exercised. Moreover, the collateral expired in the form of pledges on 176 000 shares in the share capital of the subsidiary, Nowe Jaworzno Grupa TAURON Sp. z o.o., i.e., the registered pledge with the first priority of satisfying on the shares up to the maximum amount of security of PLN 1 380 million and the ordinary pledge with the first priority of satisfying equal to the priority of the registered pledge. The pledges remained in force until the date of full satisfaction of the secured claims, i.e. by 22 March 2022.
- On 25 August 2022, the Company signed a declaration of submission to enforcement up to the maximum amount of PLN 4 800 million with the effective date to 30 November 2030, in connection with the conclusion of the syndicated loan agreement in the amount of PLN 4 000 million on 15 July 2022, as further described in Note 28.2 to these financial statements.
- On 29 November 2022, the declaration of submission to enforcement up to the amount of PLN 7 284 million expired in connection with the termination of the syndicated loan agreement of 19 June 2019, as further discussed in Note 28.2 of these financial statements. The Company has fully repaid the exposure and received the confirmation of the absence of any liabilities under the syndicated loan in question.

(in PLN million)

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

- on 13 January 2023, the Company signed a declaration of submission to enforcement up to PLN 600 million as security for the overdraft facility, which, pursuant to the annex of 13 January 2023, was increased to PLN 500 million and the term of the overdraft facility was extended to 30 September 2023. On 27 February 2023, a declaration of submission to enforcement up to PLN 300 million was returned, originally securing a loan in a bank account;
- on 13 January 2023, the Company signed a declaration of submission to enforcement up to PLN 300 million, securing an agreement for guarantee lines up to PLN 250 million. On 27 February 2023, a declaration of submission to enforcement up to PLN 300 million was returned as the primary security;
- on 17 February 2023, the Company signed a declaration of submission to enforcement up to PLN 900 million, securing an agreement for working capital facility up to PLN 750 million, as further described in Note 49 to these financial statements,
- on 21 March 2023, the Company signed two statements on submission to enforcement: up to PLN 300 million as collateral for the guarantee facility agreement up to PLN 250 million and up to PLN 675 million as collateral for the subordinated bond issue program up to PLN 450 million, as described more in Note 38.2 to these financial statements

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

Type of collateral	Description
Declarations of submission to enforcement	On 27 October 2022, a declaration of submission to enforcement was signed to secure the Company's obligations to Izba Rozliczeniowa Giełd Towarowych S.A. ("IRGiT") up to the amount of PLN 4 000 million, with the effective term to 31 October 2023. This declaration was replaced by a new one signed after the balance sheet date, on 3 January 2023, up to the amount of PLN 6 000 million, with the effective term until 31 December 2023. Liabilities of the subsidiary TAURON Wytwarzanie S.A. against IRGiT were secured with a declaration of submission to enforcement signed on 11 October 2022, up to the amount of PLN 2 000 million, valid until 30 June 2023.
Bank guarantees	As at 31 December 2022 and 31 December 2021, bank guarantees totalling PLN 176 million and PLN 70 million, respectively, were in force. After the balance sheet date, bank guarantees were issued in favour of IRGiT as collateral for the liabilities of the Company and the subsidiary, TAURON Wytwarzanie S.A. As at the date of approval of these financial statements for publication, bank guarantees in the total amount of PLN 560 million are in force, with the effective dates from 31 March 2023 to 25 April 2023.
Agreement for setting off the margins	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.
Transfer of CO_2 emission allowances and property rights to certificates of origin	In order to secure the liabilities of the Company and its subsidiary, TAURON Wytwarzanie S.A. on account of due margin deposit payments, in the year ended 31 December 2022 the following agreements were concluded with IRGiT for the transfer of CO_2 emission allowances and property rights to certificates of origin: • pursuant to the agreement of 30 June 2022 concluded between the subsidiary, TAURON Wytwarzanie S.A. and IRGiT, on 4 July 2022 the company deposited CO_2 emission allowances owned by it in the IRGiT account in the total amount of 266 086 tonnes; • on 13 October 2022, the Company submitted a declaration to the agreement for the transfer of CO_2 emission allowances as a collateral for its liabilities, to transfer the CO_2 emission allowances in the total amount of 195 000 tonnes. The allowances were returned to the account in the Company on 19 December 2022; • pursuant to the agreement of 18 October 2022 concluded between the subsidiary, TAURON Wytwarzanie S.A. and IRGiT, on 28 October 2022 the company submitted an instruction to the Register of Certificates of Origin kept by the Polish Power Exchange (Towarowa Giełda Energii S.A.) to block its property rights in a total amount of 81 000 MWh; • on 27 December 2022, the Company submitted a declaration to the agreement for the transfer of CO_2 emission allowances as a collateral for its liabilities, to transfer the CO_2 emission allowances in the total amount of 201 000 tonnes to IRGiT. As at 31 December 2022, the subject matter of the collaterals established in favour of IRGiT relates to the transfer of CO_2 emission allowances in the total amount of 467 086 tonnes and the blocking instruction of property rights in the total amount of 81 000 MWh. After the balance sheet day, the following events took place: • on 2 January 2023, the Company deposited an additional quantity of CO_2 emission allowances, i.e. 75,000

(in PLN million)

Type of collateral	Description
	tonnes, in the IRGiT account; • on 21 February 2023, CO_2 emission allowances owned by the Company in the total amount of 201 000 tonnes and the subsidiary in the total amount of 266 086 tonnes were returned to the account of the Company and TAURON Wytwarzanie S.A., respectively, and are no longer the subject of the transfer of ownership; • on 27 February 2023, the Company deposited the additional quantity of CO_2 emission allowances, i.e. 339 000 tonnes, in the IRGiT account; • on 27 March 2023, part of the allowances in the total amount of 324 000 tonnes was returned to the Company's account. As at the date of approval of these financial statements for publication, the subject of the collaterals established relates to the transfer of CO_2 emission allowances owned by the Company in the total amount of 90 000 tonnes and the blocking order of property rights owned by TAURON Wytwarzanie S.A. in the total amount of 81 000 MWh.

42. Investment liabilities

As at 31 December 2022 and as at 31 December 2021 the Company did not have any material investment liabilities.

43. Related party disclosures

43.1. Transactions with related parties and State Treasury companies

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

	Year ended 31 December 2022	Year ended 31 December 2021
Revenue from subsidiaries	**28 833**	**17 943**
Revenue from operating activities	26 229	15 523
Dividend income	1 729	1 807
Other finance income	875	613
Revenue from jointly-controlled entities	**1 000**	**352**
Revenue from State Treasury companies	**784**	**488**
Costs from subsidiaries	**(9 910)**	**(8 278)**
Costs of operating activities	(9 784)	(8 246)
Finance costs	(126)	(32)
Costs incurred with relation to transactions with jointly-controlled entities	**(518)**	**(447)**
Costs from State Treasury companies	**(1 292)**	**(621)**

(in PLN million)

Receivables and liabilities

	As at 31 December 2022	As at 31 December 2021
Loans granted to subsidiaries and receivables from subsidiaries	**18 682**	**12 447**
Receivables from buyers	3 723	2 338
Loans granted to subsidiaries	12 792	9 998
Loans granted under cash pool agreement	2 167	109
Other non-financial assets	-	2
Loans granted to jointly-controlled entities and receivables from jointly-controlled entities	**744**	**606**
Receivables from State Treasury companies	**109**	**87**
Liabilities to subsidiaries	**7 769**	**5 980**
Liabilities to suppliers	2 587	1 547
Loans received under cash pool services	2 859	2 608
Loans from the subsidiary	783	768
Liabilities arising from the Tax Capital Group	-	330
Other financial liabilities	4	23
Other non-financial liabilities	1 536	704
Liabilities to jointly-controlled entities	**28**	**74**
Liabilities to State Treasury companies	**228**	**64**

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 shown in the table include revenues from coal sales to TAURON Wytwarzanie S.A., Nowe Jaworzno Grupa TAURON Sp. z o.o. (on 3 October 2022, the merger of TAURON Wytwarzanie S.A. and Nowe Jaworzno Grupa TAURON Sp. z o.o. was registered, as further discussed in Note 2 to these financial statements) and TAURON Ciepło Sp. z o.o., which are presented net of acquisition costs in the statement of comprehensive income, at the value of the surplus representing the intermediation fee, as discussed in Note 11 to these financial statements.

The above tables do not include share sale and transfer transactions performed by the Company. The transactions are described in more detail in Note 19 of these financial statements.

In the year ended 31 December 2022, the revenues from the State Treasury companies result, to a large extent, 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 2022, the largest counterparties of TAURON Polska Energia S.A. included Polska Grupa Górnicza S.A., Węglokoks S.A. and Polskie Sieci Elektroenergetyczne S.A. Costs in transactions with these counterparties accounted for 86% 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 under the control of the State Treasury, which, in accordance with IAS 24 *Related Party Disclosures*, as providers of finance, are not treated as related parties.

Transactions with the State Treasury

On 21 October 2022, a conditional agreement for the sale of shares in the subsidiary TAURON Wydobycie S.A. was concluded between the Company and the State Treasury, pursuant to which, as of 31 December 2022, the ownership of the shares in TAURON Wydobycie S.A. was transferred from the Company to the State Treasury and, consequently, control over TAURON Wydobycie S.A. was lost, as described in more detail in Note 2 to these financial statements.

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 Prime Minister 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 10 million and by the balance sheet day the Company had received reimbursement of the aforementioned costs.

(in PLN million)

43.2. 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 2022 and in the comparative period has been presented in the table below.

	Year ended 31 December 2022	Year ended 31 December 2021
Management Board of the Company	**7**	**4**
Short-term benefits (with surcharges)	6	4
Temination benefits	1	-
Supervisory Board of the Company	**1**	**1**
Short-term employee benefits (salaries and surcharges)	1	1
Other members of key management personnel	**13**	**16**
Short-term employee benefits (salaries and surcharges)	12	14
Temination benefits	-	1
Other	1	1
Total	**21**	**21**

The table above takes into account the amounts paid and due by 31 December 2022. In accordance with the accounting policy adopted, the Company recognises the provisions for benefits on account of termination of management contracts due to members of the Management Board and other key management personnel that may be paid or due in subsequent reporting periods.

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

44. Finance and capital management

Finance and capital management is carried out at the level of TAURON Polska Energia S.A. Capital Group. During the period covered by these financial statements, there were no significant changes in the objectives, principles and procedures of capital and financial management. Capital and finance management at the Group level is discussed in more detail in Note 61 of Explanatory Notes to the Consolidated Financial Statements for the year ended 31 December 2022.

45. Structure of employment

The following note presents the average headcount for the annual periods ended 31 December 2022 and 31 December 2021.

	Year ended 31 December 2022	Year ended 31 December 2021
Administration	332	337
Sales department	91	97
Total	**423**	**434**

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

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

Information on the statutory auditor's remuneration is presented in section 6 of the Management Board report on the activities of TAURON Polska Energia S.A. and TAURON Capital Group for the financial year 2022.

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

Under Article 44.2 of the Energy Law Act, TAURON Polska Energia S.A. (“Energy Law”), 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.

(in PLN million)

The principles of preparing a statement of comprehensive income (statement of profit or loss) broken down by types 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 2022

	Gas	Other activity	Unallocated items	Total
Sales revenue	1 294	28 040	-	**29 334**
Cost of sales	(1 315)	(27 634)	-	**(28 949)**
Profit on sale (loss)	**(21)**	**406**	**-**	**385**
Selling and distribution expenses	(1)	(31)	-	**(32)**
Administrative expenses	-	-	(145)	**(145)**
Other operating income and expenses	-	(8)	-	**(8)**
Operating profit (loss)	**(22)**	**367**	**(145)**	**200**
Dividend income	-	1 797	-	**1 797**
Interest income on loans	-	544	-	**544**
Interest expense on debt	-	(654)	-	**(654)**
Revaluation of shares	-	(48)	-	**(48)**
Revaluation of loans	-	(1 462)	-	**(1 462)**
Other finance income and costs	-	(341)	-	**(341)**
Profit (loss) before tax	**(22)**	**203**	**(145)**	**36**
Income tax expense	-	-	31	**31**
Net profit (loss)	**(22)**	**203**	**(114)**	**67**

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**

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

The Company directly separated receivables from customers and liabilities to suppliers, other assets 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.

(in PLN million)

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

Statement of financial position as at 31 December 2022 by type of activity

	Gas	Other activity	Unallocated items	Total
ASSETS				
Non-current assets, *of which:*	**7**	**27 322**	**-**	**27 329**
Shares	-	15 716	-	**15 716**
Loans granted	-	11 172	-	**11 172**
Derivative instruments	7	383	-	**390**
Current assets, *of which* :	**14**	**7 591**	**1 118**	**8 723**
Receivables from buyers	9	4 061	-	**4 070**
Income tax receivables	-	-	79	**79**
Loans granted	-	2 368	-	**2 368**
Derivative instruments	4	455	-	**459**
Other financial assets	1	34	-	**35**
Other non-financial assets	-	601	-	**601**
Cash and cash equivalents	-	-	1 039	**1 039**
TOTAL ASSETS	**21**	**34 913**	**1 118**	**36 052**
EQUITY AND LIABILITIES				
Equity	**-**	**-**	**12 320**	**12 320**
Non-current liabilities, *of which:*	**7**	**14 811**	**4**	**14 822**
Debt	-	14 754	-	**14 754**
Derivative instruments	7	3	-	**10**
Other financial liabilities	-	8	-	**8**
Other non-financial liabilities	-	4	-	**4**
Other provisions, accruals, deferred income and government grants	-	-	4	**4**
Current liabilities, *of which:*	**44**	**8 807**	**59**	**8 910**
Debt	-	3 316	-	**3 316**
Liabilities to suppliers	40	3 209	-	**3 249**
Derivative instruments	4	327	-	**331**
Other financial liabilities	-	146	-	**146**
Other non-financial liabilities	-	1 534	59	**1 593**
Other provisions, accruals, deferred income and government grants	-	22	-	**22**
TOTAL EQUITY AND LIABILITIES	**51**	**23 618**	**12 383**	**36 052**

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**	**10 195**	**49**	**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**	**19 183**	**12 260**	**31 480**

48. Other material information

Conclusion of a settlement between Abener Energia S.A. and Elektrociepłownia Stalowa Wola S.A.

On 31 December 2021 Elektrociepłownia Stalowa Wola S.A. (the contracting authority) ("ECSW") and Abener Energia S.A. (general contractor) ("Abener") signed a settlement agreement to define the terms and conditions under which ECSW and Abener will perform mutual settlements arising from any court and arbitration disputes pending between the parties and resulting from ECSW's withdrawal from the contract concluded for the construction of a CCGT unit in Stalowa Wola. Pursuant to the settlement, ECSW paid to Abener the amount of EUR 93 million (based on the judgement of the Court of Arbitration at the Polish Chamber of Commerce in Warsaw of 25 April 2019 in the case brought by Abener against ECSW and other settlements), of which the amount of EUR 32 million was settled in the form of release of funds previously deposited in the escrow account due to the lawsuit won by ECSW in 2017 with the performance guarantor of the Abener contract. 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 arising from the contract. The conditions of the settlement have been fulfilled, accordingly, all court and arbitration proceedings between ECSW and Abener were first suspended at the concerted request of the parties, and subsequently, on 9 and 10 March 2022, the parties filed motions to resume the suspended proceedings, to withdraw the actions and the cassation complaint and to discontinue all proceedings. Consequently, on 14 March 2022, the Court of Arbitration at the Polish Chamber of Commerce issued a decision to discontinue the proceedings in the action of Abener against ECSW and on 21 March 2022 - a decision to discontinue the proceedings in the action of ECSW against Abener. By the order of 2 June 2022, the Supreme Court discontinued the cassation proceedings relating to the cassation appeal filed by ECSW in 2020.

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.

Implementation of the Government Programme of the Transformation of the Polish Electricity Sector

In April 2021, the government programme of the transformation of the Polish electricity sector (the "NABE Programme") was initiated by the Ministry of State Assets ("MAP"). The programme aims to separate coal assets from state-owned energy companies under the terms and conditions set out by the MAP in the document entitled "*The transformation of the electricity sector in Poland. Separation of coal generation assets from the companies with the State Treasury shareholding*". On 1 March 2022, the Council of Ministers passed the resolution adopting the aforementioned document.

The NABE programme stipulates the acquisition of all assets related to the generation of energy in coal and lignite-fired power plants, including service companies providing services to them by the State Treasury from PGE Polska Grupa Energetyczna S.A., ENEA S.A., TAURON Polska Energia S.A. and Energa S.A. The State Treasury will integrate the acquired assets into a single entity. The acquisition will be preceded by an internal reorganisation of the energy corporations.

In connection with the NABE Programme, in the year ended 31 December 2022, work was carried out in the Group in order to perform the reorganisation changes necessary for the execution of the transaction, aimed at integrating the assets to be separated into a single entity, i.e. TAURON Wytwarzanie S.A. company in TAURON Group. In particular, as part of the work performed:

- on 18 May 2022, a resolution was adopted to divide the TAURON Wytwarzanie S.A. company by separating and transferring the separated assets to the newly established company, TAURON Inwestycje Sp. z o.o. in organisation. Assets other than those related to the production of electricity from coal assets, such as the photovoltaic farm, which are not planned to be transferred under the NABE Programme, were transferred to TAURON Inwestycje Sp. z o.o. The value of the separated net assets amounted to PLN 75 million. The demerger of TAURON Wytwarzanie S.A. and the incorporation of TAURON Inwestycje Sp. z o.o. were registered on 1 July 2022,
- on 31 May 2022, the Company transferred the ownership of 100% of shares in the share capital of Bioeko Grupa TAURON Sp. z o.o. and 95.61% of shares in the share capital of TAURON Serwis Sp. z o.o. to TAURON Wytwarzanie S.A., with a total market value of PLN 58 million, under the datio in solutum agreement concluded,
- on 29 July 2022, an agreement was concluded for the sale of 100% of the shares in Nowe Jaworzno Grupa TAURON Sp. z o.o. held by the Company to TAURON Wytwarzanie S.A. for the price of PLN 4 815 million,
- on 3 October 2022 the merger of companies TAURON Wytwarzanie S.A. (the acquiring company) with Nowe Jaworzno Grupa TAURON Sp. z o.o. (the acquired company) through the transfer of the entire assets of Nowe Jaworzno Grupa TAURON Sp. z o.o. to TAURON Wytwarzanie S.A. was registered.

As at 31 December 2022, the Company believes that the criteria of IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* have not been met in the scope of classification of the shares of TAURON Wytwarzanie S.A. held by the Company as disposable assets classified as held for sale.

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

2022 was the time of the continuing conditions of the COVID-19 pandemic (5th wave), which initially (in the first quarter of 2022) saw persistently high levels of SARS-CoV-2 virus infections, which gradually decreased later throughout the year. Some restrictions still applied in the country with the aim to contain the spread of the pandemic which were gradually eased as the number of recorded cases of infection decreased. In 2022, this situation triggered certain turbulences in the economic and administrative system in Poland and worldwide. The restrictions are currently considerably less severe, nevertheless, in the medium and long term, it should be expected – taking into account the probability of emergence of new waves of increased infections – that the COVID-19 pandemic may still affect, although to a lesser extent than before, the national, European and global economic situation, exerting a negative impact on macroeconomic factors. Material issues relating to the impact of the pandemic on TAURON Group are set out below:

- despite the restrictions initially in force, no material impact of the COVID-19 pandemic on the level of demand for electricity among TAURON Group customers was observed in 2022,
- in 2022, no significant changes and sustained trends were observed in the level of overdue receivables and volatility in prices of electricity and related products resulting from the COVID-19 pandemic,
- no significant changes in the level of prices in the markets of electricity and related products resulting from the COVID-19 pandemic were observed,
- the situation related to the COVID-19 pandemic in 2022 (especially in the first quarter of 2022) affected the operating activities of the individual Business Areas of TAURON Group through increased employee absenteeism, which, however, did not have a significant impact on operational continuity.

TAURON Group, being aware of the risks associated with the epidemiological situation, continued and adapted its activities adequately to the level of risks and the development of the epidemiological situation in the analysed period. In connection with the foregoing, the Management Board of the Company continues to monitor the pandemic situation and takes any feasible steps to mitigate the negative impact of the pandemic on TAURON Group.

Impact of the military aggression of the Russian Federation against Ukraine on the current and future activities of the Company and TAURON Group

In February 2022, the aggression of the Russian Federation started in territory of Ukraine. In the TAURON Group's assessment, the key consequences of the aggression and the resulting risks that affected TAURON Group in 2022 are as follows:

- crisis in the energy fuels market resulting from the reduction in trade exchange with the Russian Federation, causing supply disruptions in fossil fuels and consequently affecting spikes in the volatility and price levels of raw materials quoted on commodity markets (including oil, gas and coal); This situation (mainly in the second half of the year) had an impact on increasing the variable costs of generation with limited possibilities to transfer the cost to increased revenues from sales and electricity production,
- a reduction in the supply of coal in terms of agreements concluded with external suppliers, logistical disruptions in the transport of coal, as well as regulatory changes that affected the level of compliance with statutory required hard coal stocks,
- high level of volatility of electricity prices in all market segments both in Poland and in the European markets, resulting in continuing high level of market risk. In commercial terms, a high volatility in the cost of securing (including profiling and trade balancing) the end-customers' demand in the Sales Area was also recorded,
- continuing high volatility in the prices of electricity and related products, causing an increase in trading margins resulting from contracts concluded on the exchange market for electricity,
- the rise in inflation in Poland, as a result of which the Monetary Policy Council cyclically introduced increases in the NBP reference rate. The volatility of interest rates affected the cost of servicing financing in TAURON Group and it will also affect the return of capital employed in the Distribution Area in 2023. As a result of the economic turbulence, an increased volatility of exchange rates and a depreciation of the zloty were also recorded, which mainly affected the cost of purchasing CO_2 emission allowances and an increase in the cost of purchasing hard coal from foreign directions, as well as the valuation of debt denominated in EUR,
- observed gradual downturn of the economic situation in Poland, and consequently a decrease in the volume of energy sales and distribution (observed in particular in the third and fourth quarter of 2022), which affected the value of revenues of the Distribution Area and the Sales Area,
- escalation of wage claims and potential social unrest in TAURON Group as a result of rising inflation in Poland,

- implementation of significant national regulations aimed at limiting electricity demand, introducing mechanisms to limit increases in electricity prices for end users, introducing margin restrictions for electricity generators and trading companies, as well as changes to the rules of operation of the wholesale electricity market (abolition of the exchange obligation, changes to the rules of price setting in the balancing market). The introduction of the above regulations affected the TAURON Group's trading activities in 2022 and will also affect the results of the Sales Area, the conventional Generation Area, the RES Area, the Heat Area and the Distribution Area in 2023.

In the subsequent periods, at least some of the above-mentioned risk factors are expected to continue and their impact on the TAURON Group's liquidity and results will depend on the impact of the aggression of the Russian Federation on the developments in the market, economic and geopolitical environment. It should be indicated that the situation associated with the aggression of the troops of the Russian Federation against Ukraine and its impact on the market and regulatory environment is highly volatile and its future consequences are difficult to estimate precisely. They will depend, in particular, on the scale and duration of the aggression, further developments including the potential escalation of hostilities as well as the impact on the condition of the economy in Poland and worldwide. The impact of the risks identified may also depend on further regulatory action at the European Union level and at the national level in terms of implementing intervention measures as well as shaping the future energy market.

In addition to the continuation of the risk factors identified above, the possibility of the following risks occurring in the subsequent periods should be taken into consideration:

- economic turbulences which may trigger financial difficulties for some customers and counterparties of TAURON Group and, at the same time, an increase in credit risk,
- continued high volatility of raw material prices and prices of electricity and related products, persistent high inflation, as well as possible disruptions to the supply chains of goods and services, which may affect the timing and profitability of ongoing and planned investment processes,
- changes in the EU energy balance and, as a consequence, a potential increased level of operation of TAURON Capital Group's generating units, which may result in a decrease in their availability in the future and risks resulting from capacity obligations imposed on some of them,
- threats in the scope of security and cyber security, including potential restrictions in the access to IT/ OT infrastructure, the internet and GSM networks as well as physical security of critical infrastructure elements, the disruption of which may cause disturbances in the scope of functioning of operational processes and business continuity. At the national level, alert degrees were maintained, indicating an increased risk associated with the possibility of occurrence of terrorist events.

In other areas, as of the date of drawing up this information, TAURON Group has not identified any direct effects of the aggression on its own operating and business activities, while the continuity of business processes was not at risk. TAURON Group had no assets located in Ukraine, Russia or Belarus. No significant changes were recorded in balances of overdue receivables. In 2022, no significant risks were identified with regard to the implementation of long-term development directions and TAURON Group Strategy. Current and potential challenges identified in investment and restructuring processes related to the volatility of commodity prices, disruption in supply chains for goods and services as well as inflation were analysed in detail based on updated knowledge and forecasts before any liabilities had been incurred and significant funding had been raised.

Recognising the scale of the risks associated with the current situation, TAURON Group continuously monitored the impact of the war in Ukraine and undertook measures to mitigate the potential effects of risk materialisation as well as to maintain the continuity of critical infrastructure operations. In view of the situation at TAURON Group companies, dedicated Crisis Teams have been established to monitor the impact of the current situation on business processes and to take action in the event of identification of a threat of their interruption or disruption.

Conclusion of a letter of intent on cooperation in the area of generation sources in the Small Modular Reactor (SMR) technology

On 20 April 2022, the Company concluded a letter of intent with KGHM Polska Miedź S.A., in which the parties consider strategic cooperation related to research and development and future investment projects in the scope of construction of generation sources in the Small and Micro Modular Reactor (SMR) technology, i.e. nuclear power reactors with the capacity of 5 to 300 MWe. The purpose of the cooperation between the parties to the Letter of Intent is to identify the possibility, nature and details of potential joint involvement in the implementation of investment projects in the scope of SMR. The subject of the cooperation will cover, among others, the analysis of available technologies and the possibility of installing a generating installation in the vicinity of the receiving infrastructure and the possibility of using the existing infrastructure of existing power units as well as identification of the possibility of acquiring an optimal technology, investing in another way or establishing other forms of cooperation with third parties already implementing or planning to implement investment projects in the field of SMR.

The letter of intent is an expression of the parties' intention to cooperate, while the provisions of the letter of intent are not binding on the parties. The letter of intent shall remain in force until the date on which one of the parties expresses its willingness to renounce further cooperation.

49. Events after the balance sheet date

Signing the working capital loan agreement

After the balance sheet date, on 16 February 2023, the Company concluded the working capital loan agreement with Bank Gospodarstwa Krajowego under a revolving credit line for the amount of PLN 750 million with a repayment date of 30 September 2023. On 24 February 2023, the Company drew down all available funding.

Information concerning the construction of the 910 MW unit in Jaworzno

After the balance sheet date, on 11 January 2023, the subsidiary, TAURON Wytwarzanie S.A. decided to send to the members of the consortium consisting of: RAFAKO S.A. and Mostostal Warszawa S.A. and the subcontractor, E003B7 Sp. z o.o. (a subsidiary of RAFAKO S.A.) (jointly "the Contractor") the summons for contractual penalties and damages ("the Summons"), resulting from the performance of the contract for the construction of a 910 MW power unit in Jaworzno. The decision of TAURON Wytwarzanie S.A. – in accordance with its powers under the contract – to issue the Summons resulted from the failure to obtain or confirm the contractual technical parameters, the occurrence of an objective delay on the part of the Contractor in the performance of the contract, the occurrence of the damage on the part of TAURON Wytwarzanie S.A. as a result of failure to achieve the availability parameter and identified and non-remedied physical defects in the subject of the contract. The Summons were accompanied by the note issued for the total amount of PLN 1 312 million, as the total amount of penalties and damages.

On 13 January 2023, TAURON Wytwarzanie S.A. and the Company received summons for payment from RAFAKO S.A. ("the Summons for Payment"). The subject of the Summons for Payment addressed to TAURON Wytwarzanie S.A. are the claims for payment of the total amount of PLN 606 million under the titles listed in the Summons for Payment. At the same time, RAFAKO S.A. indicated that in the event of the failure of the investor process concerning the acquisition of an investor for RAFAKO S.A., for reasons attributable, in RAFAKO S.A.'s opinion, to TAURON Wytwarzanie S.A., RAFAKO S.A. would claim an amount of compensation not lower than PLN 300 million. Moreover, RAFAKO S.A. reserved that if RAFAKO S.A.'s contractors and business partners - as a result of an act or omission by TAURON Wytwarzanie S.A. - file claims for contractual penalties or damages against RAFAKO S.A., RAFAKO S.A. would file claims for damages/recourse against TAURON Wytwarzanie S.A. in an amount not lower than PLN 483 million. The subject of the Summons addressed to the Company are the claims for payment of the total amount of PLN 251 million under the titles listed in the Summons for Payment. At the same time, RAFAKO S.A. indicated that it would seek damages from the Company in the amount of no less than PLN 483 million resulting from potential penalties and damages claimed by entities for which contracts are performed or which are business partners of RAFAKO S.A. This amount may increase due to further claims by the parties to the contracts, related to breach of contracts and delays in their implementation. RAFAKO S.A. has further reserved, that in the event of the failure of the investor process concerning the acquisition of an investor for RAFAKO S.A. due to reasons lying - in the opinion of RAFAKO S.A. - on the part of TAURON Wytwarzanie S.A., RAFAKO S.A. will claim damages in the amount of not less than PLN 300 million. The preliminary analysis of the Summons for Payment carried out by the Company and TAURON Wytwarzanie S.A. indicated that they were unfounded.

On 7 February 2023, an agreement was concluded between TAURON Wytwarzanie S.A. and the Contractor. The agreement established the terms of cooperation for the period up to 8 March 2023 and was concluded in order to ensure a constructive mediation process before the Court of Arbitration at the Office of Attorney General of the Republic of Poland, aimed at working out a solution to the disputes arising from the implementation of the contract for the construction of the 910 MW unit. According to the agreement, the parties declared their intention to continue mediating in good faith, with the intention of amicably settling the claims covered by the summons and notes on each side. The parties strive to reach a settlement agreement under which they would decide on the method of completion of the contract and performance of mutual settlements on this account. The parties agreed that completion of the contract would take place within 5 days of the verification and joint assessment of the guaranteed technical parameters A and B under the terms of the settlement agreement, but no later than 31 December 2023 and that the Contractor's liability under the contract would be limited to the amount set in the settlement agreement. On 7 March 2023, the parties signed an annex amending the agreement by extending the maturity date of their mutual claims to 22 March 2023. The extension of the deadline was performed without the waiver of claims.

On 20 March 2023, TAURON Wytwarzanie S.A., RAFAKO S.A., Mostostal Warszawa S.A. and E003B7 Sp. z o.o. signed the assumptions of the settlement agreement (the "Settlement") under which they would decide on the method of completion of the contract for the construction of the 910 MW unit in Jaworzno and performance of mutual settlements on this account.

In accordance with the most significant findings:

- subject to RAFAKO S.A. reaching an agreement with the guarantors, TAURON Wytwarzanie S.A. will limit its claims against RAFAKO S.A., Mostostal Warszawa S.A. and E003B7 sp. z o.o. to the amount of PLN 240 million and this amount will be satisfied by drawing on the performance bond granted request of E003B7 Sp. z o.o. and will be paid by the guarantors;
- in the framework of exercising of RAFAKO S.A.'s claims against TAURON Wytwarzanie S.A., TAURON Wytwarzanie S.A. will pay RAFAKO S.A. and E003B7 Sp. z o.o. the total amount of PLN 65 million under the titles set forth in the assumptions of the Settlement;
- on the day of entry into force of the Settlement, TAURON Wytwarzanie S.A. will discharge RAFAKO S.A., Mostostal Warszawa S.A. and E003B7 Sp. z o.o. from their obligations resulting from technical guarantees, the parties will terminate the contract for construction of the 910 MW unit extinguishing the liabilities arising from the contract and will mutually waive all claims against above those subject to the Settlement,
- on the date of signing of these assumptions to the Settlement Agreement, RAFAKO S.A. and Mostostal Warszawa S.A. will submit and deliver to TAURON Wytwarzanie S.A. a statement on extending, until 28 April 2023, the deadline for issuing and delivering the payment guarantee requested by RAFAKO S.A. from TAURON Wytwarzanie S.A. and on 21 March 2023 the parties will conclude another annex to the agreement concluded between them on 7 February 2023, pursuant to which the deadlines for standstill arrangements will be extended to 28 April 2023.

In addition, the parties agreed that they would unanimously seek approval of the Settlement from the common court. The conditions precedent to the entry into force of the Settlement include: obtaining corporate approvals by TAURON Wytwarzanie S.A., RAFAKO S.A. and Mostostal Warszawa S.A. by 20 April 2023; and conclusion by RAFAKO S.A. of an agreement with the guarantors on the immediate payment of PLN 240 million to TAURON Wytwarzanie S.A. by 24 April 2023, adoption by the general meeting of RAFAKO S.A. by 24 April 2023, of a resolution to increase the company's share capital by the amount indicated in the notice convening the general meeting, submission by MS Galleon Gmbh, by 24 April 2023, of a declaration of further interest in continuing the investor process of RAFAKO S.A., and conclusion by RAFAKO S.A., by 24 April 2023, of a settlement with Ignitis Grupė AB or its subsidiary entity/s regarding the Vilnius project.

On 21 March 2023, the parties signed Annex No 2 to the agreement. Under the Annex concluded, the parties agreed to extend:

- to 24 April 2023, the due date of the claim of TAURON Wytwarzanie S.A. against the Contractor in the amount of PLN 550 million (the total amount of the performance bond in respect of the performance of the contract for the construction of the unit with the capacity of 910 MW in Jaworzno) and the obligation of TAURON Wytwarzanie S.A. to refrain from asserting any claims against the Contractor arising from or in connection with the performance of the contract in respect of the above amount;
- until 28 April 2023: the maturity date of RAFAKO S.A.'s claim against the Company and RAFAKO S.A.'s claim against TAURON Wytwarzanie S.A. referred to above, the obligation of TAURON Wytwarzanie S.A. to refrain from asserting any claims against the Contractor arising from or in connection with the performance of the contract in the scope of the amount of PLN 763 million, as well as the obligation of the parties to refrain from asserting against each other and the financing institutions any pecuniary and non-pecuniary claims, including requests/calls for payment and non-pecuniary claims, and to refrain from submitting motions, notices and claims to judicial and administrative authorities.

The Annex shall enter into force on the condition precedent that the Contractor delivers to TAURON Wytwarzanie S.A. by 23 March 2023 annexes to the guarantees extending the validity of these guarantees until at least 28 April 2023. The annexes signed by the guarantors to all the guarantees issued under the contract constituting instruments of securing the performance bond, extending the guarantee validity period until 30 April 2023, have been delivered. Thus, the condition precedent of the annex was met, which means that the provisions of the annex entered into force.

Management Board of the Company

Katowice, 28 March 2023

Paweł Szczeszek – President of the Management Board

Patryk Demski – Vice President of the Management Board

Bogusław Rybacki – Vice-President of the Management Board

Krzysztof Surma – Vice President of the Management Board,

Tomasz Szczegielniak – Vice President of the Management Board

Artur Warzocha – Vice President of the Management Board

Oliwia Tokarczyk – Executive Director for Accounting and Taxes

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